iSteelAsia.com Limited

iSteelAsia.com

Annual Report 2000/01

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
Ms. Miriam Che Li Yao
Ms. Drina C. Yue
Ms. Lena Foo*
Mr. Daniel Takuen Shih*
Mr. Ralph David Oppenheimer*
Mr. Yeung Kwok Keung**
Mr. Philip King Huen Ma**

* *Non-Executive Directors*
** *Independent Non-Executive Directors*

COMPLIANCE OFFICER

Ms. Drina C. Yue

COMPANY SECRETARY

Ms. Tse Sau Wai, *FCS, FCIS*

QUALIFIED ACCOUNTANT

Ms. Lee Wing Chee, *AHKSA, ACCA*

AUDIT COMMITTEE

Mr. Yeung Kwok Keung
Mr. Philip King Huen Ma

SPONSOR

BNP Paribas Peregrine Capital Limited
36th Floor
Asia Pacific Finance Tower
3 Garden Road
Hong Kong

AUDITORS

Arthur Andersen & Co

SOLICITORS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE OF THE COMPANY

www.isteelasia.com

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Butterfield Corporate Services Limited
65 Front Street
Hamilton
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

STOCK CODE

8080

Strong Public Recognition

Financial Highlights

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

CONSOLIDATED INCOME STATEMENTS

Amounts expressed in Hong Kong dollars

	Year ended 31st March,		
	1999	2000	**2001**
	$'000	*$'000*	***$'000***
Turnover	115,651	180,074	**183,329**
(Loss) Profit before taxation	3,299	(5,643)	**(112,034)**
Taxation	(276)	(1,169)	**(20)**
(Loss) Profit attributable to shareholders	3,023	(6,812)	**(112,054)**
Dividends (Note 1)	—	9,000	**—**

Note:

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 $9,000,000 to its shareholder prior to the group reorganisation. All dividends were paid out of the accumulated distributable profit of that subsidiary.

Financial Highlights

CONSOLIDATED BALANCE SHEETS

Amounts expressed in Hong Kong dollars

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

Major Events

20th April 2000

Dealings in shares of iSteelAsia.com Limited (the "Company") (stock code : 8080) commenced on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

7-11th May 2000

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

5th July 2000

The Company signed memorandum of understanding with a wide range of new partners - China National Cereals, Oils & Foodstuffs Import & Export Corporation, BNP PARIBAS, COSCO (H.K.) Shipping Co., Ltd., Dao Heng Bank and Kawasho Corporation to further expand its business relationships and provide new scope of services to its members.

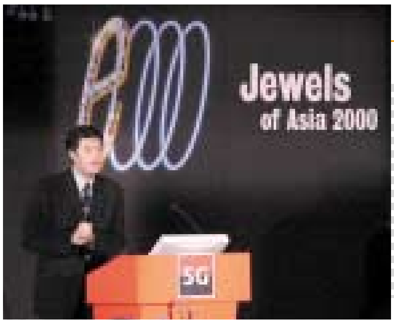
21st September 2000

The Company announced the launch of a leading-edge technology platform supported by leading Intel® Architecture as the foundation for its continued business expansion. By working with Scient, the leading eBusiness Systems Innovator, the next generation platform is at the forefront of technology and complexity.

Major Events

31st October 2000

The Company's next generation trading platform was launched, with an emphasis on the innovative 'four-click strategy' that simplifies a deal through the Internet into four steps.



8-10th November 2000

The Company delivered a presentation on its business model and future plan to worldwide investors during Jewels of Asia 2000 Conference at the Conrad Hotel in Hong Kong.

21st November 2000

The Company sponsored "e-Commerce in the 21st Century" business luncheon held by Harvard Business School Association of Hong Kong, with Professor David B. Yoffie being the guest speaker.

30th November 2000

The Company delivered a speech of "The impact of B2B e-commerce on the steel industry" to share our successful e-commerce experience in the steel industry with other industry players in Asian e-commerce - the next wave, organised by Metal Bulletin in Hong Kong.

Major Events

8-12th January 2001

The Company was recognised by The Harvard Business School ("HBS") as a successful e-commerce business model, the only B2B vertical portal quoted as an example in a five-day education programme specially designed for senior executives sponsored by a strategic alliance between HBS and Tsinghua University School of Economics and Management.

16th January 2001

The Company acquired approximately 3.5% equity interest in the reputed independent and international London-based steel trader, Stemcor Holdings Limited, for US$3 million.

18th January 2001

The Company shared the successful listing experience on the Stock Exchange's GEM Board in Seminar on Public Listing which was organised by Federation of Hong Kong Industries.

4th April 2001

The Company was celebrating its 1st listing anniversary on the Stock Exchange's GEM Board.

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the audited consolidated results of iSteelAsia.com Limited (the "Company" or "iSteelAsia") and its subsidiaries (collectively the "Group") for the year ended 31st March, 2001.

BUSINESS PERFORMANCE

Launched in December 1999 and listed in April 2000, iSteelAsia has quickly developed into one of the major players in both the Asian steel industry and the global steel market. Recognised by various leading institutions for its vanguard role in the industry, the senior management has been invited to share their experiences through international conferences and forums, thus further building the Company's global reputation.

In the year under review, the Company achieved encouraging results in its online steel trading operations. The continued growth rate in transactions volume, deal postings, membership, and commission revenue combine to reinforce the Company's value proposition and business strategy.

Completed transactions volume from online steel trading operations for the year ended 31st March, 2001 reached HK$1,240 million while commission revenue totaled HK$9.3 million. Loss attributable to shareholders was approximately HK$112 million, which largely represented investments associated with building a leading-edge trading platform, a well-known brand in the industry, and expenses related to ensuring the expansion of our business. Despite this level of investment, our costs are inline with expectations. In addition, we have adopted a very prudent approach in accounting treatment to write off website development costs of approximately HK$32 million. Among the above mentioned start-up related expenses, approximately HK$56 million is for items of a non-recurring nature.

Through effective cost control policy, our expenses have decreased continuously throughout the year. In the future, we will continue to exercise prudent and stringent financial policy, minimising expenses while maintaining and upgrading our quality service, thus optimising shareholders' value.

Toward our goal of optimising shareholders' value, we made a strategic equity investment of approximately 3.5% in Stemcor Holdings Limited in December 2000. This investment integrates a solid old-economy business with our new-economy model.

We were also honoured to have received worldwide recognition by leading institutions for our vertical portal on a number of occasions. Harvard Business School, for instance, selected the Company as a case study for e-commerce. iSteelAsia was also appended in studies by The University of Hong Kong and City University of Hong Kong for raising the efficiency of the Asian steel industry, while facilitating smooth flow of the product and information by providing value added services. Global Finance also named iSteelAsia as the Asian B2B portal with the highest potential in its June 2000 issue. By demonstrating its effectiveness in the field, the Company will continue its efforts towards product enrichment and service upgrade while reaffirming its role as market leader.

INDUSTRY OVERVIEW

During the year under review, the global steel industry experienced one of the most tumultuous periods in a decade, with prices slumping by approximately 30% on average. In addition, the burden of a worldwide economic slowdown caused the global market to experience a massive supply/demand mismatch. However, iSteelAsia was able to maintain steady growth despite such unfavourable market conditions. In the last quarter of this financial year, signs of improvements for selected products and a few geographical regions were detected. Overall, it is our view that the steel industry will continue to be volatile with streamlining and cost savings as a major initiative.

On the other hand, year 2000 brought greater inroads for e-commerce, achieving a more favourable reception in the steel industry. Increasing amounts of online trade were concluded through the Company's vertical portal, as well as other steel trading portals focused in the US and Europe, thus affirming that e-commerce truly was attracting a wider audience of traders. While this transformation period continues, e-commerce still represents only a very small fraction of the total market, hence huge opportunities for growth remain.

In addition to the rise of the new economy, the industry was also undergoing a fundamental change in structure. A number of mergers, acquisitions and strategic alliances took place during the past year, indicating that the industry is continuing to consolidate and focus on value propositions for customers.

Chairman's Statement

FUTURE PROSPECTS

Looking ahead, iSteelAsia will continue to strengthen its position in the Asian steel market by seeking more aggressive expansion in China and by broadening the scope of services it offers customers. It is the management's objective that it will efficiently utilise and expand the Company's core competence as a steel trader/distributor in the People's Republic of China ("PRC") and pioneer as an e-commerce operator to achieve a harmonious convergence of the "new" and "old" economy. The Company is working very closely with a few steel manufacturers in China to use iSteelAsia as a strategic trading partner.

Keeping in line with the "Global Vision Asian Focus" strategy, the Company will further expand on its operations in the PRC. Having already established representative offices in Beijing, Shanghai and Guangzhou, the Company is well prepared to capitalise on China's forthcoming accession into the World Trade Organisation and is actively researching longer-term business opportunities that may be created in this critical market.

As the largest steel producing and consumption country in the world, the PRC is expected to standardise legal terms, lower import tariffs, and open the domestic market to foreign competition. Overall, demand for steel in the PRC is expected to grow substantially as the result of rapid growth and development in the telecommunications, construction, transportation and energy sectors. With the Company's branded identity and strong presence in China, iSteelAsia maintains an optimistic outlook towards this emerging and huge potential market.

To prepare for this change in business environment, we will continue to expand in China. In fact, our employee count on the Mainland has doubled over the past six months and we anticipate further growth in the near future. Finally, we have had ongoing negotiations with partners in the PRC to further expand our relationships, influence, and presence in the country.

Looking beyond China's relation with the World Trade Organisation and focusing on the information era, speed and accuracy remains key for survival, as well as success. Hence, it is the desire of iSteelAsia to ensure that customers and members alike are always kept abreast with the latest developments in the steel industry. To achieve this goal, iSteelAsia will continue to place significant efforts in enhancing the trading platform and offer premium services provided by its dedicated team of professionals.

Chairman's Statement

Business and industry experts alike are still convinced that e-commerce will be the trend of the future, as efficiencies created by electronic transactions will greatly enhance operations. The increase in Internet penetration rates, especially in the Asia-Pacific region and in the PRC, are further signs that acceptance is growing. In holding the same conclusion as industry experts, iSteelAsia firmly believes that e-commerce will grow continuously and become a major trading facilitator.

The Board believes that consolidation will envelop the industry. To stay ahead in this competitive market, the Company will continue its effort to bridge new alliances and expand its market presence utilising the Group's existing distribution network. Moreover, the Company will also continue to pursue stringent cost control measures and maximise the efficient use of all its resources, thus achieving promising returns for shareholders.

APPRECIATION

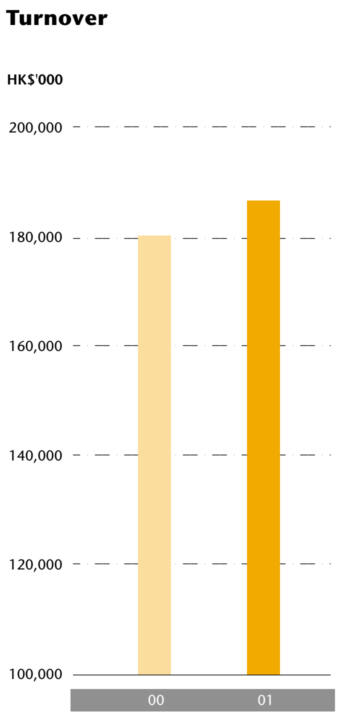
On behalf of the Board, I would like to express my sincere gratitude to our worldwide customers for their trust and support in our products and services throughout this very volatile year. I also wish to take this opportunity to offer my appreciation to our shareholders for their confidence in iSteelAsia,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

ANDREW CHO FAI YAO
Chairman

Hong Kong
1st June, 2001

Management Discussion and Analysis

Year 2000/2001 was a challenging year for iSteelAsia.com Limited (the "Company" or "iSteelAsia") and its subsidiaries (collectively the "Group"). In April 2000, iSteelAsia overcame very challenging market conditions and successfully listed on the GEM of the Stock Exchange. The Company was proud to be the first steel trading vertical portal listed in the world. With this first mover advantage, iSteelAsia is well recognised by its business model and value propositions. After the bursting of the "dot com bubble", investors are now more cautious in selecting investments. An industry-wide trend of consolidations is happening globally. The Group believes that there will be a few players left after the consolidations. These players are those with real business operations and visions to create values to customers. Through a dynamic management team complemented by an adaptive business model and having visions to create values to both customers and shareholders, the Group believes that iSteelAsia will be one of those key players.



FINANCIAL REVIEW

For the year ended 31st March, 2001, the management of the Company is pleased to report a small growth in turnover to approximately HK$183 million amid the worsening of market conditions. Majority of turnover was contributed by traditional steel trading business, while commission income from online operation represents only a small percentage of the Group's

	2001	2000
	HK$'000	*HK$'000*
Traditional steel trading business		
Sales	**169,737**	177,503
Commission from procurement services	**4,305**	1,189
	174,042	178,692
Online steel trading business		
Commission from online steel trading services and service fees	**9,287**	1,382
	183,329	180,074

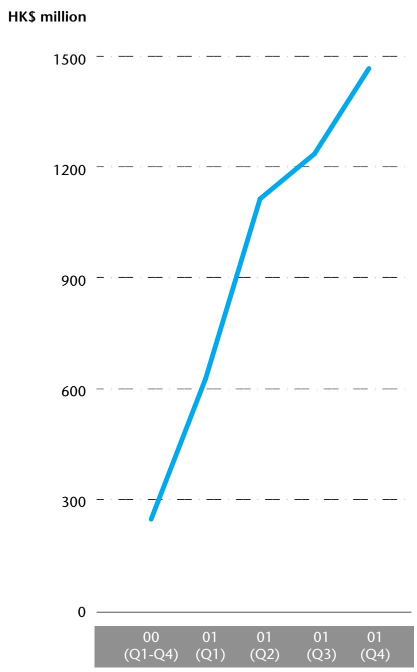
total turnover. Commission income from online operation recorded a more than 4-fold increase. The Group was mainly engaged in back-to-back sales under the traditional steel trading business and earned the profit margin between each trade. However, for the online steel trading business, the Group provided an e-marketplace for buyers and sellers to trade directly. In return, the Group earned commission income from sellers by providing these procurement services to them. During the year under review, turnover of approximately HK$174 million was derived from the traditional steel trading business and commission revenue of approximately HK$9.3 million was derived from the online steel trading business. Due to investments for brand building, costs incurred for developing a leading-edge trading platform, expansion of business and adopting a prudent approach in accounting treatment to write off website development cost of approximately HK$32 million, loss attributable to shareholders was approximately HK$112 million. Among these start-up related expenses, the management estimates that approximately HK$56 million are non-recurring in nature, which should not be incurred again in the coming year.

TRADITIONAL STEEL TRADING BUSINESS

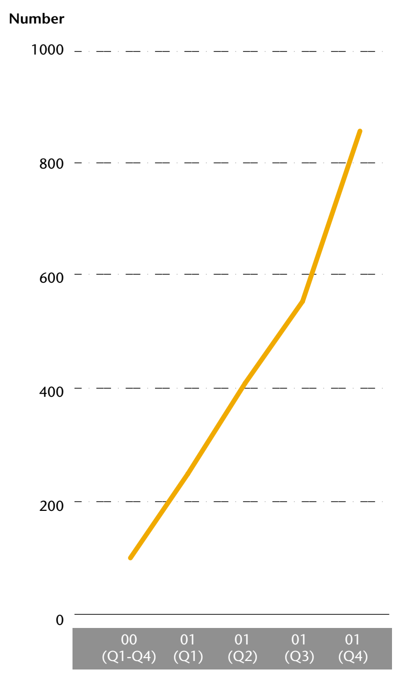
The turnover and profit attributable to shareholders for traditional steel trading business were approximately HK$174 million and HK$6.3 million respectively, represented a 3% and 28% drop as compared to those in 1999/2000. This was mainly due to a drop in both demand for and price of construction steel products in the Asia Pacific region. In the past year, the construction industry suffered the most significant downturn after the Asian economic crisis in 1997. Many countries reported a high room vacancy rate in terms of either residential buildings or office buildings. In addition, the market of construction steel products was further hit by the slowing economy in the past few years. Infrastructure developments are either delayed or stopped due to unforeseen economic slowdown all over the world. Furthermore, the price of construction steel products was in a downtrend in the past six months due to a global overcapacity of supply causing various anti-dumping measures implemented by many international countries. As such, turnover from construction steel products dropped 94% to approximately HK$5.1 million. However, this drop was outweighed by an increase in demand in industrial steel products. For the year ended 31st March, 2001, turnover of industrial steel products increased 75% to approximately HK$165 million. The increase was mainly due to the growing economy in China. Industrial steel products are raw materials (like sheet metals, etc.) that are used to manufacture white goods including computers cases, refrigerators, air-conditioners and other household appliances. In these few years, the living standards of Chinese people have been continuously improving which in turn will drive up the demand for these big-ticket consumer products. In addition, the growing technology industry like personal computer and telecommunications further helps to increase the demand for these industrial steel products. Therefore, the Group is able to further capture a double-digit growth in turnover even after achieving over 100% growth in last year. However, as a result of the downtrend of steel prices in the last six months, the overall profit attributable to shareholders for traditional steel trading business still suffered a 28% drop for the year ended 31st March, 2001.

Management Discussion and Analysis

Completed transactions volume



Deal postings



Looking ahead, the management of the Group believes that the traditional steel trading business will continue to play a significant role in steel trading in view of the current adoption rate of the e-commerce. For the steel industry participants who are not ready to migrate to the online steel trading, the Group will continue to provide value to these customers by providing traditional steel trading services. In the next year, the Group will continue to focus on the steel market in the PRC and the Group will continue to identify and establish good trading relationship with major distributors with sound creditability to develop the traditional steel trading business.

ONLINE STEEL TRADING BUSINESS

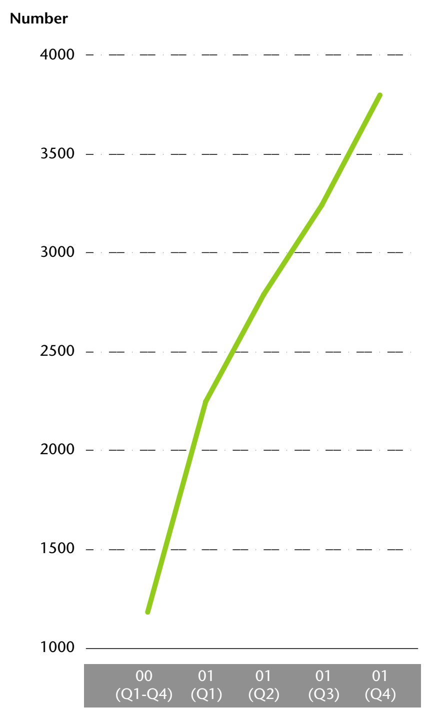
The commission revenue from online steel trading business increased 5-fold to approximately HK$9.3 million for the year ended 31st March, 2001. With average commission rates of over 0.5%, approximately HK$1,240 million worth of trades has been concluded through iSteelAsia.com. Since the launching of iSteelAsia.com in December 1999, the Group has attained continuous growth in various statistics of the website. In terms of completed transactions volume, the growth was almost 400% by comparing approximately HK$257 million attained in last year. Deal postings had reached over 700 transactions, as compared to around 100 last year. Deal postings were mainly from the Asian regions with over 50% contributed by major Asian markets like Hong Kong, the PRC and the Philippines. Analysis of deal postings by products indicated that, over 50% of interests were for construction and industrial steel products which is consistent with our trading experience. By comparing the successful trades by products over the two years, industrial steel products increased over 400% to approximately HK$312 million while construction steel products increased over 200% to approximately HK$663 million. In addition, the demands were successfully diversified into different products like raw materials and specialty products. In terms of membership, the iSteelAsia.com website has attracted over 3,500 members all over the world with majority from Asian countries. Over 1,000 are corporate trading members with over 50% coming from Asia Pacific region like the PRC, Hong Kong, the Philippines and India.

For the year ended 31st March, 2001, loss attributable to shareholders with respect to the online steel trading business further increased to approximately HK$118 million. This was mainly due to investments in brand building, development of the trading platform and expansion of business during the year. The Group believes these investments are necessary to pave the future of iSteelAsia. More importantly, the Group took a prudent approach in writing off 90% of the development cost of trading platform. Every single dollar in commission earned in future would thus directly contribute to the profit margin of the Group.

BANKING FACILITIES

As at 31st March, 2001, the Group had aggregate banking facilities of approximately HK$99,423,000 (2000 — HK$25,000,000) from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK$54,349,000 (2000 — Nil). As of the date of this report, the Group maintained healthy cash flows from operations.

Total membership



Management Discussion and Analysis

USE OF PROCEEDS

On 20th April, 2000, the Company's shares were successfully listed on the GEM of the Stock Exchange and net proceeds of approximately HK$79 million were raised through offering 100,000,000 new shares at par value of HK$0.10 each for HK$1.08 per share of the Company by way of placing. The Group is pleased to report the use of proceeds is within the scope as laid down in the Company's prospectus dated 14th April, 2000 as below.

	Original planned*	**Amount utilised up to 31st March, 2001**
	HK$'000	*HK$'000*
Acquisitions of interest in value-added information and service provider(s), fund start-up and on-going operating costs and the development of a country specific website	21,859	17,167
Engagement of outside consultants and/or to finance internal activities to conduct market research to formulate, revamp and refine its business strategy and to investigate the possibility of establishing operations in other countries and to advise the Group in relation to customer relationship management and in relation to the development and enhancement of the Group's website	15,500	15,630
Marketing and promotional activities to build a strong brand name for iSteelAsia.com and to market benefits of its online trading platform including training programmes and direct mailings and newsletters	26,400	25,030
Acquisitions of content for the Group's websites	15,500	3,085
	79,259	60,912

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

Comparison of Business Objectives with Actual Business Progress

From 1st October, 2000 to 31st March, 2001

Business objectives as stated in the prospectus of the Company dated 14th April, 2000 (the "Prospectus")	Actual business progress in respect of the six-month period ended 31st March, 2001
MARKET RESEARCH	
1. Continue to engage international consulting team(s) to assist the operation team in formulating its business strategy for individual countries in the Asia Pacific region.	The Group engaged McKinsey & Company, an international management consulting firm up to March 2001. Subsequent to March 2001, the Group's business strategy is formulated and refined by having regular internal management meeting.
2. Additional research will be conducted to investigate the possibility of establishing country specific websites in additional individual Asian countries.	The Group continues to evaluate the possibility of establishing country specific websites. Due to uncertainties in the current capital and steel market, the Group has become more conservative in allocating resources to form new portals. As at 31st March, 2001, iSteelIndia.com is in the process of formalisation.
3. An annual strategic review workshop will be conducted which will include a review of local market developments.	The internet market has changed drastically in the past few months. The Group holds regular management meeting to review/refine the Group's strategy in response to these changes.
4. Explore the possibility of developing a cluster of steel stockists in places like Shunde, Southern China to build a physical steel distribution network in the Pearl River Delta.	The Group continues to grow its traditional steel trading business by evaluating the possibility of building a physical steel distribution network in the Pearl River Delta. For the year ended 31st March, 2001, the Group has identified and built successful trading relationships with various steel distributors in the Pearl River Delta.
5. Explore the possibility of marketing lubricated electric galvanised steel sheet with colour matching codes, stainless steel and PVC collated steel.	By doing marketing researches especially in China, the Group continues to evaluate the possibility of marketing various steel products like galvanised steel sheet with colour matching codes, stainless steel and PVC collated steel.

Comparison of Business Objectives with Actual Business Progress

From 1st October, 2000 to 31st March, 2001

DEVELOPMENT OF SERVICES

1.	Efforts will be made to continue to revamp the website through streamlining value-added services and/or provision of logistic flow management and/or enhancing the existing functions.	After the launch of our 2nd generation platform in October 2000, we continuously put effort in improving our website through more effective integration of value-added services and enhancing the existing functions and user friendliness. Currently, members are able to request quotations from value-added services providers through the iSteelAsia.com website in the following areas (a) logistics; (b) insurance and (c) surveying. Furthermore, members are able to inquire the surveying status through the iSteelAsia.com website.
2.	Explore the feasibility of launching Thai and Indian language support on the website.	The Group is actively exploring the feasibility of launching other languages websites. As at 31st March, 2001, iSteelIndia.com is in the process of formalisation.
3.	Explore new revenue sources to diversify sources of revenue which may be derived from the iSteelAsia.com website.	Apart from standard commission derived from online transactions, the Group is exploring other alternatives to diversify the revenue bases. New revenue sources under review are rebates from our value-added services providers, advertising fees by using our online banner services, subscription fees and various licensing fees.
4.	Acquire additional content if appropriate.	In order to further enrich our content, the Group has subscribed for Chinese content from Asian Information Resources (Holdings) Limited in addition to English content from Reuters. But the Group continues to investigate other sources of content which are useful to the Group's Members (as defined in the Prospectus).

Comparison of Business Objectives with Actual Business Progress

From 1st October, 2000 to 31st March, 2001

5.	Explore the feasibility of implementing functions on the website to restrict Members' access to a posting by specifying seller restriction information.	After careful evaluation of the functions enhancement, the Group found that it is more effective for Members to select specific customers by defining the trading preference. Therefore, targeted customers will receive offers/bids from initiators automatically through the iSteelAsia.com website.
6.	Examine the viability of implementing functions on the website for Individual Members (as defined in the Prospectus) to register for news update service through e-mail notifications.	In order to enhance user friendliness, news are now open to all browsers. Currently, unregistered users are able to view our latest news feed by our content providers.
7.	Examine the feasibility of implementing an online real time help function on the website.	The Group continues to revamp the website by making it more user-friendly. The Group is examining the feasibility of adding online real time help functions to users by evaluating the cost and benefits. The Customer Relationship Management ("CRM") response rate is currently at less than 30 minutes per inquiry.
8.	Examine the necessity of implementing additional security measures on the website.	The Group is closely monitoring the adequacy level of security of the website. The Group will implement additional security measures if necessary.
9.	Offer electro-galvanised steel wire and long products sourced from the PRC.	Currently, the market conditions do not allow PRC to do extensive exports, as PRC is still a net steel importing country. However, the Group is closely monitoring the China market and will grasp opportunity once it arises.

Comparison of Business Objectives with Actual Business Progress

From 1st October, 2000 to 31st March, 2001

MARKETING ACTIVITIES

	Business Objectives	Actual Business Progress
1.	Continue to focus on the PRC and Korea.	Currently, three representative offices located in different Provinces of China (Guangzhou, Shanghai and Beijing) had been established to provide marketing, information technology, business development and customer services supports. In addition, we have an official representative located in Seoul, Korea to closely monitor and facilitate the market in Korea.
2.	Begin to focus on India and Thailand.	In the past six months, the Group remained to focus on India market. With the establishment of iSteelIndia.com, the Group is able to promote the Company's brand in India without incurring substantial cost. In addition, the Group begins to focus on Thailand market by sending development teams in the fourth quarter to identify business opportunity.
3.	Continue to create brandname awareness of the iSteelAsia.com website through promotional activities such as press conferences, conventions, conferences and personal visits to well-established industry participants in various countries such as Korea, Japan, India, Thailand and/or other countries (where appropriate).	During the past year, a successful brandname has been built. The iSteelAsia.com website has been featured in major international media including the Far Eastern Economic Review and Asiamoney as well as industry publications such as the Metal Bulletin. The Company's senior management will continue to participate in promotional activities such as press conferences, conventions, conferences and personal visits.
4.	Continue to establish strategic alliances with various participants in the supply chain including a strategic alliance with a distributor in the PRC to broaden the traditional trading operation's customer base.	The Group continues to grow the traditional trading business by actively broadening the customer base. During the past six months, the Group has successfully established a good trading relationship with 2 new distributors in the PRC and various steel mills around the world.

5. Begin to evaluate the feasibility of organising a conference for all users of the iSteelAsia.com website.	After a strong brand is built in the past year, the Group continues to add values to Members by conducting various training programmes. Furthermore, the Group is evaluating the possibility of conducting a conference for all users for the iSteelAsia.com website.

RESOURCES DEPLOYMENT

1. Continue efforts to expand the senior management team, technical team and marketing team in the head office.	The Group is carefully monitoring the number of headcount to ensure that the Group's resources are being deployed efficiently. Currently, the functions of technical team and marketing team are effectively carried out by the present structure without expanding the workforce.
2. Continue efforts to assemble domestic teams for individual countries including support staff.	With a business strategy focus in China, the Group is building up teams in China focusing in areas like technology, marketing and customer services.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Andrew Cho Fai Yao, aged 35, is the Chairman of the Board and the Chief Executive Officer of the Group. He primarily focuses on formulating strategic business alliances for the Group. He has been with the Group since the establishment of the trading operation in April 1997. He graduated from the University of California, Berkeley with a bachelor degree in finance and obtained a master of business administration degree from the Harvard University Graduate School of Business Administration. Mr. Yao has extensive experience in the steel trading business and is the chairman of 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, aged 36, is the Deputy Chairman of the Board and primarily focuses on formulating strategic business alliances and establishing arrangements with value-added service providers. She has been with the Group since the formal establishment of the trading operation in April 1997. She is a certified public accountant in the United States and received her bachelor of science degree in accounting from the University of Southern California. Ms. Yao is the chief executive officer of VSC and has many years of experience in the steel industry. Prior to joining the VSC group in 1991, Ms. Yao previously worked with Arthur Andersen & Co and Bankers Trust Company. Ms. Yao is the sister of Mr. Andrew Cho Fai Yao.

Ms. Drina C. Yue, aged 44, is a Director and the Chief Operating Officer of the Group. She joined the Group in March 2000 and is responsible for the implementation of the Group's overall strategic planning and operations. Ms. Yue holds a bachelor degree in electrical engineering and a master degree in computer science from the University of Illinois, Urbana. Ms. Yue has over 20 years of multi-functional experience in the telecommunications field, during part of which time she held various senior management positions with international conglomerates overseeing business developments and regional operations such as Motorola in China before joining the Group. Ms. Yue is also an inventor of 5 US patents during her employment with BellSouth Corporation.

NON-EXECUTIVE DIRECTORS

Ms. Lena Foo, aged 36, is a Director and is primarily responsible for developing strategic alliances with business partners for, and providing e-commerce business strategy consultancy and technological support to the Group. She has been with the Group since June 1999. Ms. Foo graduated from the Carnegie-Mellon University in the United States with a bachelor of science degree with a concentration on information technology and psychology. She has over a decade's experience of business and product development in the technology/e-commerce industry. Ms. Foo is a co-founder and an executive director of iMerchants Limited.

Directors' Profile

Mr. Daniel Takuen Shih, aged 49, is a Director. Mr. Shih has over 20 years of experiences in management, sales and marketing in the information technology and industry application areas with multinational corporations in the United States, Japan, Korea, Hong Kong and Southeast Asia. He joined the Group in March 2000. He has been involved in setting up sales and marketing channels, distributors, joint venture companies for the offerings of e-commerce, EDI and value-added network services throughout Asia Pacific. Mr. Shih is specialised in the consulting fields of e-commerce, Supply-Chain Management, and Information Technology. He holds a master degree in electrical and computer engineering from University of Cincinnati. Currently, Mr. Shih is the managing director of Global Sectors for Cap Gemini Ernst & Young Global Consulting Group.

Mr. Ralph David Oppenheimer, aged 60, 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 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 2000, the Stemcor group invoiced 6.4 million tonnes of steel products and raw materials. Additionally the Stemcor group sold 1.4 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Kwok Keung, aged 53, is a Director. Mr. Yeung has been engaged in international transportation and logistics since the early 1970s. He joined the Group in March 2000. He has been involved with the design, development and management of some of the world's largest automated high capacity air cargo facilities in the last 25 years. He has also been involved in the innovative application of information technology to the air cargo industry and in the promotion of its use in his professional and public capacities. Mr. Yeung is the chief operating officer of EC.com Limited.

Mr. Philip King Huen Ma, aged 44, is a Director. Mr. Ma is the group managing director of The Sincere Company Limited, a listed company on the Stock Exchange. He joined the Group in March 2000. Mr. Ma holds a master of business administration degree from McMaster University in Canada. Mr. Ma is also very active in his community services and serves on many Government committees, including Economic Advisory Committee and Tourism Strategy. Mr. Ma was the Chairman of the Hong Kong Retail Management Association ("HKRMA") from 1996-2000. HKRMA is the major Association representing Hong Kong's retail industry with over 600 member companies which employs over 200,000 people.

Report of the Directors

(Amount expressed in Hong Kong dollars)

The Directors have the pleasure of presenting their annual report together with the audited financial statements of iSteelAsia.com Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st March, 2001.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in Bermuda on 10th February, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation scheme which included exchanges of shares in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the other companies comprising the Group on 13th April, 2000. The Company's shares were listed on the GEM of the Stock Exchange on 20th April, 2000.

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

PRINCIPAL ACTIVITIES

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

Analysis of the Group's turnover by product category and by geographical location, together with their respective contributions to profit (loss) attributable to shareholders for the year ended 31st March, 2000 and 2001 respectively is as follows:

a. By product category

	Turnover		Profit (Loss) attributable to shareholders	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Sales of merchandise	**169,737**	177,503	**1,984**	7,787
Commission from procurement services	**4,305**	1,189	**4,305**	991
Commission from online trading services and service fees	**9,287**	1,382	**(118,343)**	(15,590)
	183,329	180,074	**(112,054)**	(6,812)

b. By geographical location*

	Turnover	
	2001	2000
	$'000	*$'000*
Mainland China	**169,174**	162,285
Macau	**5,114**	16,508
Hong Kong, Taiwan, Singapore and the Philippines	**5,719**	360
Others	**3,322**	921
	183,329	180,074

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

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

CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2001, the five largest customers of the Group accounted for approximately 79% of the Group's total turnover while the five largest suppliers of the Group accounted for approximately 91% of the Group's total purchases. In addition, the largest customer of the Group accounted for approximately 48% of the Group's total turnover.

For the year ended 31st March, 2001, Van Shung Chong Hong Limited, a subsidiary of Van Shung Chong (B.V.I.) Limited which is a substantial shareholder and an initial management shareholder of the Company as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), was the largest supplier of the Group and accounted for approximately 71% of the Group's purchases.

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.

Report of the Directors

(Amount expressed in Hong Kong dollars)

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st March, 2001 are set out in the consolidated income statement on page 39 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated losses of $124,436,000 as at 31st March, 2001 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 17 and 18 respectively, to the accompanying financial statements.

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

RESERVES AND ACCUMULATED LOSSES

Movements in reserves of the Group and the Company during the year are set out in Note 19 to the accompanying financial statements. Movements in accumulated losses of the Group during the year are set out in the consolidated income statement on page 39 of this annual report.

As at 31st March, 2001, the Company did not have any distributable reserves.

SUBSIDIARIES

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

FURNITURE AND EQUIPMENT

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

BANK BORROWINGS

Particulars of bank borrowings as at 31st March, 2001 are set out in Note 15 to the accompanying financial statements.

Report of the Directors
(Amount expressed in Hong Kong dollars)

PENSION SCHEME

Details of the pension scheme are set out in Note 21 to the accompanying financial statements.

DIRECTORS

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

Executive directors

Mr. Andrew Cho Fai Yao, *Chairman*
Ms. Miriam Che Li Yao
Ms. Drina C. Yue

Non-executive directors

Ms. Lena Foo	
Mr. Daniel Takuen Shih	
Mr. Ralph David Oppenheimer	(Appointed on 19th March, 2001)
Mr. Moses Kwok Tai Tsang	(Resigned on 23rd January, 2001)

Independent non-executive directors

Mr. Yeung Kwok Keung
Mr. Philip King Huen Ma

In accordance with bye-laws 86(2) and 87(1) of the Company's Bye-laws, Mr. Ralph David Oppenheimer, Ms. Miriam Che Li Yao and Ms. Lena Foo, 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 Company commencing from 1st April, 2000 in the case of Mr. Andrew Cho Fai Yao, 1st March, 2000 in the case of Ms. Drina C. Yue and 1st April, 2000 in the case of Ms. Miriam Che Li Yao. The term of each agreement is continuous unless terminated by not less than three months' notice in writing served by either party on the other without payment of compensation other than statutory compensation.

Save as disclosed above, none of the Directors has a service contract with the Company which is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

(Amount expressed in Hong Kong dollars)

DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2001, the interests of the directors and the chief executives of the Company in the shares of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name	Type of interest	Attributable interest to the Director	Number of Shares	Total number of Shares
Mr. Andrew Cho Fai Yao	— Corporate interest held by TN (Note 1)	deemed interest (indirectly)	236,025,600	
	— Corporate interest held by Huge Top (Note 2)	more than one-third (indirectly)	159,811,344	
	— Corporate interest held by VSC BVI (Note 3)	through Huge Top (indirectly)	278,000,000	
	— Corporate interest held by Right Action (Note 4)	100% (directly)	102,400,000	776,236,944
Ms. Miriam Che Li Yao	— Corporate interest held by TN (Note 1)	deemed interest (indirectly)	236,025,600	
	— Corporate interest held by Huge Top (Note 2)	more than one-third (indirectly)	159,811,344	
	— Corporate interest held by VSC BVI (Note 3)	through Huge Top (indirectly)	278,000,000	673,836,944
Mr. Philip King Huen Ma	— Corporate interest held by S & S (Note 5)	—	159,324	159,324

Notes:

1. As at 31st March, 2001, TN Development Limited ("TN") owns 236,025,600 Shares. Van Shung Chong (B.V.I.) Limited ("VSC BVI") owns 54% of the issued share capital of TN and Andrew Cho Fai Yao owns 10% of the issued share capital of TN. The board of directors of TN only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the issued Shares of the Company were corporate interests.

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

(Amount expressed in Hong Kong dollars)

2. As at 31st March, 2001, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares. Andrew Cho Fai Yao directly and indirectly owns more than one-third of the issued share capital of Huge Top. The board of directors of Huge Top only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the issued Shares of the Company were corporate interests.

3. As at 31st March 2001, VSC BVI owns 278,000,000 Shares and Huge Top owns approximately 57.59% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). Andrew Cho Fai Yao is a director of VSC. VSC BVI is a wholly-owned subsidiary of VSC. The board of directors of VSC BVI only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the issued Shares of the Company were corporate interests.

4. As at 31st March 2001, Right Action Offshore Inc. ("Right Action") owns 102,400,000 Shares. Andrew Cho Fai Yao owns the entire issued share capital of Right Action and is also the sole director of that company. These interests were corporate interests in the Company.

5. As at 31st March 2001, S & S Management Co. Ltd. ("S & S") owns 159,324 Shares. Philip King Huen Ma is deemed to be interested in these 159,324 Shares.

(b) Employee options to purchase Shares from TN:

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

Note:

1. Each of Drina C. Yue and Daniel Takuen Shih has been granted an option to purchase 30,720,000 Shares and 2,000,000 Shares respectively from TN, at an exercise price per Share of $0.054, under separate share option agreements both dated 13th April, 2000. The option shall vest starting on 13th April, 2001 and may be exercised in whole or in part in the following manner:

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

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

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

(Amount expressed in Hong Kong dollars)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the Company's share option scheme approved by the shareholders on 13th April, 2000 (the "Share Option Scheme"), the Board of Directors of the Company may, at their discretion, invite any employees of the Company or any of its subsidiaries, including any executive directors, to take up options to subscribe for Shares in the Company. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will be the highest of (i) the nominal value of the Shares, (ii) the quoted closing price of the Company's Shares on the trade day immediately preceding the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's Shares on the five trading days immediately preceding the date of offer of the options. The scheme became effective upon the listing of the Company's Shares on 20th April, 2000.

Pursuant to the Share Option Scheme of the Company, the share options granted to and held by the Directors up to 31st March, 2001 were as follows:

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

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

Other than disclosed above, as at 31st March, 2001, neither the Directors nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

(Amount expressed in Hong Kong dollars)

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 3 to the accompanying financial statement, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, those shareholders (other than those interests of Directors disclosed above) having an interest of 10% or more of the issued share capital of the Company are as follows:

Name		Number of Shares	Total number of Shares	Notes
VSC BVI	— directly	278,000,000		
	— indirect deemed interest through TN	236,025,600	514,025,600	1
VSC	— indirectly through VSC BVI	278,000,000		
	— indirect deemed interest through TN	236,025,600	514,025,600	1 & 2
Huge Top	— directly	159,811,344		
	— indirectly through VSC BVI	278,000,000		
	— indirect deemed interest through TN	236,025,600	673,836,944	1, 2 & 3
TN	— directly	236,025,600	236,025,600	4
Mr. Leroy Lin Yuen Kung	— indirectly through Grand Bridge	204,800,000	204,800,000	5
Galaface Limited	— indirectly through Grand Bridge	204,800,000	204,800,000	5
Asian Gold Associates Limited	— indirectly through Grand Bridge	204,800,000	204,800,000	5
iMerchants Group Limited	— indirectly through Grand Bridge	204,800,000	204,800,000	5
Grand Bridge Enterprises Limited	— directly	204,800,000	204,800,000	5

Report of the Directors

(Amount expressed in Hong Kong dollars)

Notes:

1. VSC BVI owns 54% of the share capital of TN and is deemed to be interested in the 236,025,600 Shares held by TN. VSC BVI directly owns 278,000,000 Shares. VSC BVI is therefore interested in an aggregate of 514,025,600 Shares.

2. VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 514,025,600 Shares.

3. Huge Top is beneficially interested in approximately 57.59% of the issued share capital of VSC as at 31st March, 2001 and is therefore deemed to be interested in the 236,025,600 Shares held by TN and the 278,000,000 Shares held by VSC BVI. Huge Top also directly owns 159,811,344 Shares. Huge Top is therefore interested in an aggregate of 673,836,944 Shares.

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

5. Grand Bridge Enterprises Limited ("Grand Bridge") directly owns 204,800,000 Shares. Grand Bridge is a wholly-owned subsidiary of iMerchants Group Limited which is a wholly-owned subsidiary of Asian Gold Associates Limited ("AGA"). AGA is a company in which Galaface Limited is entitled to exercise more than one-third of its voting power. Galaface Limited is a company owned and controlled by Mr. Leroy Lin Yuen Kung.

EMPLOYEE SHARE OPTIONS

Movements of employee share options pursuant to the Share Option Scheme during the year ended 31st March, 2001 were as follows:

			Number of share options			
Date of grant	**Exercise period**	**Subscription price per Share**	**Beginning of year**	**Granted during the year**	**Lapsed during the year**	**End of year**
			'000	*'000*	*'000*	*'000*
3rd July, 2000	1st October, 2001 to 12th April, 2010	$0.360	—	35,800	(5,500)	30,300
7th November, 2000	8th November, 2001 to 12th April, 2010	$0.485	—	108,800	(1,500)	107,300
			—	144,600	(7,000)	137,600

SPONSOR'S INTERESTS

At 31st March, 2001, as updated and notified by the Company's sponsor, BNP Paribas Peregrine Capital Limited (formerly known as BNP Prime Peregrine Capital Limited) (the "Sponsor"), an associated company of the Sponsor held 2,500,000 Shares in the Company, representing approximately 0.17% of the issued share capital of the Company.

Save as disclosed herein, neither the Sponsor nor its director or employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

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

CONNECTED TRANSACTIONS

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

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

1. Pursuant to an administrative service agreement dated 13th April, 2000 (the "Admin. Service Agreement") entered into between iSteelAsia (Hong Kong) Limited ("ISA(HK)"), a wholly-owned subsidiary of the Company, and Van Shung Chong Hong Limited ("VSCH"), a wholly-owned subsidiary of Van Shung Chong (B.V.I.) Limited ("VSC BVI"), a substantial shareholder of the Company, VSCH agreed to provide general office administrative and company secretarial services to ISA(HK) and its affiliates at a fee of $30,000 per calendar month.

2. Pursuant to a procurement services agreement dated 13th April, 2000 entered into between Metal Logistics Company Limited (formerly MetalAsia (Hong Kong) Limited) ("ML"), a wholly-owned subsidiary of the Company, and VSCH, ML agreed to provide and/or procure any of its subsidiaries, if applicable, to provide sourcing, purchasing and quality control services on steel coils to VSCH. 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 VSCH has been capped at $3 million for each of the three years ending 31st March, 2003.

Report of the Directors

(Amount expressed in Hong Kong dollars)

3. Pursuant to a steel supply agreement dated 13th April, 2000 entered into between ML and VSCH, VSCH 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 VSCH at cost (including, but not limited to, insurance, transportation, warehousing and freight costs). For each of the three years ending 31st March 2003, the total purchases made by ML from VSCH have been capped at $350 million per annum.

4. Pursuant to a sub-tenancy agreement dated 13th April, 2000 entered into between ISA(HK) and CFY Enterprises Limited ("CFY"), an affiliate of VSC BVI, CFY agreed to sub-let to ISA(HK) an office premise being a portion of 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong with a total saleable area of approximately 3,890 sq. ft. For the term of the sub-tenancy agreement, the rental payable by ISA(HK) to CFY has been capped at $1.86 million per annum and the portion of the rates, management fees and utilities charges has been capped at $1 million per annum up to 31st March, 2003 or the termination date whichever is earlier.

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

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

Pursuant to Rule 20.25(3) of the GEM Listing Rules, the Admin. Service Agreement is exempted from all reporting, announcement and shareholders' approval requirements of the GEM Listing Rules. The procurement services agreement, the steel supply agreement, the sub-tenancy agreement, the outsourcing agreement and the trading by the VSC Group via the iSteelAsia.com website described above constitute non-exempt continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are subject to the reporting requirements set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. The Directors consider strict compliance with Rule 20.35 and Rule 20.36 of the GEM Listing Rules to be impractical and not of benefit to the Company's shareholders. As such, the Company has obtained from the GEM Listing Division a waiver dated 9th May, 2000 (the "Waiver") from the announcement requirements under Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules in respect of such connected transactions for the period up to 31st March, 2003, and in the case of the sub-tenancy agreement, up to the expiry of the term thereunder.

Pursuant to the Waiver granted by the Stock Exchange, the Ongoing Transactions except the Admin. Service 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 Group as a whole.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

Report of the Directors
(Amount expressed in Hong Kong dollars)

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March, 2001.

AUDIT COMMITTEE

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

AUDITORS

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

On behalf of the Board of Directors,

ANDREW CHO FAI YAO
Chairman

Hong Kong
1st June, 2001

Auditors' Report

ARTHUR ANDERSEN

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

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

We have audited the financial statements on pages 39 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st March, 2001 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong,
1st June, 2001.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2001

(Expressed in Hong Kong dollars)

	Note	**2001**	2000
		$'000	*$'000*
Turnover			
— Sales		**169,737**	177,503
— Commission and service fees		**13,592**	2,571
	4	**183,329**	180,074
Cost of inventories sold	3	**(164,093)**	(158,474)
Staff costs		**(34,308)**	(8,206)
Research and development expenses		**(24,849)**	(2,320)
Marketing and branding expenses		**(13,836)**	(5,340)
Amortisation of website development costs		**(3,160)**	(330)
Write-off and impairment loss of website development costs		**(32,015)**	—
Depreciation of furniture and equipment		**(551)**	(16)
Other operating expenses		**(23,379)**	(11,122)
Loss from operations		**(112,862)**	(5,734)
Interest income		**4,309**	91
Interest expense		**(1,090)**	—
Share issuance expenses written off		**(2,391)**	—
Loss before taxation	5	**(112,034)**	(5,643)
Taxation	7	**(20)**	(1,169)
Loss attributable to shareholders	8	**(112,054)**	(6,812)
Dividends		**—**	(9,000)
(Accumulated losses) Retained profit, beginning of year		**(12,382)**	3,430
Accumulated losses, end of year		**(124,436)**	(12,382)
Loss per share - Basic	9	**(7.75) cents**	(0.53) cents

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

BALANCE SHEETS

As at 31st March, 2001
(Expressed in Hong Kong dollars)

		Consolidated		Company	
	Note	**2001**	2000	**2001**	2000
		$'000	*$'000*	***$'000***	*$'000*
NON-CURRENT ASSETS					
Furniture and equipment	10	**3,223**	268	**—**	—
Website development costs	11	**3,788**	3,762	**—**	—
Long-term investment	12	**24,974**	—	**—**	—
Investment in subsidiaries	13.b	**—**	—	**15,030**	—
Total non-current assets		**31,985**	4,030	**15,030**	—
CURRENT ASSETS					
Inventories	14	**8,997**	4,795	**—**	—
Deferred share issuance expenses		**—**	18,018	**—**	—
Prepayments and deposits		**1,173**	373	**4**	—
Trade receivables		**27,616**	25,345	**—**	—
Cash and bank deposits		**28,516**	—	**8,567**	—
Total current assets		**66,302**	48,531	**8,571**	—
CURRENT LIABILITIES					
Short-term bank borrowings	15	**(24,489)**	(25,000)	**—**	—
Bills payable		**(10,374)**	—	**—**	—
Due to related companies	3.a	**(23,930)**	(3,882)	**—**	—
Other payables		**(7,294)**	—	**—**	—
Accruals		**(3,488)**	(2,247)	**(111)**	—
Receipts in advance		**(3,305)**	—	**—**	—
Payable for share issuance expenses		**—**	(15,317)	**—**	—
Shareholder loan, current portion		**—**	(14,803)	**—**	—
Taxation payable		**(1,693)**	(1,693)	**—**	—
Total current liabilities		**(74,573)**	(62,942)	**(111)**	—
Net current (liabilities) assets		**(8,271)**	(14,411)	**8,460**	—
Total assets less current liabilities		**23,714**	(10,381)	**23,490**	—
NON-CURRENT LIABILITIES					
Shareholder loan, non-current portion		**—**	(2,000)	**—**	—
Net assets (liabilities)		**23,714**	(12,381)	**23,490**	—

BALANCE SHEETS

As at 31st March, 2001

(Expressed in Hong Kong dollars)

		Consolidated		Company	
	Note	**2001**	2000	**2001**	2000
		$'000	*$'000*	***$'000***	*$'000*
CAPITAL AND RESERVES					
Share capital	17	**145,450**	1	**145,450**	—
Reserves	19	**2,700**	—	**—**	—
Accumulated losses		**(124,436)**	(12,382)	**(121,960)**	—
Shareholders' equity (deficit)		**23,714**	(12,381)	**23,490**	—

Approved by the Board of Directors on 1st June, 2001:

ANDREW CHO FAI YAO
Chairman

DRINA C. YUE
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2001
(Expressed in Hong Kong dollars)

	Note	**2001**	2000
		$'000	*$'000*
OPERATING ACTIVITIES			
Loss before taxation		**(112,034)**	(5,643)
Interest income		**(4,309)**	(91)
Interest expense		**1,090**	—
Depreciation of furniture and equipment		**551**	16
Amortisation of website development costs		**3,160**	330
Write-off and impairment loss of website development costs		**32,015**	—
Share issuance expenses written off		**2,391**	—
Increase in inventories		**(4,202)**	(2,497)
Increase in prepayments and deposits		**(800)**	(373)
Increase in trade receivables		**(2,271)**	(8,609)
Increase in bills payable		**10,374**	—
Increase in due to related companies		**20,048**	359
Increase in other payables		**7,294**	—
Increase in accruals		**1,241**	5,710
Increase in receipts in advance		**3,305**	—
Net cash outflow from operating activities		**(42,147)**	(10,798)
TAXATION			
Mainland China enterprise income tax paid		**(20)**	—
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**4,309**	91
Interest paid		**(1,090)**	—
Dividends paid		**—**	(9,000)
		3,219	(8,909)
INVESTING ACTIVITIES			
Additions of furniture and equipment		**(3,506)**	(238)
Additions of website development costs		**(35,201)**	(4,092)
Increase in long-term investment		**(24,974)**	—
		(63,681)	(4,330)
Net cash outflow before financing activities		**(102,629)**	(24,037)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2001
(Expressed in Hong Kong dollars)

	Note	**2001**	2000
		$'000	*$'000*
FINANCING ACTIVITIES	20.a		
Issue of shares		**165,600**	—
Share issuance expenses		**(23,340)**	(2,701)
Issue of shares by a subsidiary		**3,900**	1
New trust receipts bank loans		**33,221**	—
Repayment of trust receipts bank loans		**(8,732)**	—
(Decrease) Increase in shareholder loan		**(14,504)**	1,717
		156,145	(983)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**53,516**	(25,020)
CASH AND CASH EQUIVALENTS, beginning of year		**(25,000)**	20
CASH AND CASH EQUIVALENTS, end of year	20.b	**28,516**	(25,000)

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

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

On 13th April, 2000, the Company became the holding company of the other companies comprising the group pursuant to a group reorganisation (the "Reorganisation") which included exchanges of shares. As part of the Reorganisation, the assets, liabilities and the businesses of VSC (Far East) Limited and the Steel Trading Division of Van Shung Chong Hong Limited (both VSC (Far East) Limited and Van Shung Chong Hong Limited were wholly owned by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company), were transferred to the Group effective from April 2000. Thereafter VSC (Far East) Limited and the Steel Trading Division of Van Shung Chong Hong Limited ceased their steel trading businesses.

The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st March, 2001, rather than from the date on which the Reorganisation was completed. The comparative figures as at and for the year ended 31st March, 2000 have been presented on the same basis.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (the "Group"). The results of subsidiaries acquired or disposed of during the year (other than those included in the Reorganisation described in Note 1 above) are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

c. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

d. Turnover and revenue recognition

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

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

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

e. Taxation

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

f. Research and development expenditures

Research expenditures are written off as incurred. Development expenditures are charged against income in the period incurred except for those incurred for specific projects where recoverability can be foreseen with reasonable assurance and 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, are capitalised. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products are expected to be sold or the processes are to be used.

g. Marketing and branding costs

The costs of marketing and branding are expensed as incurred.

h. Staff retirement benefits

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

i. Borrowing costs

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

j. Furniture and equipment and depreciation

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

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

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

The carrying value of furniture and equipment is assessed periodically or when factors indicating an impairment are present. Individual items of furniture and equipment carried at cost less accumulated depreciation are reduced to their recoverable amount if this is lower than net book value, with the difference charged to the income statement. In determining the recoverable amount of individual items of furniture and equipment, expected future cash flows are not discounted to their present value.

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

k. Website development costs

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

l. Long-term investment

Long-term investment is stated at cost less provision for any impairment in value. Income from long-term investment is accounted for to the extent of dividends received or receivable.

The carrying amount of the investment is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced and the reduction is recognised as an expense in the income statement unless there is evidence that the decline is temporary. Provision against the carrying value of the investment is reversed to the income statement when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

Upon disposal of the investment, any profit and loss thereon is accounted for in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

m. 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.

n. Operating leases

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

o. 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 respective 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 their 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 income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, 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; income and expense items are translated into Hong Kong dollars at the average applicable rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

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. Details of amounts due to related companies are:

Name of related company	**2001**	2000
	$'000	*$'000*
Van Shung Chong Hong Limited (i)	**17,087**	—
iMerchants Limited (ii)	**6,843**	3,882
	23,930	3,882

Notes:

(i) Van Shung Chong Hong Limited is wholly owned and controlled by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company. The amount due to Van Shung Chong Hong Limited arose primarily from purchases of inventories and was unsecured and bore interest at commercial rates.

(ii) iMerchants Limited is a subsidiary of iMerchants Group Limited, the holding company of a substantial shareholder of the Company. The amount due to iMerchants Limited arose from the website development and maintenance services provided by iMerchants Limited and was unsecured, non-interest bearing and without pre-determined repayment terms.

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

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

Name of related party/Nature of transaction	**2001**	2000
	$'000	*$'000*
Van Shung Chong Hong Limited (i)		
— Commission from procurement services earned by the Group	**1,373**	1,189
— Purchases made by the Group	**118,756**	158,473
— Interest charged to the Group	**923**	—
— Administrative fees charged to the Group	**360**	360
CFY Enterprises Limited (i)		
— Rental expenses charged to the Group	**1,860**	—
— Rates, management fees and utilities charges charged to the Group	**464**	—
iMerchants Limited (ii)		
— Website development costs charged to the Group	**950**	4,092
— Website maintenance costs charged to the Group	**7,588**	210

Notes:

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

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

4. TURNOVER AND REVENUE

Analysis of turnover and revenue by product category is:

	2001	2000
	$'000	*$'000*
Sales of merchandise	**169,737**	177,503
Commission from procurement services	**4,305**	1,189
Commission from online steel trading services	**7,379**	1,382
Service fees	**1,908**	—
Total turnover	**183,329**	180,074
Interest income	**4,309**	91
Total revenue	**187,638**	180,165

Sales to the top five customers accounted for approximately 79% (2000 - 71%) of the Group's turnover for the year ended 31st March, 2001.

Analysis of turnover by geographical location* is as follows:

	2001	2000
	$'000	*$'000*
Mainland China	**169,174**	162,285
Macau	**5,114**	16,508
Hong Kong, Taiwan, Singapore and the Philippines	**5,719**	360
Others	**3,322**	921
Total revenue	**183,329**	180,074

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

5. LOSS BEFORE TAXATION

Loss before taxation was determined after charging and crediting the following items:

	2001	2000
	$'000	$'000
After charging:		
Provision for bad and doubtful debts	**1,142**	1,686
Interest expense		
— bank loans wholly repayable within one year	**167**	—
— amount due to a related company (Note 3.b)	**923**	—
Operating lease rental in respect of premises paid to		
— a related company (Note 3.b)	**1,860**	624
— others	**531**	50
Auditors' remuneration	**500**	338
After crediting:		
Interest income		
— bank deposits	**3,332**	—
— overdue trade receivables	**977**	91
Net exchange gain	**9**	71

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2001	2000
	$'000	*$'000*
Fees for executive directors	**—**	—
Fees for non-executive directors	**50**	—
Other emoluments for executive directors		
— Basic salaries and allowances	**5,535**	544
— Sign-on bonus	**—**	778
— Bonuses*	**780**	300
— Contributions to pension scheme	**15**	—
Other emoluments for non-executive directors	**—**	—
	6,380	1,622

* The executive directors were entitled to discretionary bonuses, with an executive director entitled to a contractual bonus of approximately $780,000 during the year ended 31st March, 2001 (2000 - Nil).

No director waived any emoluments during the year. No (2000 - $778,000) 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 range is as follows:

	2001	2000
Non-executive directors		
— Nil to $1,000,000	**6**	5
Executive directors		
— Nil to $1,000,000	**—**	3
— $1,000,001 to $1,500,000	**1**	—
— $2,500,001 to $3,000,000	**2**	—
	9	8

The basic salary of an executive director has been reduced from $240,000 to $120,000 per month during the year and the basic salaries of two executive directors have been reduced from approximately $120,000 per month as at 31st March, 2001 to $90,000 per month subsequent to 31st March, 2001.

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

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

	2001	2000
	$'000	*$'000*
Basic salaries and allowances	**8,723**	1,364
Sign-on bonuses	**1,170**	1,168
Bonuses	**780**	1,009
Contributions to pension scheme	**58**	27
	10,731	3,568

Two (2000 - two) of the five highest paid individuals were directors of the Company, whose emoluments are included in Note 6.a.

During the year, approximately $1,170,000 (2000 - $1,168,000) was paid to two of the five highest paid individuals as an inducement to join the Group.

Analysis of emoluments of the five highest paid individuals (including directors and employees) by number of individuals and emolument range is as follows:

	2001	2000
Nil to $1,000,000	**—**	5
$1,500,001 to $2,000,000	**3**	—
$2,500,001 to $3,000,000	**2**	—
	5	5

One of the five highest paid individuals left the Group during the year and the basic salaries of the remaining four highest paid individuals have been reduced from a range of approximately $90,000 to $134,000 per month as at 31st March, 2001 to $90,000 per month subsequent to 31st March, 2001. As at the date of approval of these financial statements, there are no employees with a monthly basic salary in excess of $90,000.

7. TAXATION

Taxation consisted of:

	2001	2000
	$'000	*$'000*
Current taxation		
— Hong Kong profits tax	**—**	1,169
— Mainland China enterprise income tax	**20**	—
	20	1,169

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 (2000 - Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profit arising in or derived from Hong Kong). A subsidiary operated in Mainland China is subject to Mainland China enterprise income tax at the rate of 33% (2000 - Nil).

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately $121,960,000 (2000 - Nil) dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st March, 2001 is based on the loss attributable to shareholders of approximately $112,054,000 (2000 - $6,812,000) and the weighted average of approximately 1,445,430,000 (2000 - 1,280,000,000) ordinary shares deemed to be issued during the year, on the basis of presentation relating to the Reorganisation as described in Note 1.

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

10. FURNITURE AND EQUIPMENT

Movements of furniture and equipment (consolidated) were:

	2001			2000
	Leasehold improvements	**Furniture and office equipment**	**Total**	Total
	$'000	***$'000***	***$'000***	*$'000*
Cost				
Beginning of year	**—**	**297**	**297**	41
Additions	**214**	**3,292**	**3,506**	238
Transfer from a related company	**—**	**—**	**—**	18
End of year	**214**	**3,589**	**3,803**	297
Accumulated depreciation				
Beginning of year	**—**	**29**	**29**	13
Provision for the year	**28**	**523**	**551**	16
End of year	**28**	**552**	**580**	29
Net book value				
End of year	**186**	**3,037**	**3,223**	268
Beginning of year	**—**	**268**	**268**	28

11. WEBSITE DEVELOPMENT COSTS

Movements of website development costs (consolidated) were:

	2001	2000
	$'000	*$'000*
Cost		
Beginning of year	**4,092**	—
Additions	**35,201**	4,092
Write-off	**(5,673)**	—
Provision for impairment loss	**(27,100)**	—
End of year	**6,520**	4,092
Accumulated amortisation		
Beginning of year	**330**	—
Amortisation	**3,160**	330
Write-off	**(758)**	—
End of year	**2,732**	330
Net book value		
End of year	**3,788**	3,762
Beginning of year	**3,762**	—

During the year, the Company's Directors reviewed and evaluated the recoverability of the carrying value of the website development costs and determined to provide for an impairment loss of approximately $27,100,000 (2000 - Nil).

12. LONG-TERM INVESTMENT

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

In December 2000, the Group entered into a share subscription agreement (the "Share Subscription Agreement") with Stemcor whereby the Group agreed to subscribe for certain shares in Stemcor at a consideration of US$3,000,000 ("Tranche A Shares"). Stemcor also agreed to grant two options to the Group to subscribe for additional shares in Stemcor for total consideration of US$5,000,000 ("Tranche B Option") and US$8,000,000 ("Tranche C Option"), respectively.

12. LONG-TERM INVESTMENT *(Cont'd)*

As at 31st March, 2001, the Group had paid US$3,000,000 to Stemcor in return for 209,895 unlisted ordinary shares of £1.00 each in Stemcor (i.e. the Tranche A Shares), representing approximately 3.5% of the equity of Stemcor. Pursuant to the Share Subscription Agreement, the number of Tranche A Shares will be adjusted such that the acquisition price will be based on the higher of (i) 10 times the audited consolidated net profit after taxation from the steel trading operation of Stemcor and its subsidiaries for the year ended 31st December, 2000 as agreed between the Group and Stemcor, and (ii) 1.5 times the audited consolidated net assets of Stemcor and its subsidiaries as at 31st December, 2000 as agreed between the Group and Stemcor. The audited consolidated net profit after taxation from the steel trading operation and the audited consolidated net assets of Stemcor and its subsidiaries as at 31st December, 2000 have not been agreed between the Group and Stemcor, for the purpose of the adjustment of the number of Tranche A Shares, up to the date of approval of these financial statements.

Under the Tranche B Option and the Tranche C Option, the Group has the right to subscribe for shares in Stemcor for total consideration of US$5,000,000 and US$8,000,000, respectively, according to the agreed schedule in 2001. The number of shares that may be subscribed by the Group under the Tranche B Option and the Tranche C Option will be determined based on the higher of (i) 10 times the audited consolidated net profit after taxation from the steel trading operation of Stemcor and its subsidiaries for the year ended 31st December, 2000 as agreed between the Group and Stemcor, and (ii) 1.5 times the audited consolidated net assets of Stemcor and its subsidiaries as at 31st December, 2000 as agreed between the Group and Stemcor.

Under the Share Subscription Agreement, Stemcor has granted to the Group a put option under which the Group may require Stemcor to repurchase all of the Tranche A Shares subscribed by the Group and the shares to be subscribed under the Tranche B Option for US$3,000,000 and US$5,000,000, respectively. The put option will be exercisable by the Group no earlier than the date on which the amount of shareholders' equity of Stemcor falls below £15,000,000 as shown in the management accounts of Stemcor from time to time or 30th April, 2002, which ever is earlier, and no later than 31st October, 2002. The Group's rights to the put option have been pledged as collateral for certain of the Group's banking facilities (see Note 23).

The Company's Directors are of the opinion that the underlying value of the long-term investment is not less than its carrying value as at 31st March, 2001.

13. OPERATIONS AND SUBSIDIARIES

a. Operations

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

b. Investment in subsidiaries

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

	2001	2000
	$'000	*$'000*
Unlisted shares, at cost	**3,500**	—
Due from subsidiaries	**136,012**	—
Due to a subsidiary	**(3,907)**	—
	135,605	—
Provision for impairment in value	**(120,575)**	—
	15,030	—

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

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than the carrying value as at 31st March, 2001.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. OPERATIONS AND SUBSIDIARIES *(Cont'd)*

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

Details of the subsidiaries as at 31st March, 2001 are:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group*	Principal activities
Business Across Business Asia Holdings (B.V.I.) Limited	British Virgin Islands	US$1	100%	Inactive since incorporation
Greater China Metal Limited (formerly known as MetalAsia Limited)	British Virgin Islands	US$1	100%	Inactive since incorporation
i-AsiaB2B Group Limited	British Virgin Islands	US$1	100%	Investment holding
iSteelAsia Holdings Limited	British Virgin Islands	US$10,000	100%	Investment holding
iSteelAsia (Hong Kong) Limited	Hong Kong	$2	100%	Operation of an e-commerce vertical portal business for online steel trading
iSteelAsia (India) Limited	British Virgin Islands	US$1	100%	Inactive since incorporation
iSteelAsia Limited	British Virgin Islands	US$10	100%	Operation of an e-commerce vertical portal business for online steel trading

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. OPERATIONS AND SUBSIDIARIES *(Cont'd)*

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

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group*	Principal activities
iSteelAsia (Labuan) Limited	Malaysia	$1	100%	Inactive since incorporation
iSteelAsia (Stemcor) Holdings Limited	British Virgin Islands	US$1	100%	Investment holding
iSteel Holdings (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
MetalAsia Holdings Limited	British Virgin Islands	US$2,000	100%	Investment holding
Metal Logistics Company Limited (formerly known as MetalAsia (Hong Kong) Limited)	Hong Kong	$4	100%	Trading of steel and provision of procurement services
Ya Gang Wang Co. Limited	British Virgin Islands (incorporation)/ Mainland China (operations)	US$1	100%	Provision of administrative and customer liaison services

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

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March, 2001.

14. INVENTORIES

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

15. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings (consolidated) consist of:

	2001	2000
	$'000	*$'000*
Trust receipts bank loans	**24,489**	—
Short-term bank loan	**—**	25,000
	24,489	25,000

Details of the Group's banking facilities are set out in Note 23.

16. DEFERRED TAXATION

As at 31st March, 2001, the Group had an unprovided deferred tax asset, primarily representing the tax effect of cumulative tax losses (subject to the approval of the relevant tax authority), amounting to approximately $10,743,000 (2000 - $1,681,000).

17. SHARE CAPITAL

Movements were:

	Number of shares	Nominal value
	'000	*$'000*
Authorised (ordinary shares of $0.10 each)		
Upon incorporation of the Company (a)	1,000	100
Increase in authorised share capital (b)	3,999,000	399,900
As at 31st March, 2001	4,000,000	400,000
Issued and fully paid (ordinary shares of $0.10 each)		
Issue of shares (a and c)	1,000	100
Issue of shares arising from the Reorganisation (c)	1,300	130
Issue of shares through placements (d)	172,000	17,200
Issue of shares to the Company's underwriter (e)	2,500	250
Capitalisation of share premium (f)	1,277,700	127,770
As at 31st March, 2001	1,454,500	145,450

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

Notes:

a. Upon incorporation on 10th February, 2000, the Company had authorised share capital of $100,000, divided into 1,000,000 shares of $0.10 each. On 21st February, 2000, the Company allotted and issued 1,000,000 new shares of $0.10 each, credited as nil paid.

b. On 13th April, 2000, the Company's authorised share capital was increased from $100,000 to $400,000,000, by the creation of an additional 3,999,000,000 shares of $0.10 each ranking pari passu with the existing shares in all respects.

c. On 13th April, 2000, the Company allotted and issued 1,300,000 new shares of $0.10 each, credited as fully paid, and credited as fully paid at par of $0.10 each the 1,000,000 shares issued nil paid on 21st February, 2000 in exchange for the acquisition by the Company of the entire issued share capital of certain subsidiaries pursuant to the Reorganisation (see Note 1).

17. SHARE CAPITAL *(Cont'd)*

d. On 19th April, 2000, the Company issued 72,000,000 shares of $0.10 each at $0.80 per share to Li Ka Shing Foundation Limited, pursuant to a placing agreement dated 29th March, 2000, resulting in cash proceeds of $57,600,000. Also, on the same date, the Company issued 100,000,000 shares of $0.10 each at $1.08 per share to a number of investors through a private placement, resulting in net cash proceeds of approximately $79,259,000, after deducting share issuance expenses of approximately $28,741,000. The share issuance expenses of approximately $26,350,000 were offset against share premium and contributed surplus and approximately $2,391,000 was written off in the income statement.

e. On 19th April, 2000, the Company issued to BNP Prime Peregrine Securities Limited 2,500,000 shares of $0.10 each at $1.08 per share to settle the underwriting commission and management fee payable to BNP Prime Peregrine Securities Limited.

f. Immediately after the aforementioned placements (Note e), share premium of $127,770,000 was capitalised through the issuance of 1,277,700,000 shares of $0.10 each on a pro-rata basis to the Company's shareholders immediately before the placements.

18. EMPLOYEE SHARE OPTIONS

On 13th April, 2000, the Company approved a share option scheme under which its Board of Directors may, at its discretion, invite any employees of the Company or any of its subsidiaries, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the trade day immediately preceding the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options. The scheme became effective upon the listing of the Company's shares on 20th April, 2000.

Movements of employee share options during the year ended 31st March, 2001 were:

			Number of share options			
Date of grant	**Exercise period**	**Subscription price per share**	**Beginning of year**	**Granted during the year**	**Lapsed during the year**	**End of year**
			'000	*'000*	*'000*	*'000*
3rd July, 2000	1st October, 2001 to 12th April, 2010	$0.360	—	35,800	(5,500)	30,300
7th November, 2000	8th November, 2001 to 12th April, 2010	$0.485	—	108,800	(1,500)	107,300
			—	144,600	(7,000)	137,600

19. RESERVES

Movements were:

	2001			
	Share premium	Capital reserve	Contributed surplus	Total
	$'000	$'000	$'000	$'000
Consolidated				
Beginning of year	—	—	—	—
Capitalisation of shareholder loan by a subsidiary (a)	—	2,299	—	2,299
Issue of shares by a subsidiary (b)	—	3,900	—	3,900
Effect of the Reorganisation (c)	—	(229)	—	(229)
Premium on issue of shares through placements (Note 17.d)	148,400	—	—	148,400
Premium on issue of shares to the Company's underwriter (Note 17.e)	2,450	—	—	2,450
Share issuance expenses	(23,080)	(3,270)	—	(26,350)
Capitalisation of share premium (Note 17.f)	(127,770)	—	—	(127,770)
End of year	—	2,700	—	2,700
Company				
Beginning of year	—	—	—	—
Effect of the Reorganisation (d)	—	—	3,270	3,270
Premium on issue of shares through placements (Note 17.d)	148,400	—	—	148,400
Premium on issue of shares to the Company's underwriter (Note 17.e)	2,450	—	—	2,450
Share issuance expenses	(23,080)	—	(3,270)	(26,350)
Capitalisation of share premium (Note 17.f)	(127,770)	—	—	(127,770)
End of year	—	—	—	—

19. RESERVES *(Cont'd)*

Notes:

a. On 13th April, 2000, iSteelAsia Holdings Limited, a wholly-owned subsidiary of the Company, issued 7,996 shares with a par value of US$1.00 each to Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company, as consideration of the capitalisation of the shareholder loan of $2,000,000 owed by the Group to Van Shung Chong (B.V.I.) Limited. The 7,996 shares issued to Van Shung Chong (B.V.I.) Limited were acquired by the Company on the same date through an exchange of shares pursuant to the Reorganisation (see Note 1). In addition, approximately $299,000 of the shareholder loan was capitalised during the year.

b. On 13th April, 2000, iSteelAsia Holdings Limited issued 1,999 shares with a par value of US$1.00 each to Grand Bridge Enterprises Limited, a substantial shareholder of the Company, for cash of approximately $3,900,000. The 1,999 shares issued to Grand Bridge Enterprises Limited were acquired by the Company on the same date through an exchange of shares pursuant to the Reorganisation (see Note 1).

c. The effect of the Reorganisation debited to capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation (see Note 1).

d. The effect of the Reorganisation credited to contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation (see Note 1).

   Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

As at 31st March, 2001, the Company had no reserves available for distribution to shareholders.

20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Analysis of changes in financing is as follows:

	Share capital and share premium	Capital reserve	Share issuance expenses	Short-term bank borrowings	Shareholder loan	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 1st April, 1999	—	—	—	—	15,068	15,068
Issue of shares by a subsidiary	1	—	—	—	—	1
Share issuance expenses	—	—	(2,701)	—	—	(2,701)
New short-term bank loan	—	—	—	25,000	—	25,000
Increase in shareholder loan	—	—	—	—	1,735	1,735
As at 31st March, 2000	1	—	(2,701)	25,000	16,803	39,103
Issue of shares through placements (Note 17.d)	165,600	—	—	—	—	165,600
Issue of shares and share exchange upon the Reorganisation (Note 17.c)	230	—	—	—	—	230
Capitalisation of shareholder loan (Note 19.a)	—	2,299	—	—	(2,299)	—
Issue of shares by a subsidiary (Note 19.b)	—	3,900	—	—	—	3,900
Effect of the Reorganisation	(1)	(229)	—	—	—	(230)
Share issuance expenses						
— settled by cash	—	—	(23,340)	—	—	(23,340)
— settled through issue of shares (Note 17.e)	2,700	—	(2,700)	—	—	—
— offset against share premium and capital reserve	(23,080)	(3,270)	26,350	—	—	—
— written off	—	—	2,391	—	—	2,391
Repayment of short-term bank loan	—	—	—	(25,000)	—	(25,000)
New trust receipts bank loans	—	—	—	33,221	—	33,221
Repayment of trust receipts bank loans	—	—	—	(8,732)	—	(8,732)
Decrease in shareholder loan	—	—	—	—	(14,504)	(14,504)
As at 31st March, 2001	145,450	2,700	—	24,489	—	172,639

20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

b. Analysis of cash and cash equivalents:

	2001	2000
	$'000	*$'000*
Cash and bank deposits	**28,516**	—
Short-term bank loan	—	(25,000)
	28,516	(25,000)

21. PENSION SCHEME

During the period from 1st April, 2000 to 30th November, 2000, the Group arranged for its employees a defined contribution provident fund (the "Original Scheme"), which was managed by an independent trustee. The Group made monthly contributions to the Original Scheme at 5% to 13% of the employees' basic salaries, depending on the grading of the employees; while the employees were required to make monthly contributions at a fixed rate of 0% or 5%, depending on the year of commencement of service. The employees were entitled to receive their entire contribution and the accrued interest thereon; and 100% of the Group's employer contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service, or at a reduced scale of between 30% to 90% after completing three to nine years of service. The forfeited contributions made by the Group and the related accrued interest were used to reduce the Group's employer contribution. The Original Scheme was terminated on 30th November, 2000 and all the amounts previously contributed by the employees and the employer are distributable to the respective employees. For the year ended 31st March, 2001, the aggregate employer's contribution made by the Group to the Original Scheme was approximately $377,000 (2000 - $53,000), after deduction of forfeited contributions of approximately $22,000 (2000 - $15,000).

Since 1st December, 2000, the Group has arranged for its employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a contribution cap of $12,000 per employee per annum. During the year ended 31st March, 2001, the aggregate amount of employer contributions made by the Group to the MPF Scheme was approximately $167,000 (2000 - Nil).

22. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31st March, 2001, the Group had the following significant commitments and contingent liabilities which were not provided in the financial statements:

a. Operating lease commitments

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

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Amounts payable within a period of				
— within one year	**533**	—	**—**	—
— between one and two years	**98**	—	**—**	—
	631	—	**—**	—

The commitments payable within the next twelve months are analysed as follows:

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Leases expiring within a period				
— not exceeding one year	**51**	—	**—**	—
— within two years to five years	**482**	—	**—**	—
	533	—	**—**	—

b. Contingent liabilities

As at 31st March, 2001, the Company had provided corporate guarantees of approximately $99,423,000 (2000 - Nil) to banks for banking facilities granted to its subsidiaries.

23. BANKING FACILITIES

As at 31st March, 2001, the Group had aggregate banking facilities of approximately $99,423,000 (2000 - $25,000,000) from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately $54,349,000 (2000 - Nil). These facilities were secured by:

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

b. corporate guarantees provided by the Company (see Note 22.b).

In addition, the Company has agreed with certain banks to comply with certain restrictive financial covenants.