iSteelAsia.com Limited
亞洲鋼鐵電子交易所有限公司*

2002/03 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.

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Corporate Information

BOARD OF DIRECTORS
Mr. Andrew Cho Fai Yao, *Chairman*
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, FCCA*

AUDIT COMMITTEE
Mr. Yeung Kwok Keung
Mr. Philip King Huen Ma

AUDITORS
PricewaterhouseCoopers
Certified Public Accountants

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Rooms 4902-8, Hopewell Centre
183 Queen's Road East
Wanchai, 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 Fund Services (Bermuda) 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
Wanchai, Hong Kong

PRINCIPAL BANKERS
Hang Seng Bank Limited
BNP Paribas Hong Kong Limited
The Bank of East Asia Limited
Bank of Communications — Shenzhen Branch
CITIC Industrial Bank — Shenzhen Branch

STOCK CODE
8080 (Shares)
8356 (Warrants)

China Focus

iSteelAsia
Dalian
Beijing
Tianjin
Qingdao
Wuxi
Shanghai
Chengdu
Chongqing
Guangzhou
Shenzhen

Financial Highlights

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

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Years ended 31st March				
	1999	2000	2001	2002	**2003**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	115,651	180,074	183,329	428,345	**811,142**
Profit/(Loss) before taxation	3,299	(5,643)	(112,034)	(18,811)	**8,464**
Taxation	(276)	(1,169)	(20)	1,472	**(1,840)**
	3,023	(6,812)	(112,054)	(17,339)	**6,624**
Minority interests	—	—	—	(1)	**(34)**
Profit/(Loss) attributable to shareholders	3,023	(6,812)	(112,054)	(17,340)	**6,590**
Dividends *(Note 1)*	—	9,000	—	—	**—**

Notes:

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

   For the year ended 31st March 2000, a wholly-owned subsidiary of the Company's substantial shareholder declared and paid interim dividends amounting to HK$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 profit and loss accounts of the Group for the years ended 31st March 1999, 2000 and 2001 were prepared on the assumption that the current structure of the Group had been in existence throughout those years.

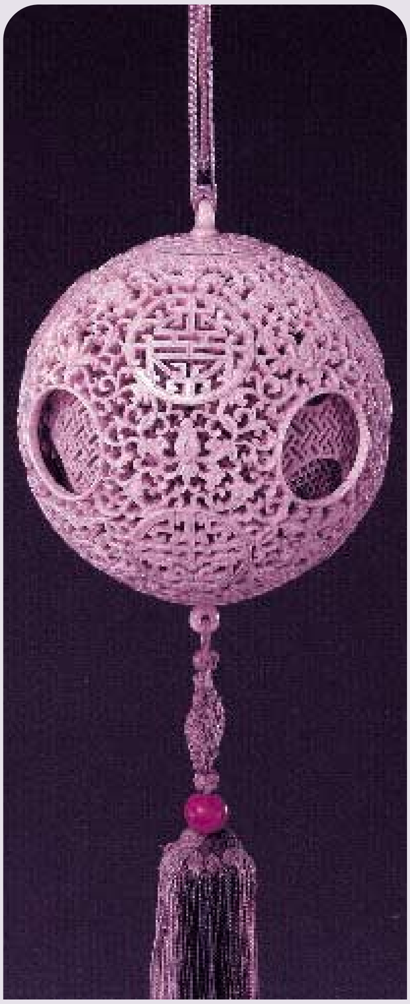
Financial Highlights

CONSOLIDATED BALANCE SHEETS

	As at 31st March				
	1999	2000	2001	2002	**2003**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Furniture and equipment	28	268	3,223	2,306	**3,230**
Website development costs	—	3,762	3,788	2,165	**918**
Long-term investments	—	—	24,974	28,201	**685**
Current assets	19,054	48,531	66,302	194,354	**333,885**
Current liabilities	(15,652)	(62,942)	(74,573)	(215,660)	**(324,033)**
Shareholder loan, non-current portion	—	(2,000)	—	—	—
Minority interests	—	—	—	(1,300)	**(1,334)**
Net assets/(liabilities)	3,430	(12,381)	23,714	10,066	**13,351**
Capital and reserves:					
Share capital	—	1	145,450	156,450	**156,450**
Reserves	—	—	2,700	(4,608)	**(7,913)**
(Accumulated losses)/Retained profit	3,430	(12,382)	(124,436)	(141,776)	**(135,186)**
Shareholders' equity/(deficit)	3,430	(12,381)	23,714	10,066	**13,351**

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" or "iSteelAsia Group") for the year ended 31st March 2003.

LOOKING BACK....

Since the listing of iSteelAsia in April 2000, the management has experienced many challenges that range from the global economic slowdown, to the 9-11 terrorist attacks in the US leading to the conflicts in the Middle East, coupled with the unprecedented prolonged economic slowdown locally which is dramatically worsened by the recent Sars outbreak. As mentioned in my previous reports, the dot-com bubble burst in the year 2000 had significantly slowed down the "B2B" sector and Internet related activities, which in turn, had adversely affected our ability in achieving our goal of providing a "one stop shop" value proposition to our customers. As a result of this global consolidation, a vast majority of the Internet-related/ focus companies were hampered by very negative investors sentiment leading to the dumping of their shares without due consideration of the real potential of these companies and hence limiting their ability to raise the necessary capital for continuing their developments. iSteelAsia was no exception and I am saddened to acknowledge that the perceived value of the Company as reflected in the share price is at a very depressed level. Nevertheless, as an operating company, the management has initiated many efforts to adapt to these external changes, and will try to identify and execute the right strategy that is consistent with our stated objective — to leverage on the core competencies of the Company and offer a real value proposition to our customers in the steel industry.

Since the start of its economic development in 1980's, the People's Republic of China ("PRC") has continued to grow at a faster rate than the global average, and based on published 2001's statistics, China is not only the biggest steel producer in the world; she is also the biggest steel consuming country among the world players. International Iron & Steel Institute has projected China will consume 190 million tonnes of steel and is the top player among other world steel consuming countries in 2003. In addition, with the accession to the World Trade Organisation ("WTO") and an expected continued healthy rise in the GDP, the steel industry in China looks very promising.

WE ARE NOW AT...

iSteelAsia basically consists of two operations — the traditional steel trading/distribution business that is

Chairman's Statement

focusing on the PRC market, and the online steel trading platform known as iSteelAsia.com. In many ways, iSteelAsia is a typical trading and distribution company, deriving its revenues from its distribution network instead of a strong reliance on hard assets like real estates. Today, the notable assets in the Company are basically the steel distribution network it has set up in the PRC, and its state-of-the-art trading platform. These two assets provide iSteelAsia the foundation of a strong brandname, solid distribution network (six distribution centers in China), and a corporate culture of "always striving to get the job done consistently with quality and in a timely manner". Employees in the Company are mostly young dedicated professionals with innovative "go getter" mindsets. They are familiar with the trading habits of the steel participants and they focus their efforts to cater to provide these customers with quality value-added services. With such flexibility and creativity, the management is confident that it can effectively leverage the core competencies of the Company and continue to expand its presence in the PRC steel industry. Starting in the 2001/2002 financial year, iSteelAsia started to establish a presence in the China market, and continues to focus resources to develop this invaluable distribution network for the Company. In the past years, encouraging results have

been reflected in the tremendous growth in turnover. Turnover have reached over HK$800 million in the year under review. By comparing the turnover attained in 2000/2001, the increase was almost fourfold.

The management was encouraged by the results achieved in the past two years. However, the Company will not be complacent with them. The management will continue to focus on improving the cost efficiency and effectiveness of the Company's business. As mentioned earlier, we can achieve the growth through various means, one is through organic growth, and another approach is through mergers and acquisitions, and appropriate strategies will be adopted to maximise the returns of the shareholders. For product offerings and customers targeting, iSteelAsia will continue to focus on trading and distributing high value-added steel products which are primarily supplied for the construction industry as well as for manufacturing industry of the white goods like household wares and appliances and of technological products, like computer casings and enclosure systems.

As mentioned earlier for a couple of years now, the focus of the Group has been to develop and receive the bulk of its revenue from its steel distribution network in the PRC. We view that this may be an appropriate

Chairman's Statement

time to consider changing the name of the Company to better reflect the underlying operations of the Group while still maintaining "iSteelAsia" name brand. The management thus recommends changing the name to "iSteelAsia Holdings Limited" from its original name of "iSteelAsia.com Limited".

LOOKING FORWARD...

The management is optimistic about the future of the iSteelAsia Group. The steel industry in China will continue to move from protective to be more market driven, particularly since China has entered the WTO. The management believes that as a long-term trend, the quality of local production capacities will continue to improve in the following years. But in the short to medium term, imports of steels especially in specialty flat steel products will also continue to increase until local capabilities and quality have achieved the global specifications and standards which will then be replaced by the local supplies. Therefore, the role of iSteelAsia as a value provider to the end users, will continue to be flexible and will adapt as required to tap these market opportunities in the future.

As reflected in its road to profitability, the iSteelAsia Group will continue its path to increase the shareholders' value and operate itself as a 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 iSteelAsia.

ANDREW CHO FAI YAO
Chairman

Hong Kong
16th June 2003

Management Discussion and Analysis

The management of iSteelAsia.com Limited (the "Company" or "iSteelAsia") and its subsidiaries (collectively the "Group" or "iSteelAsia Group") is pleased to announce its first profitable year since listing on GEM of the Stock Exchange in April 2000. For the year ended 31st March 2003, profit attributable to shareholders was approximately HK$6,590,000. In a year of uncertainty in both the global and local economies, the result was a remarkable improvement compared to the net loss of approximately HK$17,340,000 for the previous year ended 31st March 2002.

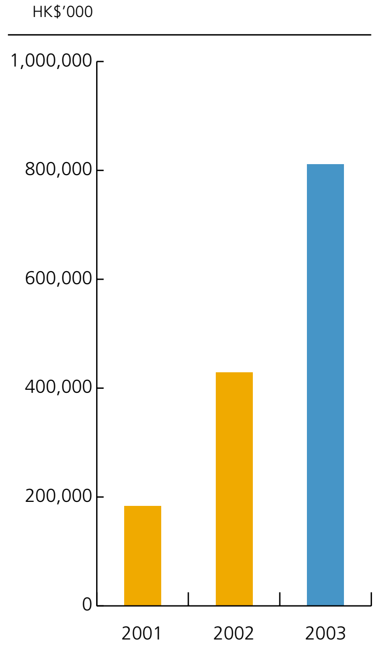
Since the listing of iSteelAsia on GEM of the Stock Exchange 3 years ago, the global business environment has been adversely affected by a number of significant events, namely the bursting of the dot-com bubble, the tragic 9-11 event, and the subsequent collapse of a few large corporations in the US owing to the questionable integrity of the management and its advisers. More recently, the Gulf conflict, and the disaster in the form of the Sars epidemic have further contributed to this protracted worldwide recession. The capital markets globally have spiraled downwards over the last few years in response to these events and the ensuing recession.

The management has continued to evaluate the dynamism of the operating environment in order to carve a niche market and has sought to identify the growth opportunities within the steel industry. With China's accession to the World Trade Organisation ("WTO") in December 2001, Beijing's winning the right to host the 2008 Olympic Games and Shanghai's winning the right to host the 2010 World Expo, the People Republic's of China ("PRC") is expected to be a key growth engine to the world's economy. In the past 2 years, the management has redeployed and refocused its resources from an "online trading platform" to a "value-added distribution operation" catering and providing value enhancements to the customers in this emerging market. The turnaround in the Company's performance is a positive testimony of this strategy.

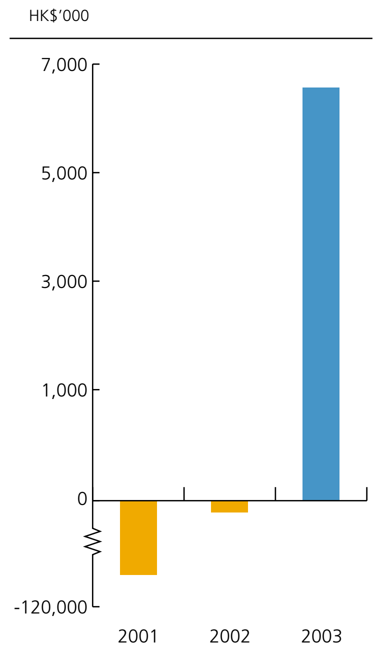
FINANCIAL AND OPERATIONAL REVIEW

For the year ended 31st March 2003, the iSteelAsia Group recorded a turnover of approximately HK$811 million, representing an 89.4% increase in turnover over the previous year ended 31st March 2002. This is the 2nd consecutive year that the iSteelAsia Group has achieved almost 100% growth in

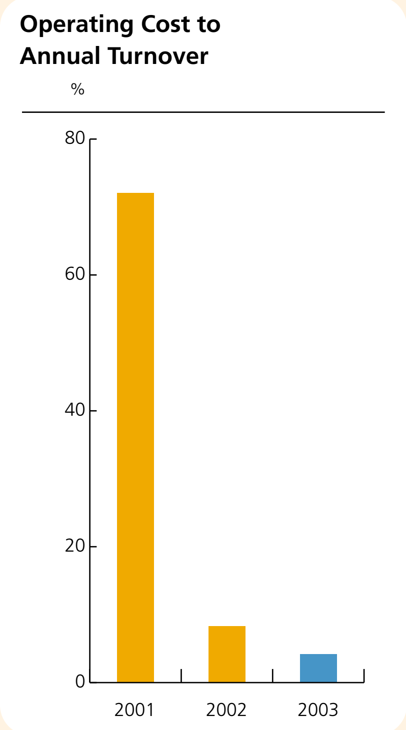
Consecutive Growth in Annual Turnover



Profit Attributable to Shareholders



Management Discussion and Analysis



annual turnover. The growth is attributable to the fruitage of a very professional sales infrastructure developed and continuously enhanced in the past 2 years. During the past years, the iSteelAsia Group has expanded continuously its sales distribution network in the PRC with coverage in strategic cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing. These cities are highly populated and developed with the highest average annual income per capita in China. These factors translate into high demands for household appliances, estate properties and infrastructure construction, which are the key driving forces for steel consumptions. As a result, the iSteelAsia Group is able to tap these market opportunities and increase the returns to its shareholders.

For the year ended 31st March 2003, profit attributable to shareholders was approximately HK$6,590,000, reflecting a successful deployment/ refocus strategy adopted by the iSteelAsia Group in the past year. The total cost excluding cost of inventories sold and finance cost (the "Operating Cost") was approximately HK$33,729,000 (2002: HK$35,498,000) which had slightly improved by comparing the Operating Cost incurred for the previous year ended 31st March 2002. However, during the year ended 31st March 2003, the iSteelAsia Group has expanded to establish 4 more sales offices covering Guangzhou, Tianjin, Shenzhen and Chongqing. Headcount has been increased from 52 to 83. The iSteelAsia Group is encouraged by its effectiveness towards cost control and will continue to expand the current steel trading network by optimising its cost structure with the goal to further increase the operational effectiveness through economies of scale. Although the iSteelAsia Group's key products are steel and steel related materials, the Sars outbreak in China, especially in and around the Beijing/Tianjin areas did have an adverse effect on the business of the iSteelAsia Group. For the months of January to March 2003, business activities in the North Eastern China especially around the Beijing region almost came to a grinding halt firstly due to the cold harsh winter weather conditions and secondly the Sars outbreak. As such, the demands and business volumes for the Beijing and Tainjin offices were exceptionally low. However, as a team with concerted efforts, other offices within the iSteelAsia network were able to continue to expand their businesses to absorb some of the slack inventories from the Beijing and Tianjin offices. As compared to

Management Discussion and Analysis

the first three quarters of this financial year, turnover in the fourth quarter amounted to approximately HK$294 million, or an increase of 56.7% from the first 3 quarters. However due to the reshipment of inventories to other offices, cumulative gross margin decreased to a less desirable level Q1-8.2%, Q2-7.5%, Q3-5.3%, and Q4-3.7%. The management is pleased with the various offices' ability to unite for the Group as a whole, and together continue to grow the business, thus reaffirming the management's belief of devoted employees providing quality value-added services to selective loyal customers. Although the Sars outbreak in the Beijing and Tianjin regions appears to be over the peak, and business is slowly coming back to normal, and prices are starting to increase again due to the quota system for certain steel products in the PRC, the management continues to take a prudent approach by writing down the cost of certain inventories as at 31st March 2003 by approximately HK$3.9 million.

It is obvious that China has the potential but at the same time it also carries a high degree of business risk. The bad debt and lack of "an acceptable attitude towards professionalism" are all problems in China that are very real and at times

severely detrimental to business operations. Hopefully, the continuous restructuring/reforms that have been carried out by the China Central Government will address these problems. The management has therefore adopted a very conservative approach in its dealings with its PRC customers. Sales were mainly conducted with payment terms of cash on delivery ("COD") with advanced deposits. Credit was only granted to customers with sound financial backings and whom the iSteelAsia Group already has long history business relationships. This stringent approach is a result of the iSteelAsia Group's effort spent on product positioning — i.e. of the over 3,000 types of steel products, iSteelAsia focuses on only a few that it can genuinely differentiate from the mass market in terms of specification, quality, availability, and customer base.

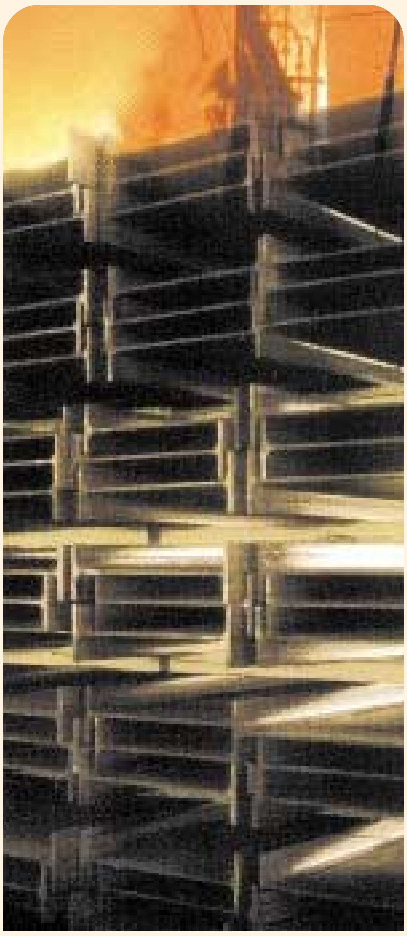
At the same time, on the customer front, the iSteelAsia Group has adopted a very selective and direct approach (middlemen are seldom used) strategy, focusing on one of the fastest growing business sectors — small to medium domestic enterprises. These companies are considered as the most competitive and the growth engine of the PRC in the future. The iSteelAsia Group

Management Discussion and Analysis

is selling its total solution package to these customers, providing logistics arrangement, steel industry information, warehousing services and allowing these companies to achieve "0" inventory.

The iSteelAsia Group continued to strive for its stated mission to become the dominant steel trading network and be one of the most efficient, cost effective distributors and value-added service providers throughout the entire metal ecosystem in Asia especially in China.

During the period under review, the actual business progress of the iSteelAsia Group was generally in line with the business objectives as previously stated in the prospectus dated 14th April 2000 and the iSteelAsia Group continued to enjoy a reputation representing quality and value-added provision through its persistent marketing efforts. As stated in the iSteelAsia Group's business objectives, the goal of the traditional trading operation is to serve customers who are not ready for an online trading platform or those who have special requirements that require a high degree of personal assistance. The iSteelAsia Group believed that the traditional trading operation has helped to expand the export market for the PRC's steel mills by actively



marketing through its network and also made available imported quality flat steel at competitive prices to the domestic PRC end users. The iSteelAsia Group has and will continue to organise technical seminars for the PRC steel industry especially in the introduction of Western technologies. During the period under review, the iSteelAsia Group has successfully expanded its customer base in other parts of the PRC outside Southern China region. Although the market sentiment towards the Internet has not been very positive, we will continue to revamp/enhance our website to be on the leading edge of technology and strive to offer quality services in the most cost efficient way. The iSteelAsia Group continued to fulfill its business objectives with the aim to provide value-added services to the steel industry participants.

The iSteelAsia Group believed that the tremendous values brought on by the Internet cannot be ignored. Although the development of the Internet industry is much slower than expected, and the current focus of iSteelAsia's efforts is mainly on the development of a first class distribution network as mentioned in its prospectus (the "Traditional Trading Operation"), the iSteelAsia Group continues to maintain its presence in the "B2B" arena by

Management Discussion and Analysis

providing online services to customers. During the year ended 31st March 2003, the iSteelAsia Group's revenue directly derived from online steel trading business was minimal. However, as a tool used by the iSteelAsia Group, the values of the platform provided to our traditional steel trading operation were enormous. The platform enabled the iSteelAsia Group to develop a more accurate customers' need profile which allowed the iSteelAsia Group to offer more effective services to its customers. In addition, the platform helped build community for the steel industry participants by using it as a means to exchange steel market and industry information.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31st March 2003, the iSteelAsia Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK$57,134,000 (2002: HK$64,335,000). The short-term working capital bank loans amounted to approximately HK$18,947,000 (2002: HK$11,580,000) with interest rates ranging from 5.0% to 5.8% per annum (2002: 4.4% to 5.8% per annum). As at 31st March 2003, the

gearing ratio (short-term bank borrowings divided by the shareholders' equity) was approximately 4.28 (2002: 6.39). The decrease in the gearing ratio was mainly due to continual improvement in the business operations, thus increasing the shareholders' equity as at 31st March 2003. As at 31st March 2003, the iSteelAsia Group had aggregated banking facilities of approximately HK$122,540,000 (2002: HK$91,180,000) derived mainly from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK$37,131,000 (2002: HK$8,582,000). These facilities were secured by (a) corporate guarantees provided by iSteelAsia and/or (b) the iSteelAsia Group's inventories held under trust receipts bank loan arrangement.

Subsequent to 31st March 2003, a PRC bank had granted the iSteelAsia Group a revolving working capital bank loan of RMB30,000,000 secured by the corporate guarantee provided by iSteelAsia.

The iSteelAsia Group will continue its effort to improve its financing capabilities and expand the business in a healthier and conservative manner.

Management Discussion and Analysis

CASH AND CASH EQUIVALENTS

As at 31st March 2003, the iSteelAsia Group's cash and bank deposits amounted to approximately HK$49,240,000 (2002: HK$49,058,000), of which approximately HK$18,960,000 was denominated in Renminbi and deposited with the banks in China.

INVESTMENTS

Investments comprised equity interests in Stemcor Holdings Limited ("Stemcor") and AcrossAsia Multimedia Limited ("AAM").

Under a share subscription agreement with Stemcor, Stemcor has granted the iSteelAsia Group a put option under which the iSteelAsia Group may require Stemcor to repurchase all of the shares subscribed by the iSteelAsia Group for HK$23,400,000 (equivalent of US$3,000,000). The put option will be exercisable by the iSteelAsia 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 2003. The Group intends to exercise such put option and accordingly has classified such investment as a short-term investment as at 31st March 2003.

During the year ended 31st March 2003, the iSteelAsia Group had received dividend income of approximately HK$311,000 (2002: HK$70,000) from Stemcor. The return on investment was approximately 1.33% (2002: 0.29%). The iSteelAsia Group will continue to explore various alternatives to increase the returns from this investment.

In August 2001, the iSteelAsia Group 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 iSteelAsia's ordinary shares. As at 31st March 2003, the investment in AAM was worth approximately HK$685,000 after a deficit on revaluation of such investment of approximately HK$21,865,000. Such deficit had already been reflected in the iSteelAsia Group's asset value. Treating it as a long-term investment, the management has and will continue to closely monitor AAM's performance, and is satisfied that AAM is a solid company, and should not produce any material value impairment to the Group's investment on a long-term basis. Nevertheless, from an operational side, the Directors believe that the acquisition is beneficial to forming a strategic relationship with a player of good connection in the region.

Management Discussion and Analysis

FOREIGN CURRENCY EXPOSURE

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

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 31st March 2003, the iSteelAsia Group employed 83 (2002: 52) staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The iSteelAsia Group provides on-the-job training and training subsidies to its employees

in addition to pension schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$14,870,000 (2002: HK$17,082,000).

On 10th June 2002, the Company adopted an employee share option scheme (the "New Scheme") under which the Company's Board of Directors may at its discretion offer stock option to any employee/agent/consultant or representative, including any executive or non-executive director, of any member of the Group or any other person who satisfies the selection criteria as set out in the New Scheme. The principal purposes of the New Scheme are to provide incentives to participants to contribute to the Group and/or to enable the Group to recruit and/or to retain high-calibre employees and attract human resources that are valuable to the Group. The New Scheme shall be valid and effective for a period of ten years commencing on the adoption date i.e. 10th June 2002. No options were granted under the New Scheme up to the date of this annual report.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Andrew Cho Fai Yao

Mr. Andrew Cho Fai Yao, aged 37, 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 formal 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. Miriam Che Li Yao

Ms. Miriam Che Li Yao, aged 38, 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 an international accounting firm and an investment bank. Ms. Yao is the sister of Mr. Andrew Cho Fai Yao.

Ms. Drina C. Yue

Ms. Drina C. Yue, aged 45, 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 masters 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.

Directors' Profile

NON-EXECUTIVE DIRECTORS

Ms. Lena Foo

Ms. Lena Foo, aged 37, 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 51, 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 masters 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 62, 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 2002, the Stemcor group invoiced 7.6 million tonnes of steel products and raw materials. Additionally the Stemcor group sold 0.7 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 55, 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. 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 Investment Services Limited.

Mr. Philip King Huen Ma

Mr. Philip King Huen Ma, aged 46, 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 masters degree in business administration from McMaster University in Canada. Mr. Ma is also very active in his community services and 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.

Report of the Directors

The Directors have the pleasure of presenting their annual report together with the audited accounts of iSteelAsia.com Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st March 2003.

PRINCIPAL ACTIVITIES

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

SEGMENT INFORMATION

An analysis of the Group's turnover and segment results by business segment and geographical segment for the year ended 31st March 2003 is set out in Note 27 to the accompanying accounts.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March 2003, the five largest customers of the Group accounted for approximately 29% of the Group's total turnover while the five largest suppliers of the Group accounted for approximately 50% of the Group's total purchases.

For the year ended 31st March 2003, Van Shung Chong Hong Limited ("VSCHL"), a subsidiary of Van Shung Chong (B.V.I.) Limited ("VSC BVI") which is a substantial shareholder and an initial management shareholder of the Company as defined in the 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 34% of the Group's total 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 2003 are set out in the consolidated profit and loss account on page 38 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated losses of HK$135,186,000 as at 31st March 2003 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 22 and 24 respectively, to the accompanying accounts.

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 25 to the accompanying accounts.

As at 31st March 2003, the Company did not have any distributable reserves.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 15 to the accompanying accounts.

FURNITURE AND EQUIPMENT

Details of movements in furniture and equipment during the year are set out in Note 12 to the accompanying accounts.

BANK BORROWINGS

Particulars of bank borrowings as at 31st March 2003 are set out in Note 19 to the accompanying accounts.

PENSION SCHEMES

Details of the pension schemes are set out in Note 28 to the accompanying accounts.

Report of the Directors

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, *Deputy Chairman*
Ms. Drina C. Yue, *CEO*

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, Ms. Drina C. Yue and Mr. Philip King Huen Ma, 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 terminable by the employing company within one year without payment of compensation other than statutory compensation.

Report of the Directors

DIRECTORS' INTEREST IN SHARES AND WARRANTS

As at 31st March 2003, the interests of the Directors and the chief executives of the Company in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name	**Type of interest**	**Attributable interest to the Director**	**Number of Shares**	**Number of Warrants** *(Note 1)*
Mr. Andrew Cho Fai Yao	— Corporate interest held by TN *(Note 2)*	deemed interest (indirectly)	196,301,600	39,260,320
	— Corporate interest held by Huge Top *(Note 3)*	more than one-third (indirectly)	159,811,344	31,962,268
	— Corporate interest held by VSC BVI *(Note 4)*	through Huge Top (indirectly)	301,026,000	60,205,200
	— Corporate interest held by Right Action *(Note 5)*	100% (directly)	102,400,000	20,480,000
		Total:	759,538,944	151,907,788

DIRECTORS' INTEREST IN SHARES AND WARRANTS (Cont'd)

(a) Ordinary shares ("Shares") of the Company of HK$0.10 each and Warrants (Cont'd)

Name	**Type of interest**	**Attributable interest to the Director**	**Number of Shares**	**Number of Warrants** *(Note 1)*
Ms. Miriam Che Li Yao	— Corporate interest held by TN *(Note 2)*	deemed interest (indirectly)	196,301,600	39,260,320
	— Corporate interest held by Huge Top *(Note 3)*	more than one-third (indirectly)	159,811,344	31,962,268
	— Corporate interest held by VSC BVI *(Note 4)*	through Huge Top (indirectly)	301,026,000	60,205,200
		Total:	657,138,944	131,427,788
Mr. Philip King Huen Ma	— Corporate interest held by S & S *(Note 6)*	—	159,324	31,864

Notes:

1. The warrants of the Company ("Warrants") entitle the holders to subscribe in cash for Shares at a subscription price of HK$0.10 each (subject to adjustment) and are exercisable between 18th June 2002 and 17th June 2005.

2. As at 31st March 2003, TN Development Limited ("TN") owns 196,301,600 Shares and 39,260,320 Warrants. VSC BVI owns 54% of the issued share capital of TN and Andrew Cho Fai Yao owns 10% of the issued share capital of TN. The board of directors of TN only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.

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

DIRECTORS' INTEREST IN SHARES AND WARRANTS (Cont'd)

(a) Ordinary shares ("Shares") of the Company of HK$0.10 each and Warrants (Cont'd)

3. As at 31st March 2003, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares and 31,962,268 Warrants. Andrew Cho Fai Yao directly and indirectly owns more than one-third of the issued share capital of Huge Top. The board of directors of Huge Top only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.

4. As at 31st March 2003, VSC BVI owns 301,026,000 Shares and 60,205,200 Warrants and Huge Top owns approximately 65.53% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). Andrew Cho Fai Yao and Miriam Che Li Yao are directors of VSC. VSC BVI is a wholly-owned subsidiary of VSC. The board of directors of VSC BVI comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.

5. As at 31st March 2003, Right Action Offshore Inc. ("Right Action") owns 102,400,000 Shares and 20,480,000 Warrants. Andrew Cho Fai Yao owns the entire issued share capital of Right Action and is also the sole director of that company. These interests were corporate interests in the Company.

6. As at 31st March 2003, S & S Management Co. Ltd. ("S & S") owns 159,324 Shares and 31,864 Warrants. Philip King Huen Ma is deemed to be interested in these 159,324 Shares and 31,864 Warrants.

(b) Employee options to purchase Shares from TN

		Number of employee options		
Name	**Employee options granted**	**Beginning of year**	**Exercised during the year**	**End of year**
Ms. Drina C. Yue *(Note 1)*	30,720,000	20,480,000	—	20,480,000
Mr. Daniel Takuen Shih *(Note 1)*	2,000,000	2,000,000	—	2,000,000

Note:

1. Each of Drina C. Yue and Daniel Takuen Shih has been granted an option to purchase 30,720,000 Shares (balance as at 31st March 2003 — 20,480,000 Shares) and 2,000,000 Shares respectively from TN, at an exercise price per Share of HK$0.054, under separate share option agreements both dated 13th April 2000. Each option may be exercised in whole or in part in the following manner:

   (a) During the period starting from 13th April 2001 to 12th April 2002, the option may be exercised up to one-third of such Shares.

   (b) During the period starting from 13th April 2002 to 12th April 2003, the option may (to the extent not exercised in accordance with (a) above) be exercised up to two-thirds of such Shares.

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

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 companies of the Group, including any executive directors, to take up options to subscribe for Shares. The Old Scheme became effective upon the listing of the Shares on 20th April 2000. Further details of the Old Scheme are set out in the section headed "Information on Share Option Scheme" below.

Details of movements in the share options to subscribe for Shares granted to and held by certain Directors during the year ended 31st March 2003 under the Old Scheme were as follows:

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

No options under the Old Scheme 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Cont'd)

Other than disclosed above, as at 31st March 2003, neither the Directors nor their associates, had any interests in any securities of the Company or any of its associated corporations (as defined in the SDI Ordinance), and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 8 to the accompanying accounts, no contract or arrangement 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 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 2003, 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 nominal value of the issued share capital of the Company were as follows:

Name		**Number of Shares**	**Total number of Shares**	**Notes**
VSC BVI	— directly	301,026,000		
	— indirect deemed interest through TN	196,301,600	497,327,600	1
VSC	— indirectly through VSC BVI	301,026,000		
	— indirect deemed interest through TN	196,301,600	497,327,600	1 & 2
Huge Top	— directly	159,811,344		
	— indirectly through VSC BVI	301,026,000		
	— indirect deemed interest through TN	196,301,600	657,138,944	1, 2 & 3
TN	— directly	196,301,600	196,301,600	4
Mr. Leroy Lin Yuen Kung	— indirectly through Grand Bridge	181,824,000	181,824,000	5
Galaface Limited	— indirectly through Grand Bridge	181,824,000	181,824,000	5
Asian Gold Associates Limited	— indirectly through Grand Bridge	181,824,000	181,824,000	5
iMerchants Group Limited	— indirectly through Grand Bridge	181,824,000	181,824,000	5
Grand Bridge Enterprises Limited	— directly	181,824,000	181,824,000	5

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Notes:

1. VSC BVI owns 54% of the share capital of TN and is deemed to be interested in the 196,301,600 Shares held by TN as at 31st March 2003. VSC BVI directly owns 301,026,000 Shares as at 31st March 2003. VSC BVI is therefore directly and indirectly interested in an aggregate of 497,327,600 Shares.

2. VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 497,327,600 Shares.

3. Huge Top is beneficially interested in approximately 65.53% of the issued share capital of VSC as at 31st March 2003 and is therefore deemed to be interested in the 196,301,600 Shares held by TN and the 301,026,000 Shares held by VSC BVI as at 31st March 2003. As at the same date, Huge Top also directly owns 159,811,344 Shares. Huge Top is therefore directly and indirectly interested in an aggregate of 657,138,944 Shares.

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

5. As at 31st March 2003, Grand Bridge Enterprises Limited ("Grand Bridge") directly owns 181,824,000 Shares. Grand Bridge is a wholly-owned subsidiary of iMerchants Group Limited which is a wholly-owned subsidiary of Asian Gold Associates Limited ("AGA"). AGA is a company in which Galaface Limited is entitled to exercise more than one-third of its voting power. Galaface Limited is a company owned and controlled by Mr. Leroy Lin Yuen Kung.

INFORMATION ON SHARE OPTION SCHEME

Summary of the Old Scheme adopted on 13th April 2000 and the New Scheme (as defined below) adopted on 10th June 2002 disclosed in accordance with the Listing Rules was as follows:

		Old Scheme	New Scheme
1.	Purpose of the Old and New Schemes	As an incentive to employees.	To provide incentives to participants to contribute to the Group and/or to enable the Group to recruit and/or to retain high-calibre employees and attract human resources that are valuable to the Group.
2.	Participants of the Old and New Schemes	Any full-time employee including any executive director of the Group.	Employee/agent/consultant or representative, including any executive or non-executive director, of any member of the Group or any other person who satisfies the selection criteria as set out in the New Scheme.

INFORMATION ON SHARE OPTION SCHEME (Cont'd)

		Old Scheme	New Scheme
3.	Total number of Shares available for issue under the Old and New Schemes and percentage of issued share capital as at the date of this annual report	92,000,000 Shares (approximately 5.9% of issued share capital), being the outstanding options unexercised as at the date of this annual report. The total number of Shares subject to the Old Scheme and any other schemes must not, in aggregate, exceed 10% of the issued share capital of the Company from time to time excluding (i) Shares issued upon the exercise of options granted pursuant to the Old Scheme and any other schemes; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i) during a specified period of 10 consecutive years.	The Company may initially grant options representing 156,450,000 Shares under the New Scheme (i.e. 10% of the issued share capital of the Company as at the date of approval of the New Scheme and approximately 10.0% of the issued share capital as at the date of this annual report). The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company and/or its subsidiary (including the Old Scheme) must not exceed 30% of the Shares in issue from time to time. No options may be granted under any schemes of the Company or its subsidiary if this would result in the 30% limit being exceeded.
4.	Maximum entitlement of each participant under the Old and New Schemes	25% of the aggregate number of Shares for the time being issued and issuable under the Old Scheme.	The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) within any twelve-month period under the New Scheme and any other share option scheme(s) of the Company and/or any subsidiary must not exceed 1% of the number of Shares in issue.

INFORMATION ON SHARE OPTION SCHEME (Cont'd)

		Old Scheme	New Scheme
5.	The period within which the Shares must be taken up under an option	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.	Must not be more than ten years from the date of offer of grant of the option.
6.	The minimum period for which an option must be held before it can be exercised	No such minimum period specified under the Old Scheme but the Directors can grant options at terms and conditions as they may think fit to offer.	No such minimum period specified and an option may be exercised in accordance with the terms of the New Scheme at any time during a period to be notified by the Board of Directors to each grantee.
7.	The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid	HK$1 is to be paid as consideration for the grant of option and the option shall be accepted within 28 days from the date of grant.	The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$10 in cash from the grantee to the Company on acceptance of the offer.

INFORMATION ON SHARE OPTION SCHEME (Cont'd)

		Old Scheme	New Scheme
8.	The basis of determining the exercise price	The exercise price of an option will be at least the highest of: a. the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the grant of the option, which must be a business day, b. 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 offer of the grant of the option, and c. the nominal value of the Shares.	The exercise price of an option will be at least the highest of: a. the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the grant of the option, which must be a business day, b. 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 offer of the grant of the option, and c. the nominal value of the Shares.
9.	The remaining life of the Old and New Schemes	The Old Scheme was adopted on 13th April 2000 and 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.	The New Scheme shall be valid and effective for a period of ten years commencing on the adoption date i.e. 10th June 2002.

INFORMATION ON SHARE OPTION SCHEME (Cont'd)

Movements of employee share options pursuant to the Old Scheme during the year ended 31st March 2003 were as follows:

				Number of share options			
Date of grant	**Vesting period**	**Exercise period**	**Exercise price per Share**	**Beginning of year**	**Granted during the year**	**Lapsed during the year**	**End of year**
				'000	*'000*	*'000*	*'000*
Directors							
3rd July 2000	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	HK$0.360	4,500	—	—	4,500
7th November 2000	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	HK$0.485	15,000	—	—	15,000
Employees							
3rd July 2000	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	HK$0.360	17,100	—	(750)	16,350
7th November 2000	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	HK$0.485	56,650	—	(500)	56,150
				93,250	—	(1,250)	92,000

The Old Scheme was terminated on 10th June 2002. Upon termination of the Old Scheme, no further options were granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all options granted prior to such termination continue to be valid and exercisable in accordance therewith. A new share option scheme has been adopted by the Company since 10th June 2002 (the "New Scheme") to replace the Old Scheme to comply with the current GEM Listing Rules requirements. Up to the date of this annual report, no options have been granted pursuant to the New Scheme.

SPONSOR'S INTERESTS

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

As at 31st March 2003 and as updated and notified by ICEA:

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

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

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

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

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 accounts.

During the year ended 31st March 2003, the Group has 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 VSCHL, a wholly-owned subsidiary of VSC BVI, a substantial shareholder of the Company, VSCHL agreed to provide general office administrative and company secretarial services to ISA (HK) and its affiliates at a fee of HK$30,000 per calendar month.

CONNECTED TRANSACTIONS (Cont'd)

2. Under the arrangement of a procurement services agreement dated 13th April 2000 entered into between Metal Logistics Company Limited ("ML"), a wholly-owned subsidiary of the Company, and VSCHL, 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 HK$3 million for each of the three years ended 31st March 2003.

3. Under the arrangement of a steel supply agreement dated 13th April 2000 entered into between ML and VSCHL, 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, etc.). For each of the three years ended 31st March 2003, the total purchases made by ML from the VSC Group have been capped at HK$350 million per annum.

4. Pursuant to a sub-tenancy agreement dated 21st June 2001 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 1,088 sq. ft. The rental is HK$50,000 per month.

5. VSC and its subsidiaries and its associated companies (collectively the "VSC Group") may from time to time source/procure/distribute/sell steel products via the Group's iSteelAsia.com website. For each of the three years ended 31st March 2003, the annual sales of the VSC Group transacted via the trading platform at iSteelAsia.com had been capped at HK$3.5 billion per annum while the commission which may be earned by iSteelAsia.com from the VSC Group had been capped at HK$52.5 million per annum.

Pursuant to Rule 20.25(3) of the GEM Listing Rules, the administrative service agreement and the 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 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.

CONNECTED TRANSACTIONS (Cont'd)

Pursuant to the Waiver granted by the Stock Exchange, the Ongoing Transactions, except the administrative service agreement and the 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) have been entered into in accordance with the relevant agreements governing the transactions; and (c) have not exceeded their respective caps agreed with the Stock Exchange.

COMPETING INTERESTS

Mr. Ralph David Oppenheimer, a non-executive Director of the Company, is the chairman and chief executive of Stemcor Holdings Limited whose business is principally engaged in international steel trading. Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao are the Chairman and the Deputy Chairman of the Company, respectively, and also the chairman and the deputy chairman of VSC, respectively and VSC is also engaged in steel trading business. The Directors believe that there is a risk that such businesses may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Oppenheimer, Mr. Yao and Ms. Yao in the steel industry will complement the development of the Group's business.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates has an interest in a business, which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with the Group.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March 2003.

Report of the Directors

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 audit committee held four meetings during the year. The duties of the audit committee include reviewing the Company's annual reports and quarterly reviews and providing advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises two independent non-executive directors, namely Mr. Yeung Kwok Keung and Mr. Philip King Huen Ma. These audited accounts for the year ended 31st March 2003 of the Company now reported on have been reviewed by the Audit Committee.

AUDITORS

Messers. Arthur Andersen & Co did not seek re-appointment upon their retirement at the pervious annual general meeting on 9th August 2002 and PricewaterhouseCoopers was appointed as auditors of the Company. The accompanying accounts were audited by PricewaterhouseCoopers. A resolution for the re-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,
DRINA C. YUE
Director and Chief Executive Officer

Hong Kong, 16th June 2003

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF iSTEELASIA.COM LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 38 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 accounts which give a true and fair view. In preparing accounts 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 accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31st March 2003 and of the group's profit and cash flows for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16th June 2003

Consolidated Profit and Loss Account

For the year ended 31st March 2003

	Note	**2003**	2002
		HK$'000	*HK$'000*
Turnover	*4*	**811,142**	428,345
Cost of sales		**(764,035)**	(409,665)
Gross profit		**47,107**	18,680
Other revenue	*4*	**1,370**	2,173
Selling and distribution expenses		**(6,132)**	(2,901)
General and administrative expenses		**(26,794)**	(30,875)
Impairment loss of an investment		**(803)**	(1,722)
Operating profit/(loss)	*5*	**14,748**	(14,645)
Finance cost	*7*	**(6,284)**	(4,166)
Profit/(Loss) before taxation		**8,464**	(18,811)
Taxation	*9*	**(1,840)**	1,472
Profit/(Loss) after taxation but before minority interests		**6,624**	(17,339)
Minority interests		**(34)**	(1)
Profit/(Loss) attributable to shareholders	*10*	**6,590**	(17,340)
Earnings/(Loss) per share — Basic	*11*	**HK0.42 cents**	HK(1.14) cents

Balance Sheets

As at 31st March 2003

	Note	Consolidated		Company	
		2003	2002	**2003**	2002
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets					
Furniture and equipment	12	**3,230**	2,306	**—**	—
Website development costs	13	**918**	2,165	**—**	—
Long-term investments	14	**685**	28,201	**685**	3,998
Investment in subsidiaries	15	**—**	—	**1**	2,225
Total non-current assets		**4,833**	32,672	**686**	6,223
Current assets					
Short-term investment	14	**23,400**	—	**—**	—
Inventories	16	**155,229**	63,511	**—**	—
Prepayments and deposits		**19,359**	6,425	**—**	—
Deposits for purchase of inventories		**49,232**	2,919		
Accounts and bills receivable	17	**37,425**	72,441	**—**	—
Cash and bank deposits	18	**49,240**	49,058	**4,035**	83
Total current assets		**333,885**	194,354	**4,035**	83
Current liabilities					
Short-term bank borrowings	19	**(57,134)**	(64,335)	**—**	—
Accounts and bills payable	20	**(232,003)**	(140,367)	**—**	—
Other payables		**(3,618)**	(5,558)	**—**	—
Accruals		**(1,872)**	(3,289)	**(50)**	—
Receipts in advance		**(28,391)**	(2,111)	**—**	—
Taxation payable		**(1,015)**	—	**—**	—
Total current liabilities		**(324,033)**	(215,660)	**(50)**	—
Net current assets/(liabilities)		**9,852**	(21,306)	**3,985**	83
Total assets less current liabilities		**14,685**	11,366	**4,671**	6,306
Minority interests		**(1,334)**	(1,300)	**—**	—
Net assets		**13,351**	10,066	**4,671**	6,306
Representing:					
Share capital	22	**156,450**	156,450	**156,450**	156,450
Reserves	25	**(143,099)**	(146,384)	**(151,779)**	(150,144)
Shareholders' equity		**13,351**	10,066	**4,671**	6,306

Andrew Yao Cho Fai
Chairman

Drina C. Yue
Director and CEO

Consolidated Cash Flow Statement

For the year ended 31st March 2003

	Note	2003 HK$'000	2002 HK$'000
Operating activities			
Net cash inflow generated from/(outflow absorbed by) operations	26(a)	**15,122**	(17,175)
Interest received		**1,059**	2,103
Interest paid		**(6,284)**	(4,166)
Mainland China enterprise income tax paid		**(825)**	(221)
Net cash inflow/(outflow) from operating activities		**9,072**	(19,459)
Investing activities			
Additions of furniture and equipment		**(2,009)**	(105)
Proceeds from disposal of furniture and equipment		**60**	162
Additions of website development costs		**(59)**	(14)
Increase in a long-term investment		**—**	(951)
Dividend received from an investment		**311**	70
Translation adjustments		**8**	145
Net cash outflow from investing activities		**(1,689)**	(693)
Financing activities	26(b)		
Share issue expenses		**—**	(451)
New short-term bank loans		**32,962**	34,980
New trust receipts bank loans		**211,717**	200,494
Repayment of short-term bank loans		**(25,595)**	(23,400)
Repayment of trust receipts bank loans		**(226,285)**	(172,228)
Capital contribution by a minority shareholder of a subsidiary		**—**	1,299
Net cash (outflow)/inflow from financing activities		**(7,201)**	40,694
Increase in cash and cash equivalents		**182**	20,542
Cash and cash equivalent, beginning of year		**49,058**	28,516
Cash and cash equivalent, end of year	26(c)	**49,240**	49,058

Consolidated Statement of Changes in Equity

For the year ended 31st March 2003

	Note	**2003** **HK$'000**	2002 HK$'000
Balance as at beginning of year		**10,066**	23,714
Profit/(Loss) attributable to shareholders	25	**6,590**	(17,340)
Issue of shares, net of share issue expenses	22 & 25	**—**	22,099
Change in fair value of a long-term investment	25	**(3,313)**	(18,552)
Translation adjustments	25	**8**	145
Balance as at end of year		**13,351**	10,066

Notes to the Accounts

1 ORGANISATION AND PRINCIPAL ACTIVITIES

iSteelAsia.com Limited (the "Company") was incorporated in Bermuda on 10th February 2000 as an exempted company under the Companies Act 1981 of Bermuda. Its shares have been listed on the Growth Enterprise Market ("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 for steel products, operation of an e-commerce vertical portal for the provision of online steel trading and ancillary services, and investment holding.

2 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of measurement

The accounts are prepared on the historical cost basis, except for investments which are carried at fair value (see Note 2(h)).

(b) Adoption of new/revised Statements of Standard Accounting Practice

Commencing from 1st April 2002, the Company and its subsidiaries (together the "Group") have adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

Except for certain presentational changes which have been made upon the adoption of SSAP 1 (revised) and SSAP 15 (revised), the adoption of the above new/revised SSAPs has no material effect on the accounts.

The 2002 comparative figures presented herein have incorporated the effect on the adoption of the new/revised SSAPs.

(c) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Any significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Subsidiaries

Subsidiaries are those entities in which the Company directly or indirectly controls more than one half of the voting power; has power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority votes at the meeting of the board of directors.

In the Company's accounts, investment in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) 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 govern and control 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 a subsidiary.

(f) Furniture and equipment and depreciation

Furniture and equipment are stated at cost less accumulated depreciation and any 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.

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 profit and loss account based on the net disposal proceeds less the then carrying amount of the assets.

(g) Website development costs

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

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Investments

Investments are stated at fair value. Any change in fair value on such investments is recognised directly in the investment revaluation reserve, a component of shareholders' equity, until the related 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 recognised in the profit and loss account.

Transfer from the investment revaluation reserve to the profit and loss account as a result of impairment are reversed when circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

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

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

(i) Inventories

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

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

(j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision, if any.

(k) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets 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 profit and loss account. 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.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(k) Impairment of assets (Cont'd)

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 profit and loss account.

(l) 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 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 accounts. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the accounts but disclosed when an inflow of economic benefits is probable.

(m) Turnover and revenue recognition

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

(i) Sales revenue

Sales revenue is recognised when the merchandise is shipped and title has passed.

(ii) Commission from procurement and online steel trading services

Commission from procurement and online steel trading services is recognised when the services are rendered.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(iv) Interest income

Interest income is recognised on a time-proportion basis that takes into account the effective yield on the assets.

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

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) 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 accounts, 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.

(o) 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.

(p) Employee retirement benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group's contributions to defined contribution retirement schemes are expensed as incurred.

(q) 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 get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(r) Operating leases

Operating leases represent 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 charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

(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 respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the profit and loss account of the individual companies.

The Group prepares consolidated accounts 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; all income and expense items are translated at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative foreign currency translation adjustments.

(t) Segments

In accordance with the Group's internal financial reporting, the Group has determined to present business segments as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of furniture and equipment, inventories, receivables and operating cash, while segment liabilities consist primarily of bank borrowings, payables and accrued liabilities. Capital expenditure comprises additions to furniture and equipment, website development costs and increase in long-term investments.

In respect of geographical segment reporting, turnover is based on the destination of shipment of merchandise or the location for the provision of services. Total assets and capital expenditure are classified where the assets are located.

(u) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice.

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 HK$287,413,000 (2002: HK$231,402,000) from Van Shung Chong Hong Limited ("VSCHL"), a related company, during the year ended 31st March 2003, and had an outstanding payable to VSCHL of approximately HK$210,202,000 as at 31st March 2003 (2002: HK$137,711,000) of which approximately HK$197,853,000 (2002: HK$80,927,000) was overdue. VSCHL has granted to the Group a normal credit period and has agreed not to demand repayment of overdue balances but charges interest on such balances based on commercial lending rates.

(b) Details of significant transactions with related parties were:

Name of related party/Nature of transaction	**2003** ***HK$'000***	2002 *HK$'000*
Van Shung Chong Hong Limited *(i)*		
— Purchases made by the Group *(see Note 3(a))*	**287,413**	231,402
— Commission from procurement services earned by the Group	**1,552**	1,406
— Software sub-licensing fees earned by the Group	**—**	2,180
— Interest charged to the Group *(see Note 3(a))*	**4,616**	1,336
— Administrative fees charged to the Group	**360**	360
CFY Enterprises Limited *(i)*		
— Rental expenses charged to the Group	**600**	810
— Rates, management fees and utilities charged to the Group	**87**	171
iMerchants Limited *(ii)*		
— Website maintenance costs charged to the Group	**—**	1,264

Notes:

(i) Van Shung Chong Hong Limited and CFY Enterprises Limited are wholly-owned 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) The amounts due to related companies arising from transactions described in Note 3(b) are included in accounts payable. Details of these balances are as follows:

Name of related company	**2003** *HK$'000*	2002 *HK$'000*
Van Shung Chong Hong Limited *(i)*	**210,202**	137,711
iMerchants Limited *(ii)*	**—**	2,320
	210,202	140,031

Notes:

(i) The balance was unsecured, repayable within ordinary credit term and bore interest at commercial lending rates for overdue balances.

(ii) The balance was unsecured, non-interest bearing and had no pre-determined repayment terms.

4 TURNOVER AND REVENUE

Turnover and revenue consisted of:

	2003 *HK$'000*	2002 *HK$'000*
Sales of merchandise	**799,970**	422,116
Commission from procurement and online steel trading services	**11,172**	4,049
Software sub-licensing fees	**—**	2,180
Total turnover	**811,142**	428,345
Dividend income	**311**	70
Interest income	**1,059**	2,103
Total revenue	**812,512**	430,518

5 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is determined after charging and crediting the following items:

	2003	2002
	HK$'000	*HK$'000*
After charging —		
Write-off of and provision for bad and doubtful debts	**715**	1,283
Provision against inventories	**3,889**	—
Operating lease rental in respect of premises paid to		
— a related company *(see Note 3(b))*	**600**	810
— others	**1,052**	845
Depreciation of furniture and equipment	**905**	712
Amortisation of website development costs	**1,306**	1,291
Loss on disposal of furniture and equipment	**120**	148
Impairment loss of an investment	**803**	1,722
Auditors' remuneration	**438**	405
Net exchange loss	**46**	27
After crediting —		
Dividend income from an investment	**311**	70
Interest income from		
— bank deposits	**504**	1,309
— overdue trade receivables	**555**	794

6 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003	2002
	HK$'000	*HK$'000*
Salaries and allowance	**14,239**	16,754
Bonuses	**320**	46
Pension costs — Defined contribution schemes *(see Note 28)*	**311**	282
	14,870	17,082

7 FINANCE COST

	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**1,668**	2,830
Interest on amount due to a related company *(see Note 3(b))*	**4,616**	1,336
	6,284	4,166

8 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments were:

	2003	2002
	HK$'000	*HK$'000*
Fees for executive directors	**—**	—
Fees for non-executive directors	**50**	50
Other emoluments for executive directors		
— Basic salaries and allowances	**3,383**	3,415
— Discretionary bonuses*	**100**	—
— Contributions to pension scheme	**24**	24
	3,557	3,489

* The executive directors were entitled to discretionary bonuses which were determined with reference to the financial performance of the Group.

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:

	2003	2002
Non-executive directors		
— Nil to HK$1,000,000	**5**	5
Executive directors		
— HK$1,000,001 to HK$1,500,000	**3**	3
	8	8

During the year, the executive directors received individual emoluments of approximately HK$1,285,000 (2002: HK$1,187,000), HK$1,182,000 (2002: HK$1,212,000) and HK$1,040,000 (2002: HK$1,040,000). Each non-executive director received a fee of HK$10,000 (2002: HK$10,000).

(b) The five individuals whose emoluments were the highest in the Group for the year include three (2002: three) directors whose emoluments are reflected in the analysis presented in Note 8(a) above. The emoluments paid/payable to the remaining two individuals were as follows:

	2003	2002
	HK$'000	*HK$'000*
Basic salaries and allowances	**2,194**	2,148
Contributions to pension scheme	**24**	24
	2,218	2,172

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

	2003	2002
HK$1,000,001 to HK$1,500,000	**2**	2

9 TAXATION

Taxation consisted of:

	2003	2002
	HK$'000	*HK$'000*
Current taxation		
— Write-back of Hong Kong profits tax	**—**	1,693
— Mainland China enterprise income tax	**(1,840)**	(221)
	(1,840)	1,472

The Company is exempted from taxation in Bermuda until 2016.

No provision for Hong Kong profits tax has been provided as the Group had no assessable profit during the year.

The subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2002: 15% to 33%).

10 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/(loss) attributable to shareholders included a profit of approximately HK$1,678,000 (2002: loss of HK$20,731,000) dealt with in the accounts of the Company.

11 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the year ended 31st March 2003 is based on the profit attributable to shareholders of approximately HK$6,590,000 (2002: loss of HK$17,340,000) and the weighted average of approximately 1,564,500,000 (2002: 1,527,130,000) ordinary shares in issue during the year.

No diluted earnings/(loss) per share is presented as the outstanding warrants and employee share options were anti-dilutive.

12 FURNITURE AND EQUIPMENT

Movements of furniture and equipment (consolidated) were:

	2003				2002
	Leasehold improvements and furniture	Office equipment	Motor vehicles	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost					
Beginning of year	701	2,801	10	3,512	3,803
Additions	167	252	1,590	2,009	105
Disposals	(71)	(309)	(10)	(390)	(396)
End of year	797	2,744	1,590	5,131	3,512
Accumulated depreciation					
Beginning of year	225	979	2	1,206	580
Provision for the year	157	563	185	905	712
Disposals	(31)	(175)	(4)	(210)	(86)
End of year	351	1,367	183	1,901	1,206
Net book value					
End of year	446	1,377	1,407	3,230	2,306
Beginning of year	476	1,822	8	2,306	3,223

13 WEBSITE DEVELOPMENT COSTS

Movements of website development costs (consolidated) were:

	2003	2002
	HK$'000	*HK$'000*
Cost		
Beginning of year	**33,288**	33,620
Additions	**59**	14
Write-off	**—**	(346)
End of year	**33,347**	33,288
Accumulated amortisation		
Beginning of year	**31,123**	29,832
Amortisation	**1,306**	1,291
End of year	**32,429**	31,123
Net book value		
End of year	**918**	2,165
Beginning of year	**2,165**	3,788

14 INVESTMENTS

Investments consisted of:

	Consolidated		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Long-term investments				
Listed shares in Hong Kong *(i)*				
— At cost	**22,550**	22,550	**22,550**	22,550
— Change in fair value	**(21,865)**	(18,552)	**(21,865)**	(18,552)
— At quoted market value	**685**	3,998	**685**	3,998
Unlisted shares *(ii)*				
— At cost	**—**	25,925	**—**	—
— Impairment loss	**—**	(1,722)	**—**	—
	—	24,203	**—**	—
	685	28,201	**685**	3,998
Short-term investment				
Unlisted shares *(ii)*				
— At cost	**25,925**	—	**—**	—
— Impairment loss	**(2,525)**	—	**—**	—
	23,400	—	**—**	—

Notes:

(i) Investment in listed shares represents investment in 11,423,506 shares in AcrossAsia Multimedia Limited, a company whose shares are listed on GEM of the Stock Exchange. AcrossAsia Multimedia Limited is principally engaged in the provision of fixed line broadband communication services, cellular communication services and internet enabling services and commerce.

(ii) Investment in unlisted shares represents a 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. The Group holds a put option under which it may require Stemcor to repurchase all of the Group's 3.5% equity interest in Stemcor for HK$23,400,000 (equivalent of US$3,000,000). Such put option is 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 2003. The Group intends to exercise such put option and accordingly has classified such investment as a short-term investment as at 31st March 2003.

15 INVESTMENT IN SUBSIDIARIES

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

	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**3,500**	3,500
Due from subsidiaries	**139,754**	143,927
Due to a subsidiary	**(3,907)**	(3,907)
	139,347	143,520
Less: Impairment losses	**(139,346)**	(141,295)
	1	2,225

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 the Group's management, not less than its carrying value as at 31st March 2003.

Details of the principal subsidiaries as at 31st March 2003 were:

Name	**Place of incorporation and operations**	**Issued and fully paid share capital/ registered 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
Chongqing iSteelAsia Trading Company Limited *(ii)*	Mainland China	US$60,000	100%	Trading of steel
i-AsiaB2B Group Limited *(i)*	British Virgin Islands	US$1	100%	Investment holding
ISA (China) Investment Limited (formerly known as Production Track 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

15 INVESTMENT IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Group *(i)*	Principal activities
iSteelAsia (Hong Kong) Limited	Hong Kong	HK$2	100%	Operation of an e-commerce vertical portal business for online steel trading
iSteelAsia Limited	British Virgin Islands	US$10	100%	Operation of an e-commerce vertical portal business for online steel trading
iSteelAsia (South China) Company Limited *(ii)*	Mainland China	US$200,000	100%	Trading of steel
iSteelAsia (Stemcor) Holdings 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	HK$4	100%	Trading of steel and provision of procurement services
Shenzhen iSteelAsia Trading Company Limited *(ii)*	Mainland China	HK$2,000,000	100%	Trading of steel
Tianjin iSteelAsia International Limited *(ii)*	Mainland China	US$200,000	100%	Trading of steel
Ya Gang Wang Co. Limited	British Virgin Islands	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
天津市環緯商貿有限公司 *(iii)*	Mainland China	RMB1,000,000	80%	Trading of steel

15 INVESTMENT IN SUBSIDIARIES (Cont'd)

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 50 years up to 2011 to 2052.

(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.

The above summary lists the principal subsidiaries which principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Company's Directors and the Group's management, result in particulars of excessive length.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March 2003.

16 INVENTORIES

Inventories (consolidated) consisted of rolled steel flat products for trading purposes.

As at 31st March 2003, inventories of approximately HK$67,209,000 (2002: Nil) were stated at net realisable value.

Certain inventories were held under trust receipts bank loans (see Notes 19 and 30).

17 ACCOUNTS AND BILLS RECEIVABLE

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

	2003	2002
	HK$'000	*HK$'000*
0 to 90 days	**35,393**	63,838
91 to 180 days	**1,883**	8,195
181 to 270 days	**—**	142
271 to 365 days	**222**	300
Over 365 days	**284**	999
	37,782	73,474
Less: Provision for doubtful receivables	**(357)**	(1,033)
	37,425	72,441

18 CASH AND BANK DEPOSITS

As at 31st March 2003, approximately HK$18,960,000 (2002: HK$8,506,000) of the Group's cash and bank deposits were denominated in Chinese Renminbi, a currency which is not freely convertible into other currencies.

19 SHORT-TERM BANK BORROWINGS

Short-term bank borrowings (consolidated) consisted of:

	2003	2002
	HK$'000	*HK$'000*
Trust receipts bank loans	**38,187**	52,755
Short-term bank loans	**18,947**	11,580
	57,134	64,335

All trust receipts bank loans were secured by inventories released under such loans (see Note 16).

As at 31st March 2003, the short-term bank loans bore interest at rates ranging from 5.0% to 5.8% (2002: 4.4% to 5.8%) per annum and were repayable within one year. As at 31st March 2003, all of the short-term bank loans were denominated in Chinese Renminbi, while as at 31st March 2002, HK$3,780,000 of the short-term bank loans was denominated in Chinese Renminbi and HK$7,800,000 was denominated in US dollars.

Details of the Group's banking facilities are set out in Note 30.

20 ACCOUNTS AND BILLS PAYABLE

Ageing analysis of accounts and bills payable (consolidated) was as follows:

	2003	2002
	HK$'000	*HK$'000*
0 to 90 days	**126,888**	77,493
91 to 180 days	**67,157**	40,298
181 to 270 days	**37,958**	20,958
271 to 365 days	**—**	1,618
	232,003	140,367

21 DEFERRED TAXATION

As at 31st March 2003, the Group had an unprovided deferred tax asset, primarily representing the tax effect of cumulative tax losses (which are subject to agreement by relevant tax authorities), amounting to approximately HK$11,663,000 (2002: HK$11,214,000).

22 SHARE CAPITAL

Movements were:

	2003		2002	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised				
Ordinary shares of HK$0.10 each	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid				
Ordinary shares of HK$0.10 each				
Beginning of year	**1,564,500**	**156,450**	1,454,500	145,450
Issued upon exercise of Warrants *(Note 23)*	**3**	**—**	—	—
Issue of shares	**—**	**—**	110,000	11,000
End of year	**1,564,503**	**156,450**	1,564,500	156,450

23 WARRANTS

Movements of warrants were:

			Number of warrants		
Date of issue	**Exercise period**	**Subscription price per share**	**Beginning of year**	**Exercised**	**End of year**
			'000	*'000*	*'000*
23rd May 2002	18th June 2002 to 17th June 2005	HK$0.10	312,900	(3)	312,897

On 23rd May 2002, the Company issued approximately 312,900,000 warrants to its shareholders on the basis of one warrant for every five ordinary shares of the Company at no charge. The warrants entitle the holders to subscribe in cash for ordinary shares of HK$0.10 each in the Company at a subscription price of HK$0.10 each (subject to adjustment) and are exercisable between 18th June 2002 to 17th June 2005. During the year ended 31st March 2003, 3,000 warrants (2002: Nil) were exercised to subscribe for 3,000 shares (2002: Nil) of the Company at a consideration of HK$300 (2002: Nil).

24 EMPLOYEE SHARE OPTIONS

As at 31st March 2003, 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 was to be determined by the Company's Board of Directors and was not 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.

Following the amendment of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, during the year ended 31st March 2003, the Company adopted a new share option scheme (the "New Scheme") to replace the Old Scheme. 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. Under the New Scheme, the Company may grant options to any person being an employee, agent, consultant or representative (including executive directors and non-executive directors) of the Group to subscribe for shares in the Company, subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's Board of Directors and shall be at least the highest of (i) the closing price of the Company's shares quoted on the Stock Exchange on the date of grant of the options; (ii) the average closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of the Company's shares of HK$0.10 each. No share option under the New Scheme was granted during the year.

Movements of employee share options were:

			Number of employee share options			
Date of grant	**Exercise period**	**Exercise price per share**	**Beginning of year**	**Granted**	**Lapsed**	**End of year**
			'000	*'000*	*'000*	*'000*
Old Scheme						
3rd July 2000	1st October 2002 to 12th April 2010	HK$0.360	21,600	—	(750)	20,850
7th November 2000	8th November 2002 to 12th April 2010	HK$0.485	71,650	—	(500)	71,150
			93,250	—	(1,250)	92,000

25 RESERVES

Consolidated

	Share premium HK$'000	Capital reserve HK$'000	Investment revaluation reserve HK$'000	Cumulative foreign currency translation adjustments HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1st April 2001	—	2,700	—	—	(124,436)	(121,736)
Loss attributable to shareholders	—	—	—	—	(17,340)	(17,340)
Premium on issue of shares	11,550	—	—	—	—	11,550
Share issue expenses	(451)	—	—	—	—	(451)
Change in fair value of a long-term investment	—	—	(18,552)	—	—	(18,552)
Translation adjustment	—	—	—	145	—	145
As at 31st March 2002	11,099	2,700	(18,552)	145	(141,776)	(146,384)
Profit attributable to shareholders	—	—	—	—	6,590	6,590
Change in fair value of a long-term investment	—	—	(3,313)	—	—	(3,313)
Translation adjustment	—	—	—	8	—	8
As at 31st March 2003	**11,099**	**2,700**	**(21,865)**	**153**	**(135,186)**	**(143,099)**

Company

	Share premium HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1st April 2001	—	—	(121,960)	(121,960)
Loss for the year	—	—	(20,731)	(20,731)
Premium on issue of shares	11,550	—	—	11,550
Share issue expenses	(451)	—	—	(451)
Change in fair value of a long-term investment	—	(18,552)	—	(18,552)
As at 31st March 2002	11,099	(18,552)	(142,691)	(150,144)
Profit for the year	—	—	1,678	1,678
Change in fair value of a long-term investment	—	(3,313)	—	(3,313)
As at 31st March 2003	**11,099**	**(21,865)**	**(141,013)**	**(151,779)**

26 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to net cash inflow generated from/(outflow absorbed by) operations was as follows:

	2003	2002
	HK$'000	*HK$'000*
Profit/(Loss) before taxation	**8,464**	(18,811)
Interest income	**(1,059)**	(2,103)
Interest expense	**6,284**	4,166
Dividend income	**(311)**	(70)
Depreciation of furniture and equipment	**905**	712
Amortisation of website development costs	**1,306**	1,291
Impairment loss of an investment	**803**	1,722
Loss on disposal of furniture and equipment	**120**	148
Increase in inventories	**(91,718)**	(54,514)
Increase in prepayments and deposits	**(12,934)**	(5,252)
Increase in deposits for purchase of inventories	**(46,313)**	(2,919)
Decrease/(Increase) in accounts and bills receivable	**35,016**	(44,825)
Increase in accounts and bills payable	**91,636**	106,063
Decrease in other payables	**(1,940)**	(1,736)
(Decrease)/Increase in accruals	**(1,417)**	147
Increase/(Decrease) in receipts in advance	**26,280**	(1,194)
Net cash inflow generated from/(outflow absorbed by) operations	**15,122**	(17,175)

(b) Analysis of changes in financing is as follows:

	Share capital and share premium	Short-term bank borrowings	Minority interests
	HK$'000	*HK$'000*	*HK$'000*
As at 1st April 2001	145,450	24,489	—
Issue of shares *(Note 22)*	22,550	—	—
Share issue expenses	(451)	—	—
New short-term bank loans	—	34,980	—
New trust receipts bank loans	—	200,494	—
Repayment of short-term bank loans	—	(23,400)	—
Repayment of trust receipts bank loans	—	(172,228)	—
Capital contribution by a minority shareholder of a subsidiary	—	—	1,299
Share of profit by minority interests	—	—	1
As at 31st March 2002	167,549	64,335	1,300
New short-term bank loans	—	32,962	—
New trust receipts bank loans	—	211,717	—
Repayment of short-term bank loans	—	(25,595)	—
Repayment of trust receipts bank loans	—	(226,285)	—
Share of profit by minority interests	—	—	34
As at 31st March 2003	**167,549**	**57,134**	**1,334**

26 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Cash and cash equivalents:

Cash and cash equivalents represent cash and bank deposits of approximately HK$49,240,000 as at 31st March 2003 (2002: HK$49,058,000).

27 SEGMENT INFORMATION

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

(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 the sale of merchandise. The procurement services business segment derives commission income from procurement and online steel trading services and software sub-licensing fees. The investment holding business segment derives revenue from dividend income. Analysis by business segment is as follows:

		2003		
	Steel trading *HK$'000*	**Procurement services** *HK$'000*	**Investment holding** *HK$'000*	**Total** *HK$'000*
Turnover				
Sales to external customers	**799,970**	**11,172**	**—**	**811,142**
Segment result	**9,343**	**6,157**	**(325)**	**15,175**
Other revenue	**1,048**	**—**	**322**	**1,370**
Impairment loss of an investment	**—**	**—**	**(803)**	**(803)**
Unallocated corporate expenses				**(994)**
Operating profit				**14,748**
Finance cost				**(6,284)**
Taxation				**(1,840)**
Minority interests				**(34)**
Profit attributable to shareholders				**6,590**

27 SEGMENT INFORMATION (Cont'd)

(a) Primary segment (Cont'd)

	2003			
	Steel trading	**Procurement services**	**Investment holding**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Assets				
Segment assets	**308,659**	**2,350**	**24,271**	**335,280**
Unallocated assets				**3,438**
				338,718
Liabilities				
Segment liabilities	**319,083**	**—**	**—**	**319,083**
Unallocated liabilities				**4,950**
Minority interests				**1,334**
				325,367
Capital expenditures				
Segment capital expenditures	**1,881**	**187**	**—**	**2,068**
Depreciation and amortisation				
Segment depreciation and amortisation	**600**	**1,611**	**—**	**2,211**
Significant non-cash expenditures				
Segment non-cash expenditures (other than depreciation and amortisation)	**4,411**	**193**	**803**	**5,407**

27 SEGMENT INFORMATION (Cont'd)

(a) Primary segment (Cont'd)

	2002			
	Steel trading *HK$'000*	Procurement services *HK$'000*	Investment holding *HK$'000*	Total *HK$'000*
Turnover				
Sales to external customers	422,116	6,229	—	428,345
Segment result	(3,563)	(10,454)	(98)	(14,115)
Other revenue	2,103	—	70	2,173
Impairment loss of an investment	—	—	(1,722)	(1,722)
Unallocated corporate expenses				(981)
Operating loss				(14,645)
Finance cost				(4,166)
Taxation				1,472
Minority interests				(1)
Loss attributable to shareholders				(17,340)
Assets				
Segment assets	192,769	5,557	28,201	226,527
Unallocated assets				499
				227,026
Liabilities				
Segment liabilities	207,808	2,320	—	210,128
Unallocated liabilities				5,532
Minority interests				1,300
				216,960
Capital expenditures				
Segment capital expenditures	88	31	23,501	23,620
Depreciation and amortisation				
Segment depreciation and amortisation	414	1,589	—	2,003
Significant non-cash expenditures				
Segment non-cash expenditures (other than depreciation and amortisation)	—	1,283	1,722	3,005

27 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 for steel trading, location of service performed for procurement services and software sub-licensing fee, location of sellers for online commission income, and location of the short-term/long-term investments for dividend income. Analysis by geographical segment is as follows:

		2003		
	Hong Kong	**Mainland China**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Turnover	**75,218**	**735,924**	**—**	**811,142**
Segment result	**(840)**	**21,860**	**(5,278)**	**15,742**
Unallocated corporate expenses				**(994)**
Operating profit				**14,748**
Assets	**41,464**	**272,768**	**24,486**	**338,718**
Capital expenditures	**259**	**1,770**	**39**	**2,068**

		2002		
	Hong Kong	Mainland China	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	139,892	284,762	3,691	428,345
Segment result	(11,563)	4,950	(7,051)	(13,664)
Unallocated corporate expenses				(981)
Operating loss				(14,645)
Assets	152,237	47,926	26,863	227,026
Capital expenditures	22,584	71	965	23,620

28 PENSION SCHEMES

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme generally at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a contribution cap of HK$12,000 per annum. Any additional contributions in excess of HK$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 employees contribute approximately 6% to 20% of their basic salaries, while the Group contributes approximately 14% to 22.5% of such salaries and has no further obligations for the actual payment of pensions or post-retirement benefits beyond these contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31st March 2003, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$311,000 (2002: HK$282,000).

29 OPERATING LEASE COMMITMENTS

Total commitments payable under various non-cancellable operating agreements in respect of rented premises (consolidated) are analysed as follows:

	2003	2002
	HK$'000	*HK$'000*
Amounts payable		
— Not later than one year	**1,433**	946
— Later than one year and not later than five years	**1,235**	261
	2,668	1,207

30 BANKING FACILITIES

As at 31st March 2003, the Group had aggregate banking facilities of approximately HK$122,540,000 (2002: HK$91,180,000) from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK$37,131,000 (2002: HK$8,582,000). These facilities were secured by:

(i) corporate guarantees provided by the Company; and

(ii) the Group's inventories held under trust receipts bank loan arrangement (see Note 16).

31 CONTINGENT LIABILITIES

As at 31st March 2003, the Company had provided guarantees of approximately HK$101,200,000 (2002: HK$81,200,000) to banks in respect of the banking facilities granted to its subsidiaries.

32 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 16th June 2003.