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**If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.**

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*iSteelAsia.com*  
**iSteelAsia.com Limited**  
(亞洲鋼鐵電子交易所有限公司)\*  
(Incorporated in Bermuda with limited liability)

**Listing on The Growth Enterprise Market of  
The Stock Exchange of Hong Kong Limited  
by way of a Placing**

**Number of Placing Shares : 100,000,000 new Shares**  
**(subject to an Over-allotment Option)**  
**Issue Price : HK\$1.08 per Placing Share**  
**Nominal Value : HK\$0.10 each**  
**Stock Code : 8080**

**Global Coordinator, Bookrunner and Sponsor**

**BNP PRIME PEREGRINE**

**Lead Manager**

**BNP PRIME PEREGRINE**

**Co-Managers**

**ABN AMRO Rothschild**  
**CLSA Emerging Markets**

**Asia Financial (Securities) Limited**  
**Dresdner Kleinwort Benson**

**Salomon Smith Barney International**

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the appendix headed "Documents delivered and available for inspection", has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus has also been filed with the Registrar of Companies in Bermuda in accordance with Section 26 of the Companies Act 1981 of Bermuda. The Securities and Futures Commission, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus or any other document referred to above.

**Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors".**

## CHARACTERISTICS OF GEM

*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 of Hong Kong Limited. 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](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.*

## EXPECTED TIMETABLE

2000

Announcement of the level of indication of interest in the Placing to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and the GEM website at <a href="http://www.hkgem.com">www.hkgem.com</a> . . . . .	Wednesday, 19th April
Allotment of the Placing Shares on or before . . . . .	Wednesday, 19th April
Despatch of share certificates . . . . .	Wednesday, 19th April
Dealings in Shares on GEM to commence on . . . . .	Thursday, 20th April

*Notes:*

- (1) All times refer to Hong Kong local time.
- (2) The share certificate(s) is/are expected to be deposited into CCASS on Wednesday, 19th April, 2000 for credit to the respective CCASS participant's stock accounts of the Underwriters. No temporary documents of title will be issued.
- (3) For details of the structure of the Placing, including the conditions thereto, see the section headed "Structure of the Placing" in this prospectus.

# CONTENTS

*You should rely only on the information contained in this prospectus to make your investment decision.*

*The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, BNP Prime Peregrine Capital, the Underwriters, their respective directors, or any other parties involved in the Placing.*

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# SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Placing Shares.*

*There are greater risks associated with any investment in companies listed on GEM. Some of the particular risks of investing in the Placing Shares are set out in the sections headed "Characteristics of GEM" and "Risk Factors". You should read those sections carefully before you decide to invest in the Placing Shares.*

## INTRODUCTION

The Group is principally engaged in the provision of trading and other value-added services for participants in the supply chain of the steel industry. The Group's traditional steel trading operation was originated in 1994 by the VSC Group. The VSC Group is the largest shareholder of the Company. Historically, the Group has sourced steel products and arranged value-added services for its customers through telephone calls, facsimile transmissions and personal visits. Value-added services include assisting customers with inventory management and logistic arrangements. As the industry becomes increasingly competitive, many competitors are beginning to adopt the latest technology to increase their productivity and profits. Against this background, the iSteelAsia.com website was launched in December, 1999. The iSteelAsia.com website provides an Internet-based platform as an additional means for buyers to source steel products and sellers to sell steel products with online access to steel industry information and a range of value-added services such as insurance and trade finance. On 10th February, 2000, iSteelAsia was incorporated with the intention of taking over the traditional trading operation of VSC and the operation of the iSteelAsia.com website. All of the Company's services, including those of its subsidiaries, are focused on serving customers in the steel industry.

## STRENGTHS

The Directors believe that the competitive strengths of the Group are as follows:

### **In-depth knowledge of the steel industry**

The Group's management team possesses extensive knowledge of, and contacts in, the steel industry especially in respect of the Asia-Pacific region, the largest steel producing and consuming region in the world. The Directors believe that its management team will be invaluable in assisting the Group to formulate and implement its strategies and to expand its business in the future. In particular, the Group's chairman and an executive director are also the chairman and an executive director respectively of the VSC Group which has had more than 30 years of experience in the steel industry. Furthermore, the Directors believe that the market reputation of the Group's largest shareholder, VSC, will provide additional business opportunities to the Group.

### **First mover advantage with respect to the online trading platform**

Prior to the launch of the iSteelAsia.com website, the steel industry lacked an Asia-Pacific focused online trading platform for steel products. Having achieved prominence and gained momentum from establishing the first Asia-Pacific focused, bilingual (English and Chinese), vertical portal for the steel industry, the Directors believe that the Group is well positioned to take advantage of its niche in the Asia-Pacific region which is the largest steel producing and consuming region in the world.

### **Established Founding Members**

Established steel mills, traders, processing centres and end-users have been identified as potential Founding Members. The Directors believe that the reputation and industry positions of the Founding Members will provide liquidity, promote the success of iSteelAsia.com and will encourage other participants in the industry to become Corporate Members.

### **Comprehensive website**

The Directors believe that as more value-added services become available, iSteelAsia.com can provide a one-stop solution for steel mills, traders, processing centres and end-users. In addition to English, content is readable in simplified Chinese characters and there are also plans to translate content into the Japanese and Korean languages, which the Directors believe will be welcomed by many industry participants operating in the Asia-Pacific region.

## **STRATEGIES**

The Directors have identified the following business strategies:

### **Emphasise customer relationship management**

As an intermediary in the supply chain for the steel industry, the provision of quality services to facilitate the sourcing and procurement of steel products by its customers is the essence of the Group's business. Accordingly, the Group has prioritised customer relationship management as its overriding strategy. The Directors believe in the importance of understanding each customer's needs, of devising solutions and of facilitating access to services to meet those needs. To further expand the operation of the Group, branch offices are to be established and local expertise is to be recruited to build on customer relationships with steel mills, traders, processing centres and end-users in the area. A customer relationship management team is to be formed to serve Members and to identify their needs. An international management consultant has been engaged to advise the Group in relation to, among other things, customer relationship management for the steel industry.

### **Build a strong brand name**

The Group will continue to build a strong brand name by promoting its solutions and services through customer focused initiatives. The traditional trading operation will work closely with its customers to provide the specialised services and solutions they demand. Furthermore, the Group will continue to encourage its existing customers to utilise the iSteelAsia.com trading platform to conduct their steel trading activities. iSteelAsia.com is being marketed at roadshows, presentations and in the media as a credible, reliable, secure and neutral marketplace. Established steel industry enterprises are being invited to become Founding Members to build a strong brand name. In addition, the Group intends to engage Scient, to assist iSteelAsia.com to develop its e-business.



**Forge relationships with strategic partners to expand value-added services**

The Directors intend to enrich the content of iSteelAsia.com by forming alliances with quality content providers and sourcing research reports from steel industry analysts. Furthermore, additional online value-added services including the provision of payment status tracking services, online B2B banking facilities, shipping information and shipment booking; third party surveying services, cargo insurance and logistic support services may be offered through the iSteelAsia.com website. The Directors also intend to enhance the user interfaces to improve process efficiencies and reduce the costs of manual order processing.

**Establish country specific websites for Asia's domestic steel markets**

The Directors intend to leverage off the achievement of iSteelAsia.com of being the first Asia-Pacific focused online trading platform launched for the steel industry by adapting its concept and technology to countries in the Asia-Pacific region leading to the establishment of country specific websites catering to the domestic steel trade. The Group's strategy is to establish joint ventures with local partners to develop and operate such sites and to seek an active management role in such joint ventures.

**STATEMENT OF BUSINESS OBJECTIVES**

Given the size of the steel industry, the increased popularity of the Internet and the inherent inefficiencies in the supply chain of the steel industry, the Directors believe that the potential for an Internet-based vertical portal for the steel market is significant. Although the Group's traditional steel trading operation accounted for all of the Group's turnover during the Relevant Period, the Directors anticipate that most of the future growth potential of the Group will stem from its Internet-based operation.

It is the aim of the Directors to establish iSteelAsia.com as the premier B2B vortal for the steel community in the Asia-Pacific region with a critical mass of buyers and sellers who effect an ever-increasing proportion of transactions through iSteelAsia.com's trading platform. While the Directors intend to initially focus on cross-border trade involving the Asia-Pacific region, they also intend to pursue business opportunities to adapt iSteelAsia's concept and technology to Asia's domestic steel markets and to position iSteelAsia.com as a prominent, informative and liquid trading platform for the global steel industry.

The Directors consider that iSteelAsia.com has successfully passed its first stage which principally consisted of the establishment of a presence in the steel industry and the launch of iSteelAsia.com. During the second stage, the Directors will focus on (i) customer relationship management, (ii) building a strong brand name, (iii) forging relationships with strategic partners to expand value-added services and (iv) establishing country specific websites for Asia's domestic steel markets.

Although the Directors believe that iSteelAsia.com has a viable business model, a vertical portal for the steel industry is a relatively new B2B e-commerce business concept. Furthermore, the operation of iSteelAsia.com is currently in a rapid growth stage and there are various competitive forces at work in the market. Although the Group's management team has placed high priority on analysing the market development and has engaged

international consulting firms to assist with the formulation of its strategies, there can be no assurance that competitive forces in the market will not change the industry landscape which may render the Group's business objectives impracticable or impossible.

Expansion and acquisition strategies will play a significant role in the Group's future growth plan. Through mergers, acquisitions, cooperative arrangements, strategic alliances, share swaps and joint ventures, the Group will continue to seek out suitable investment candidates and business partners. The Directors are currently evaluating a number of business opportunities. However, the evaluation work and related negotiations with the relevant parties are only in preliminary stages and there is no assurance that any of these negotiations will be consummated.

Based on the Group's business plan, the Group's traditional steel trading operation will complement its Internet-based operation as the Directors believe it will take time for all of the traditional steel trading customers to migrate to an online steel trading environment. For the period from 1st April, 2000 to 31st March, 2003, the traditional steel trading operation will focus on working with customers in Southern China which are not yet ready to migrate to online trading (either because of technological constraints and/or because their requirements are highly specialised) and have a continuing demand for specialised value-added services. In addition, it will continue to explore opportunities in other regions. The traditional steel trading operation will continue to focus on selling steel products with higher prices and margins and to explore new value-added services to increase profit margins. Depending on market demands, additional products/services may be introduced. The traditional steel trading operation's principal target customers will remain as end-users, distributors and stockists based in Southern China and Macau. Efforts will be made to target higher quality customers. Marketing activities of the traditional steel trading operation will remain as primarily personal calls and factory visits by employees.

The Group's overall business objectives for its online steel trading platform, iSteelAsia.com, is to be the leading B2B portal for the steel community in the Asia-Pacific region. The Group has identified four key business objectives in order to achieve this goal:

- *Market Research:* To continue to formulate and refine its business strategy and to investigate the possibility of establishing operations in individual countries primarily in the Asia-Pacific region.
- *Website Development:* To improve iSteelAsia.com through simplifying work flow, core trading features, and/or enhancing the existing functions. To introduce new features such as personalisation of website interface, newsletters and/or steel analysts reports. To integrate value-added services and explore the feasibility of acquiring additional content for the iSteelAsia.com website.
- *Marketing Activities:* To leverage off iSteelAsia.com's strengths as the first Asian focused vertical portal for the steel industry. To create international brandname awareness through press conferences, conventions, conferences and personal visits to industry participants. To establish strategic alliances with various participants in the supply chain.

- *Resources Deployment:* To expand its senior management team, technical team and marketing team in the head office and regional offices.

Please refer to details of the aforesaid key business objectives in the section headed “Statement of Business Objectives” below.

## TRADING RECORD

The following is a summary of the audited combined results of the Group for the Relevant Period extracted from the accountants’ report set out in Appendix I to this prospectus and prepared on the basis that the existing structure of the Group had been in place throughout the Relevant Period<sup>(1)</sup>:

	Year ended 31st March,		Nine months ended 31st December,
	1998	1999	1999
	HK\$'000	HK\$'000	HK\$'000
Turnover ( <i>Note 1</i> )	102,322	115,651	128,096
Profit from operations	2,449	3,299	1,267
Profit before taxation	2,460	3,299	1,330
Taxation	(248)	(276)	(1,019)
Profit attributable to shareholders	2,212	3,023	311
Dividend ( <i>Note 2</i> )	6,800	—	—
Earnings per Share — Basic ( <i>Note 3</i> )	0.17 cents	0.24 cents	0.02 cents

*Notes:*

- (1) During the Relevant Period, turnover primarily consisted of sales of merchandise in respect of which the VSC Group was the only supplier and commissions earned from the provision of procurement services to the VSC Group.
- (2) VSC (Far East) Limited declared a dividend of HK\$6.8 million during the year ended 31st March, 1998 to its then shareholder which was paid during the year ended 31st March, 1999. Such dividend was financed from the Group’s internal resources. Subsequent to 31st December, 1999, VSC (Far East) Limited declared an interim dividend of HK\$9 million to its then shareholder which was paid on 31st March, 2000.
- (3) The calculation of earnings per Share is based on the combined profit after taxation of the Group for the two years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999 and a total of 1,280,000,000 Shares in issue after the Capitalisation Issue during such years/period.

## OTHER INFORMATION

Pursuant to paragraph 31 of the Third Schedule of the Companies Ordinance (as amended by the Notice of Exemption dated 22nd October, 1999 issued by the Securities and Futures Commission) and Rules 7.03(1) and 11.10 of the GEM Listing Rules respectively, the Company is required to include the financial results of each of the two years ended 31st March, 2000 in the accountants' report. The Securities and Futures Commission has granted a waiver from strict compliance with paragraph 31 of the Third Schedule of the Companies Ordinance and the Stock Exchange has granted waivers from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31st December, 1999, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

## REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that the net proceeds from the Placing will strengthen the Group's capital base and will provide funding for the Group's business objectives.

The net proceeds from the Placing (assuming the Over-allotment Option and the BNP Prime Peregrine Option are not exercised), after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Placing, are estimated to be approximately HK\$88.4 million. The Directors presently intend to use such net proceeds as follows:

- approximately HK\$31.0 million to acquire interests in value-added information and service provider(s) (which will account for approximately 50% of such amount) and fund start-up and on-going operating costs (which will account for approximately 35% of such amount) and the development of a country specific website (which will account for approximately 15% of such amount);
- approximately HK\$15.5 million to engage outside consultants and/or 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 websites;
- approximately HK\$26.4 million to conduct 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, direct mailings and newsletters; and
- approximately HK\$15.5 million to acquire content for the Group's websites.

As the Group's traditional trading operation has reached a relatively mature stage of development, none of the net proceeds are being specifically allocated for such operation.

Should the Over-allotment Option and the BNP Prime Peregrine Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$18.1 million, which, together with the estimated net proceeds from the Placing, will amount to approximately HK\$106.5 million. The Directors intend to use approximately HK\$5.9 million of the additional proceeds to form additional strategic alliances with other value-added service providers and the balance of approximately HK\$12.2 million as general working capital.

In the event that part of the business plans of the Group does not materialise or proceed as planned, the Directors will carefully evaluate the then requirements of the Group and other relevant factors and circumstances and may reallocate such part or parts of the net proceeds to other business plans, new projects and/or investment opportunities of the Group and/or to place the same in short term deposits so long as the Directors consider that to be in the best interests of the Company and its shareholders taken as a whole. Any material departure from the use of proceeds stated above, will be the subject of an announcement by the Company.

To the extent that the net proceeds of the issue of the Placing Shares (excluding the Over-allotment Option Shares) are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with licensed banks in Hong Kong.

The Directors believe that the proceeds from the Pre-Placing and the Placing will not be sufficient to finance all of the Group's activities referred to above which are scheduled to be undertaken prior to 31st March, 2002. The Directors expect that the Group should be able to raise additional finance from various sources including, but not limited to, the international and domestic capital markets, banks and internal resources or through a combination of these sources. In the event that additional financing cannot be obtained, the Group may have to scale back its scheduled activities referred to above.

## LOSS ESTIMATE FOR THE YEAR ENDED 31ST MARCH, 2000

Estimated combined loss after taxation

but before extraordinary items of the Group (*Note 1*) . . . . . not more than HK\$7 million

Estimated loss per Share pro forma fully diluted (*Note 2*) . . . . . 0.48 cents

## PLACING STATISTICS

Market capitalisation (*Note 3*) . . . . . HK\$1,568 million

Adjusted net tangible asset value per Share (*Note 4*) . . . . . 10 cents

### Notes:

- (1) The bases on which the estimated combined loss after taxation but before extraordinary items of the Group for the year ended 31st March, 2000 has been prepared are set out in Appendix II to this prospectus. The Directors are not aware of any extraordinary items which have arisen or are likely to arise in respect of the year ended 31st March, 2000.
- (2) The calculation of the estimated loss per Share on a pro forma diluted basis is based on the estimated combined loss after taxation but before extraordinary items of the Group for the year ended 31st March, 2000 assuming that the Company had been listed since 1st April, 1999 and a total of 1,452,000,000 Shares had been in issue during the year, but takes no account of any Shares which may be allocated or issued pursuant to the exercise of the BNP Prime Peregrine Option and the Over-allotment Option or which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraph headed "Shareholders' resolutions of the Company" in Appendix V to this prospectus, or otherwise.
- (3) The market capitalisation has been arrived at based on an Issue Price of HK\$1.08 per Share and takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option and the BNP Prime Peregrine Option.
- (4) The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in the paragraph headed "Adjusted net tangible assets" under the section headed "Financial information" of this prospectus and on the basis of a total of 1,452,000,000 Shares in issue and to be issued as mentioned herein. This takes no account of any Shares which may be allocated or issued pursuant to the exercise of the BNP Prime Peregrine Option and the Over-allotment Option or which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraph headed "Shareholders' resolutions of the Company" in Appendix V to this prospectus, or otherwise.

## RISK FACTORS

**Although the Group's traditional steel trading operation accounted for all of the Group's turnover during the Relevant Period, the Directors anticipate that most of the future growth potential of the Group will stem from its Internet-based operation. As Internet-based steel trading/auction/procurement is a relatively new business model, a greater risk is associated with the securities of the Company. Prospective investors should carefully read the sections headed "Characteristics of GEM" and "Risk factors" in this prospectus.** Some of the risks associated with the securities of the Company can be

broadly categorised into (i) risks relating to the Group; (ii) risks relating to e-commerce; (iii) risks relating to the Asia-Pacific region; (iv) risks relating to the PRC; and (v) risks relating to the Placing.

**Risks relating to the Group**

- Dependence on the steel industry
- Dependence on an uncertain market
- Limited operating history of the online steel trading platform
- Operating losses
- Reliance on outside vendors
- Reliance on strategic partners
- The Group may be liable for information retrieved from its website
- Failure to continue to recruit Members
- Foreign exchange and bad debt risk
- Competition
- Management of growth
- Future financing requirements
- Dependence on key executives who are also key executives of other companies
- Certain key employees are new to the management team
- Dependence on major customers and on the VSC Group
- Use of proceeds may deviate from the current plan
- Dividends
- Year 2000 compliance issue

**Risks relating to e-commerce**

- Rapid technological change
- Dependence on network infrastructure
- Security

- Government regulations
- Potential liability of information dissemination through network

**Risks relating to the Asia-Pacific region**

- Economic and political considerations
- Legal framework with respect to the Internet in the Asia-Pacific region

**Risks relating to the PRC**

- General
- Economic and political considerations
- Legal system

**Risks relating to the Placing**

- Dilution
- Forward-looking statements
- Development in other markets

For further details of these risks, please refer to the section headed “Risk factors” of this prospectus.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Underwriters, any of their respective directors or any other person involved in the Placing.



## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

“associates”	has the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of directors of the Company
“BNP Prime Peregrine Capital”	BNP Prime Peregrine Capital Limited acting as the Sponsor of the Placing, an investment adviser registered under the Securities Ordinance, (Chapter 333 of the Laws of Hong Kong)
“BNP Prime Peregrine Option”	the option granted by the Company under the Underwriting Agreement to BNP Prime Peregrine Securities pursuant to which BNP Prime Peregrine Securities or its nominees may subscribe for up to an aggregate of 2,500,000 additional new Shares at the Issue Price in lieu of payment of all or part of the underwriting and management fee (but not the selling concessions) payable by the Company to BNP Prime Peregrine Securities under the Underwriting Agreement in respect of the Placing Shares underwritten by BNP Prime Peregrine Securities (but excluding any underwriting and management fee payable to BNP Prime Peregrine Securities as a result of the exercise of the Over-allotment Option), as more fully described in the section headed “Underwriting”
“BNP Prime Peregrine Securities”	BNP Prime Peregrine Securities Limited acting as the global coordinator, the bookrunner, the lead manager and one of the Underwriters of the Placing, a securities dealer registered under the Securities Ordinance, (Chapter 333 of the Laws of Hong Kong)
“Bye-laws”	the bye-laws of the Company adopted on 13th April, 2000, a summary of which is set out in the section headed “Bye-laws” in Appendix IV to this prospectus
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in the paragraph headed “Shareholders’ resolutions of the Company” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Companies Act”	the Companies Act 1981 of Bermuda

“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company” or “iSteelAsia”	iSteelAsia.com Limited, an exempted company incorporated in Bermuda with limited liability
“Corporate Members”	the corporate members who have access to iSteelAsia.com
“Designated Employees”	Ms. Drina C. Yue and Mr. Daniel Takuen Shih, both of whom are Directors, together with certain other employees of the Group who respectively have entered, or will enter, into a Share Option Agreement with TN Development
“Despatch Date”	the date for despatch of share certificate(s) to, or for credit of Placing Shares into the CCASS participants’ stock accounts of, the placees pursuant to the Placing
“Director(s)”	the director(s) of the Company
“Digital Island”	Digital Island Corporation, a company whose shares are listed on the Nasdaq National Market, which provides a fast global-business delivery network for enterprises that need to deploy business-critical applications worldwide via global content delivery and hosting, application and network services
“Distribution”	a proposed distribution of 285,200,000 Shares on the basis of about 1,350 to 1,670 Shares, (subject to finalisation depending on the number of VSC Shares in issue on the Record Date), for every 2,000 shares held in the share capital of VSC to shareholders of VSC whose names appeared on the register of members of VSC on the Record Date
“Employee Options”	the options granted or to be granted to the Designated Employees under the Share Option Agreements pursuant to which they may require TN Development to transfer a certain number of Shares, at an exercise price per Share equal to five per cent. of the Issue Price, the principal terms of which are set out in the section headed “Directors, Adviser, Senior Management, Audit Committee and Staff” in this prospectus
“Founding Members”	the founding members of iSteelAsia.com which are further described in the paragraph headed “Membership” in the section headed “General Overview of the Group” of this prospectus

“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries, and where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company, and prior to the establishment of MetalAsia HK, the trading division of the VSC Group which previously carried on the steel trading business now carried on by the Group
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Huge Top”	Huge Top Industrial Ltd., the controlling shareholder of VSC and beneficially interested in approximately 57.09% of the issued share capital of VSC as at the Latest Practicable Date, more details of which are set out in Note 2 to the corporate structure chart headed “General Overview of the Group” in this prospectus
“iMerchants”	iMerchants Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on GEM
“iMerchants Agreement”	the conditional sale and purchase agreement dated 15th March, 2000, entered into between iMerchants Group and iMerchants pursuant to which iMerchants Group agreed to transfer 204,800,000 Shares to iMerchants after completion of the Placing
“iMerchants Group”	iMerchants Group Limited, a company incorporated in the British Virgin Islands with limited liability
“iM Group”	iMerchants Group and its subsidiaries including iMerchants
“Individual Members”	the individual members who have access to the iSteelAsia.com website

“Initial Management Shareholders”	VSC, iMerchants Group or iMerchants (after completion of the iMerchants Agreement), Mr. Andrew Cho Fai Yao, Ms. Miriam Che Li Yao, Ms. Yao Lin Shiu Mei, Mr. Moses Kwok Tai Tsang, TN Development and Huge Top or any of them
“Issue Price”	the issue price per Placing Share (excluding brokerage and Stock Exchange transaction levy) of HK\$1.08
“iSteelAsia.com”	an abbreviation of the URL for the Company’s website <a href="http://www.isteelasia.com">http://www.isteelasia.com</a>
“iSteelAsia HK”	iSteelAsia (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and wholly owned by iSteelAsia Holdings
“iSteelAsia Holdings”	iSteelAsia Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by the Company
“Latest Practicable Date”	31st March, 2000, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Lead Manager” or “Lead Underwriter”	BNP Prime Peregrine Securities
“Li Ka Shing Foundation”	Li Ka Shing Foundation Limited, a private charitable organisation registered in Hong Kong. It was founded in 1980 by Dr. Li Ka-shing, the Chairman of Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited. The Foundation participates in many worthwhile projects in Hong Kong, the PRC and overseas. Its mission is to improve people’s lives through better education and healthcare, and to promote arts and culture. The Foundation has donated over HK\$2 billion to date
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated in parallel with GEM
“Members”	Founding Members, Corporate Members and Individual Members
“MetalAsia HK”	MetalAsia (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and wholly owned by MetalAsia Holdings

“MetalAsia Holdings”	MetalAsia Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly owned by the Company and is the holding company of MetalAsia HK
“Offer Shares”	the Placing Shares and the Over-allotment Option Shares
“Outsourcing Agreement”	the outsourcing agreement entered into between iSteelAsia HK and iMerchants, as described under the section headed “Relationship with the VSC Group and the iM Group” in this prospectus
“Over-allotment Option”	the option granted by the Company to the Underwriters exercisable by BNP Prime Peregrine Securities on behalf of the Underwriters to require the Company to allot and issue up to an aggregate of 15,000,000 additional Shares representing 15% of the number of the Placing Shares initially being offered at the Issue Price to cover over-allocation in the Placing
“Over-allotment Option Shares”	the 15,000,000 new Shares to be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option
“Placing”	the conditional placing of the Placing Shares at the Issue Price as described in the section headed “Structure of the Placing”
“Placing Shares”	the 100,000,000 new Shares being conditionally placed by the Underwriters pursuant to the Placing
“Pre-Placing”	the proposed placing of 72,000,000 new Shares at HK\$0.80 per Share to the Li Ka Shing Foundation pursuant to a placing agreement dated 29th March, 2000, conditional on, inter alia, the Underwriting Agreement becoming unconditional, which Shares are expected to be subscribed for and allotted at or about the same time as the Placing Shares
“PRC”	People’s Republic of China, which for the purposes of this prospectus, excludes Hong Kong, Taiwan and Macau
“QIBs”	qualified institutional buyers as defined in Rule 144A
“Record Date”	14th April, 2000, being the record date for ascertaining entitlement to the Distribution

“Regulation S”	Regulation S under the US Securities Act
“Relevant Lock-up Period”	the period commencing on the date on which dealings in Shares first commence on GEM and ending six months thereafter
“Relevant Period”	the period of two years ended 31st March, 1999 and the period of nine months ended 31st December, 1999
“Relevant Securities”	has the meaning ascribed thereto in Rule 13.15 of the GEM Listing Rules
“Reorganisation”	the corporate reorganisation which the Group underwent prior to the issue of this prospectus, the details of which are set out in paragraph headed “Corporate reorganisation” in Appendix V to this prospectus
“Reuters”	Reuters Hong Kong Limited
“Revenue Options”	options to Founding Members under Revenue Option Agreements pursuant to which they may require TN Development to transfer Shares when certain specified annual targets are met
“Revenue Option Agreement”	an agreement between TN Development and a Founding Member, the principal terms of which are set out in the section headed “Founding Members” in “General Overview of the Group” of this prospectus
“Rule 144A”	Rule 144A under the US Securities Act
“Scient”	Scient Asia Pacific Pte Limited, a wholly-owned subsidiary of Scient Corporation, a company whose shares are listed on the Nasdaq National Market, an eBusiness systems innovator
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (as amended from time to time)
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Share Option Agreement”	a share option agreement entered into between TN Development and a Designated Employee, the principal terms of which are set out in the section headed “Directors, Adviser, Senior Management, Audit Committee and Staff” in this prospectus

“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 13th April, 2000, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus
“Sponsor”	BNP Prime Peregrine Capital
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TN Development”	TN Development Limited, a company incorporated in the British Virgin Islands with limited liability, details of whose shareholders are set out in Note 1 to the corporate structure chart in the section headed “General Overview of the Group” in this prospectus
“Underwriters”	BNP Prime Peregrine Securities, ABN AMRO Rothschild, Asia Financial (Securities) Limited, Credit Lyonnais Securities (Asia) Limited, Kleinwort Benson Limited and Salomon Brothers International Limited
“Underwriting Agreement”	the conditional underwriting agreement dated 14th April, 2000 entered into among, inter alia, the Company, the Sponsor and the Underwriters, as described under the section headed “Underwriting” in this prospectus
“US Securities Act”	the United States Securities Act of 1933, as amended
“VSC”	Van Shung Chong Holdings Limited, a company incorporated in Bermuda, the securities of which are listed on the Main Board, further details of which are shown in Appendix V to this prospectus
“VSC Exercisable Options”	the 20,100,000 outstanding options of VSC exercisable as at the Latest Practicable Date, each of which entitles the holder(s) to subscribe for one new VSC Share
“VSC Group”	VSC together with its subsidiaries and associated companies
“VSC Share(s)”	share(s) of HK\$0.10 each in the capital of VSC
“VSC Warrants”	the 58,647,454 outstanding warrants of VSC as at the Latest Practicable Date, each of which entitles the holder(s) to subscribe for one new VSC Share at an initial price of HK\$2.00 per VSC Share (subject to adjustment) at any time up to and including 16th February, 2002

DEFINITIONS

"HK\$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Renminbi"	Renminbi, the lawful currency of the PRC
"US" or "United States"	the United States of America
"US\$" and "US dollars"	United States dollars, the lawful currency of the United States
"sq. ft."	square feet
"sq. m."	square metre(s)



## GLOSSARY

*This glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. Due to the nature of the Internet industry, which is subject to rapid changes, certain terminology are refined and amended and new terminology or jargons are introduced from time to time. Therefore, the terminology/jargons and their respective meanings may not correspond to standard industry meanings or use of those terms.*

“B2B”	an e-commerce model whereby businesses transact online
“B2C”	an e-commerce model whereby businesses transact with consumers online
“browser”	an application programme which provides a way to look at and interact with information on the World Wide Web
“country specific website”	a vertical portal targeted at a particular country
“e-business” or “eBusiness”	the conduct of business on the Internet, including e-commerce as well as servicing customers and collaborating with business partners
“e-commerce”	the buying and selling of goods and services on the Internet, especially the World Wide Web
“e-exchange”	a website that enables buyers and sellers of goods and services to identify each other and agree on a price in an efficient manner similar to a stock exchange
“e-mail”	electronic mail, the exchange of computer-stored messages by telecommunication usually via the Internet
“EDI”	an acronym for electronic data interchange, a format for companies to exchange information such as purchase orders, acknowledgements, invoices and other routine business documents electronically
“home page”	the opening page of a website
“horizontal site”	a website which serves a wide range of diverse industries where buyers and sellers can communicate, advertise and transact business

“HTTP”	an acronym for Hypertext Transfer Protocol, the protocol used to carry requests from a browser to a web server and to transport pages from web servers back to the requesting browser
“hyperlink”	a way of linking hypertext or image to another page which is the basis of navigating around the World Wide Web — if a user clicks on an underlined word in a web page, it will link the user to another section of the page or to another page
“hypertext”	a method of organising information units on the Internet into connected associations
“Internet”	the international network that links together computers and allows data to be transferred between each computer using the TCP/IP protocols
“liquidity”	the extent to which an e-commerce website can provide an online buyer with access to a variety of potential suppliers offering competitive prices and an online seller with access to a variety of potential buyers bidding competitive prices
“mirror site”	a website or set of files on a computer server that has been copied to another computer server in order to reduce network traffic to ensure better availability of the website or files, or to make the site or downloaded files arrive more quickly for users close to the mirror site
“online”	being able to connect to the Internet by virtue of having an account that gives one access
“portal”	a website that serves as a gateway to the Internet and is a collection of links, content and services designed to guide users to information they are likely to find interesting such as news, weather, entertainment, commerce sites and chat rooms
“scalability”	the extent to which a website can be modified to cope with increased usage and demands
“search engine”	a system of computer programmes and a database that searches for keywords in files and documents found on the World Wide Web

“SSL”	Secure Sockets Layer, a programme layer commonly used on the Internet for managing the security of message transmissions in a network on the World Wide Web
“stickiness”	the sum of all of a website’s qualities that induce visitors to remain on that website rather than move on to another website
“supply chain”	a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products and the distribution of these finished products to customers
“TCP/IP”	an acronym for Transmission Control Protocol/Internet Protocol, a set of communication protocols that bundles and unbundles sent and received data into packets, manages packet transmission and checks for errors across networks
“URL”	an acronym for Uniform Resource Locator, the address of a file (resource) accessible on the Internet
“vertical site”, “vertical portal” or “vortal”	a website targeted at a particular industry or subject where users can transact business, obtain information and communicate with each other
“web”	collection of millions of websites and web pages that together form the part of the Internet that is most often seen by users
“web page”	a single file stored on a web server that contains formatted text, graphics and hyperlinks to other pages on the Internet
“web server”	the computer which patches a website and delivers it to the user who inputted its URL
“website”	a collection of web pages that have been produced by a company or an individual and are linked together by hyperlinks
“World Wide Web” or “www”	the total set of interlinked hypertext documents residing on HTTP servers all around the world

## RISK FACTORS

*Potential investors of the Placing Shares should carefully consider all of the information set out in this prospectus and, in particular, should carefully read “Characteristics of GEM” and should also evaluate the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.*

### RISKS RELATING TO THE GROUP

#### **Dependence on the steel industry**

All of the Group's services as an intermediary in the supply chain are focused on serving customers in the steel industry. The steel industry is dependent on economic growth and macroeconomic trends throughout the world. Over periods of time, steel prices and transaction volumes rise and fall to reflect supply and demand from such trends. The steel industry is therefore cyclical in nature. Cyclical fluctuations, declining steel prices and transaction volumes will adversely affect the financial performance of the Group.

#### **Dependence on an uncertain market**

The market for Internet-based B2B e-commerce services has only recently begun to develop and, therefore, market demand for the Group's Internet-based services is uncertain. Certain critical issues concerning commercial use of the Internet, including security, legal implications, reliability, ease and cost of access, and quality of service are evolving and may impact on the growth of Internet use. The Directors believe that an important factor in the growth of the Group's Internet-based services will be the willingness of steel industry participants to adopt e-commerce as a means of doing business. There can be no assurance that the Group's website(s) will be widely accepted as contemplated. Accordingly, the Group's future success significantly depends upon the extent to which steel industry participants change over to use the Group's Internet-based services. If the market for Internet-based services fails to grow, grows more slowly than anticipated, or becomes saturated with competitors, the Group's business, financial condition and results of operations may be materially and adversely affected.

#### **Limited operating history of the online steel trading platform**

The Group's traditional trading operation commenced in 1994 and was established as a separate division of the VSC Group in April 1997 whereas the iSteelAsia.com website was formally launched in December 1999 and none of the country specific websites have been launched. As a result, the Group's online steel trading operation has a limited operating history on which to base an evaluation of its business and prospects. The Group's prospects must be considered in the context of the risks and uncertainties frequently encountered by companies which have embarked on a new line of business, and, in particular, when that new line of business is in a rapidly developing market for the provision of Internet-based solutions and services. In addition, the Group's Internet business strategies are unproven and the Directors cannot be certain that the Group's online steel trading operation will achieve its business objectives or that the Group's online steel trading operation will successfully compete and achieve market acceptance or otherwise address the other risk factors in this prospectus.

**Operating losses**

The Group has already incurred and will continue to incur a significant amount of expenditure in the start-up phase in designing and installing the system architecture and in marketing and branding of iSteelAsia.com. The Group had a combined net profit of approximately HK\$0.3 million for the nine months ended 31st December, 1999 and a loss of not more than HK\$7 million is estimated for the year ended 31st March, 2000. The Directors can give no assurance that there will be any sustainable profit or positive cash flow from the Group's operations subsequent to the Placing.

**Reliance on outside vendors**

The Directors intend to outsource a substantial amount of its software development work to outside vendors. The Group's ability to offer its Internet-based solutions and services may be adversely affected if any such vendor fails to provide the required service in relation to such software.

**Reliance on strategic partners**

The Group's objective of providing an online industry news information service and other value-added services is dependent on the Group entering into, and from time to time, renewing agreements with value-added providers and on those providers fulfilling their obligations under such agreements. The Group has entered into an agreement with Reuters to provide information for the iSteelAsia.com website for two years which expires in the first quarter of 2002. No assurance can be given that Reuters will extend this arrangement or that other content providers will be agreeable to entering into arrangements with the Group in respect of iSteelAsia.com and the country specific websites.

The success of the Group's strategy to establish country specific websites for Asia's domestic steel markets is dependent on the Group's ability to identify and work with joint venture partners in each country whose local knowledge and contacts in the domestic market will be vital to the success of the website. No assurance can be given that satisfactory or successful relationships will develop, or that financing will be available, for such ventures.

The Group anticipates that its major customers in the future may include the Founding Members as users of its Internet-based operation. Failure of the Group to maintain satisfactory relationships with its Founding Members could have a material adverse effect on the Group's business, financial condition and results of operation.

**The Group may be liable for information retrieved from its website**

Because the Group's online services can be used to download and distribute information to others, there is a risk that claims may be made against the Group for defamation, negligence, copyright or trademark infringement or other claims based on the nature and content of such material, such as violation of censorship laws in the PRC. Any imposition of liability that is not covered by the Group's insurance or which is in excess of the Group's insurance coverage could have a material adverse effect on the Group's business, financial condition and results of operation.

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### **Failure to continue to recruit Members**

The success of the Group's Internet-based operation will be dependent on the Group's ability to continue to recruit Members. Failure to recruit additional suitable Members may hinder the growth of the Group's business, financial condition and results of operation.

### **Foreign exchange and bad debt risk**

iSteelAsia.com's terms of business specify that commissions are payable in US dollars. If any customer settles an invoice in any currency other than that in which it is invoiced, the Group is exposed to the risk of a shortfall when the amount received by the Group is exchanged into the invoiced currency. The Group is also exposed to the risk of sellers failing to pay the applicable commission to the Group and of purchasers failing to complete transactions agreed through the Group's websites as the Group's membership verification process may be inadequate. Any such defaults may have an adverse impact on the growth of the Group's business, financial condition and results of operation.

### **Competition**

The Group operates in competitive markets. The Directors expect that competition for the Group's traditional trading operation will intensify in the future with the continued development of the Internet as a medium for providing value-added services. There could also be an increasing number of entrants, which may include operations owned by the Initial Management Shareholders, in the market to compete with the Group's Internet-based services for the steel industry in the future because of the relatively low start-up costs to set up a website. The Directors believe that the Group's ability to compete successfully depends upon a number of factors, including the timing of introductions of new products and services by the Group and its competitors; establishing a local presence and knowledge of the domestic steel markets in which it seeks to expand and procuring the first mover advantage in those markets; market acceptance of e-commerce as a means of doing steel trading business; the capacity, reliability and security of its websites; ease of access to and navigation of the Internet; the pricing policies of its competitors; the Group's ability to adopt industry practice; and the general economic and political trends.

In addition to competing with several e-commerce websites, the Group's Internet-based solutions and services will also experience resistance from mills and traders in the steel industry who may be unwilling or slow to adopt e-commerce as a means of doing business. Traditionally, these traders rely on relationships with their customers to conduct trading activities. These traders may have already established broad networks either through a manual system or through an EDI that would hinder the growth of, and demand for, the Group's Internet-based solutions and services. The Group is also competing against various major steel mills who are integrating EDI via the Internet with their own systems as an enhanced service for their customers or who are establishing online auction facilities.

There can be no assurance that the Group will be able to compete successfully against its current or future competitors or that competitive forces in the market will not change the industry landscape which renders the Group's business objectives impracticable or impossible.

**Management of growth**

The Directors expect the Group to experience rapid growth during the next few years, which could place a significant strain on its management and other resources. The Group's ability to compete effectively and to manage future growth, if any, will depend on its ability to continue to implement and improve operational, financial and management information systems on a timely basis and to expand, train, motivate and manage its work force. The Group's personnel systems, procedures and controls may not be adequate to support its operations. The Group believes that its future success will also depend upon its ability to attract and retain highly skilled technical, management and sales and marketing personnel. Moreover, because the development of the Group's e-commerce business requires a high level of knowledge of the steel industry, Internet development and marketing, key members of the management team must be proficient in a number of disciplines. Competition for such personnel is intense, and the failure of the Group to hire and retain talented management personnel or the loss of key employees could have an adverse effect on the Group's business, financial condition and results of operation.

**Future financing requirements**

The development of an e-business requires substantial expenditure relative to initial cash flows. The Directors expect that the Group will be dependent on its ability to raise funds in the international and domestic capital markets, bank financing and internal resources to finance all of the planned and/or intended activities of the Group. No assurance can be given that any such financing will be available. The Directors believe that the proceeds from the issue of the Placing Shares will not be sufficient to finance all of the planned and/or intended activities of the Group which are scheduled to be undertaken prior to 31st March, 2002. In particular, it is likely that the Company will issue new Shares, whether as consideration or to raise funds which could be substantial, for the purpose of acquisitions of, or investments in, Internet-related businesses. Accordingly, the issued share capital of the Company may increase within the first six months of its listing (subject to the Stock Exchange granting a waiver in respect of the requirements of Rule 17.29 and the Company obtaining the prior written consent of BNP Prime Peregrine Securities) and/or thereafter, thereby diluting the investors' percentage holding in the Company. Furthermore, the Initial Management Shareholders' percentage interests in the Company may be diluted.

**Dependence on key executives who are also key executives of other companies**

Mr. Andrew Cho Fai Yao, Ms. Miriam Che Li Yao and Ms. Lena Foo are Directors of the Company and are currently devoting substantially all of their time to the establishment and development of the Group's business. However, no assurance can be given that they will continue to devote the same amount of their time to the Group as Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao are also key executives of the VSC Group and Ms. Lena Foo is an executive director and a key executive of the iM Group.

**Certain key employees are new to the management team**

To further develop and expand the iSteelAsia.com website, the Group hired its chief operating officer, chief technology officer, chief information officer and most of the members of its senior management in the first quarter of 2000. There is no assurance that they will be able to meet the Group's requirements nor that they will be able to form a cohesive team to implement the Group's Internet business strategies. If the management team does not function efficiently, the Group's operation will be adversely affected.

### **Dependence on major customers and on the VSC Group**

For each of the two years ended 31st March, 1999 and the nine months ended 31st December, 1999, the Group's five largest customers accounted for approximately 44%, 63% and 73% respectively of the Group's turnover. Since the traditional trading operation is dependent on, among other things, the general economics of various countries, steel prices, interest rates and foreign currency exchange rates, customer demand may be irregular. As a result, revenues derived from any given customer may vary significantly from year to year. In addition, the Directors expect that the composition of the Group's revenue will be materially different in the future as its Internet-based solutions and services will be the primary focus of the Group's business. The Group anticipates that its major customers in the future may include the VSC Group and other Founding Members as users of its Internet-based solutions and services. Failure of the Group to maintain satisfactory relationships with its Founding Members could have a material adverse effect on the Group's business, financial condition and results of operation.

Historically, the Group's traditional trading operation has relied on the VSC Group to source all of its range of products. By combining the orders of the traditional trading operation with those of the VSC Group, the VSC Group is able to negotiate better prices for bulk purchasing. If this relationship were to be discontinued, the Group's traditional trading operation would have to source its products in the international market without the benefit of the VSC Group's purchasing power, which may increase the Group's cost of sales, and may have a material adverse effect on the Group's business, financial condition and results of operation.

### **Use of proceeds may deviate from the current plan**

The business plan of the Group described in the section headed "Statement of Business Objectives" is based on assumptions of future events which by their nature are subject to uncertainty and there is no assurance that the plans of the Group will materialise as intended. In the event that any part of the business plan of the Group does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or to new projects of the Group and/or to hold it as short term deposits so long as the Directors consider it to be in the best interests of the Group and its shareholders taken as a whole. Any material departure from the proposed use of proceeds stated herein will be the subject of an announcement by the Company.

### **Dividends**

For the year ended 31st March, 1999 and the nine months ended 31st December, 1999 no dividend was paid by the Group. For the year ended 31st March, 1998, a dividend of HK\$6.8 million was declared and on 31st March, 2000 the Group declared an interim dividend of HK\$9 million. All dividends were paid out of the accumulated distributable profit of a subsidiary of the Group. However, the Directors anticipate that all earnings in the foreseeable future will be retained to finance the continuing development of the Group's business. Consequently, there can be no assurance that the aforementioned dividend will be repeated or that there will be any dividend paid at all in the future.



**Year 2000 compliance issue**

The Directors note that the year 2000 compliance issue arises when computer systems are not capable of correctly processing date-related information during and after the year 2000 and may misinterpret the year “2000” as the year “1900”. Potential risks for the Group include the risk that one or more Members or value-added service providers may not be year 2000 compliant. No assurance can be given that the Group will not be adversely affected.

**RISKS RELATING TO E-COMMERCE****Rapid technological change**

Internet-based trading is characterised by rapid technological change, frequent site revamps and service enhancements and evolving industry standards. The introduction of new services embodying new technologies or the emergence of new industry standards can render existing applications obsolete and unmarketable in short periods of time. The Directors expect new services, and enhancements to existing services, to be developed and introduced by others, which will compete with the services offered by the Group. The Group’s future success will depend upon its ability to enhance its current applications and to introduce new applications that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of its Members. There can be no assurance that the Group will be successful in developing and marketing new services/applications or produce enhancements that meet these changing demands or that its new services/applications and product enhancements will adequately meet the demands of the marketplace and achieve market acceptance. If the Group is unable to develop and introduce new services/applications or service enhancements in a timely manner, or if a release of new services/applications does not achieve market acceptance, the Group’s business, financial condition and results of operation may be materially and adversely affected.

**Dependence on network infrastructure**

The success of iSteelAsia.com will depend in part upon its ability to develop and maintain its reputation for reliability over the long term and the security of its current and future network connections. The Group, through its service bureau vendor (which is currently iMerchants), must continue to expand and adapt its network infrastructure as the number of users and the amount of information they wish to transfer increases and as the requirements of its customers change. The expansion of the Group’s Internet network infrastructure will require substantial financial, operational and management resources. The Group can give no assurance that it will be able to expand or adapt its network infrastructure to meet additional demand or its customers’ changing requirements on a timely basis, at commercially reasonable costs, or at all. In addition, if demand for usage of iSteelAsia.com were to increase faster than projected, the network could experience capacity constraints, which may adversely affect the performance of the website. Failure to maintain sufficient bandwidth capacity in its network connections will cause users of the website to perceive a general slow-down of the services being offered by the website and will negatively affect the market perception of iSteelAsia.com. While the iSteelAsia.com website has not experienced significant delays or outages, any failure by the Group to expand its network infrastructure on a timely basis or adapt to either changing customer requirements or evolving industry

standards, or any capacity constraints experienced by the Group's network for any reason, could have a material adverse effect on the Group's business, financial condition and results of operation.

The Group's iSteelAsia.com operations are dependent upon its vendor's ability to protect its network infrastructure against damage from acts of nature, power failures, telecommunication failures and similar events. Physical protection of the network infrastructure is a primary responsibility of the vendor. However, because the vendor leases its lines from long-distance telecommunications companies, the Group is dependent upon these companies for physical repair and maintenance of the leased lines. Despite precautions taken by the Group, the occurrence of a natural disaster or other unanticipated problems at the vendor's network operating centre may cause interruptions in the services provided by the Group. In addition, if the Group's telecommunications providers fail to provide the data communications capacity required by the Group as a result of a natural disaster, operational disruption or for any other reason, the Group's services could be interrupted. The Group does not carry natural disaster or business interruption insurance to compensate it for losses that may occur. Any damage or failure that causes interruptions in the Group's operations could have a material adverse effect on the Group's business, financial condition and results of operation.

### **Security**

Despite the implementation of security measures, the Group's network infrastructure may be vulnerable to computer viruses, hackers or similar disruptive problems caused by their visitors or Members or other Internet users or problems at the Group's outside vendors. Inappropriate use of the Internet by third parties could also potentially jeopardise the security of confidential information stored in either the computer systems of the Group or its Members, which may cause losses to the Group or its Members or deter potential Members from subscribing to the Group's services. Such inappropriate use of the Internet may include attempting to gain unauthorised access to information or systems or bombarding a website — commonly known as "hacking." Although the Group, through its vendor, intends to continue to implement security measures, such measures could be circumvented. In particular, orchestrated attacks are difficult to defend against. Alleviating problems caused by computer viruses, orchestrated attacks or other inappropriate uses or security breaches may require interruptions, delays or cessation in service to iSteelAsia.com, which could have a material adverse effect on the Group's business, financial condition and results of operation.

Any network malfunction or security breach could cause transactions to be delayed, not completed at all, or completed with compromised security. To the extent that activities of the Group involve the storage and transmission of proprietary information, such as credit card numbers, computer viruses or security breaches could damage the Group's reputation and expose the Group to a risk of loss or litigation and possible liability. The Group does not carry "errors and omissions" or other insurance covering losses or liability caused by computer viruses or security breaches. Further, until more comprehensive security technologies are developed, the security and privacy concerns of existing and potential subscribers may inhibit the growth of the Internet service industry in general and the Group's Member base and revenues in particular.

**Government regulations**

There can be no assurance that the governmental authorities to which the Group's website and its Members are subject will not adopt new regulations addressing operations in relation to e-trading of steel which may require the Group to significantly modify its current or future solutions. The adoption of laws or regulations affecting the Group's or its Members' business could significantly reduce the Group's growth or could otherwise have a material adverse effect on the Group's business, financial condition and results of operation.

**Potential liability of information dissemination through network**

Part of the services being offered by iSteelAsia.com is the dissemination of industry news and information. Furthermore, Members may express their opinions on iSteelAsia.com. The law relating to the liability of Internet access providers for information carried on or disseminated through their websites is unsettled. Although no such claims have been asserted against Members to date, such claims could be asserted in the future, and if asserted, may be successful. Such an event may have a material adverse impact on the business, financial condition and results of operations of the Group. In addition, as the law in this area continues to develop, the potential liability against the Group for information carried on and disseminated through its website could require the Group to implement measures to reduce its exposure to such liability, which may require the expenditure of substantial resources or the discontinuation of certain service offerings. Any costs that are incurred as a result of contesting any such asserted claims or the consequent imposition of liability could materially and adversely affect the Group's business, financial condition and results of operation.

**RISKS RELATING TO THE ASIA-PACIFIC REGION****Economic and political considerations**

The Asia-Pacific region will be the primary focus of the Group's operations in the near future. In the past few years many countries in the Asia-Pacific region have experienced significant economic downturns and related difficulties. As a result of the decline in the value of the region's currencies, many Asian governments and companies have had difficulties servicing foreign currency-denominated debt and many corporate borrowers defaulted on their payments. As the economic crisis spread across the region, governments raised interest rates to defend their weakening currencies, which adversely impacted domestic growth rates. In addition, liquidity was substantially reduced as foreign investors curtailed investments in the region and domestic and foreign banks restricted additional lending activity. The currency fluctuations, as well as higher interest rates and other factors, have materially and adversely affected the economies of many countries in Asia, including the PRC. Economic downturns in Asia could materially and adversely affect the Group's business, financial condition and results of operation.

### **Legal framework with respect to the Internet in the Asia-Pacific region**

The legal framework for the Internet in the Asia-Pacific region is developing and may therefore give rise to matters which are not presently foreseeable and which may adversely affect the Group's business. It is not possible to predict the effect of further developments in the legal systems of such countries, particularly with regard to the Internet, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws.

The introduction of any new laws and regulations or changes to any existing laws and regulations that make it more restrictive for the Group to operate and/or lead to an escalation of compliance costs would have an adverse impact on its business. In particular, business structures and operating systems set up on the basis of one understanding of the legislative regime may, in the event of a misunderstanding or misinterpretation of applicable law or practice or any changes in such law or practice or a change in its interpretation or enforcement policy, result in the established business structure and/or operating system being or being considered to be in breach of law or subject to new or additional requirements. If in such event the business structure or operating system cannot be modified to conform to the then applicable law or practice or its interpretation, the Group may be unable to conduct the whole or some part of its business.

## **RISKS RELATING TO THE PRC**

### **General**

As the PRC is the largest crude steel producing and the second largest finished steel consuming nation in the world, the Group's solutions and services as an intermediary in the supply chain for the steel industry may be adversely affected by developments in the PRC from time to time. In particular, the Group's traditional trading operation may be adversely affected by developments in the PRC as most of the end-users for its products and services are located in the PRC.

### **Economic and political considerations**

The Asian economic crisis, which began in mid-1997, has had a material adverse economic impact on many Asian countries including significant depreciation in the currency, increased interest rates and declines in the market values of shares listed on stock exchanges. The effects of which have resulted in reduced economic growth, increased corporate insolvencies and the introduction of government imposed austerity measures to many Asian countries. Although the economy of the PRC is not immune from the impact of the Asian economic crisis, the PRC economy is less affected than many other Asian countries. In order to stimulate growth, the PRC government has taken various measures to stimulate domestic demand and consumption. However, there can be no assurance that the current economic developments in other Asian countries will not continue to have an adverse effect on the economy of the PRC, or that similar economic developments will not occur in the PRC in the future, which would in turn have an adverse effect on the business of the Group.

Since 1978, the PRC government has been undergoing a series of reforms. Such reforms, which are expected to continue, have resulted in significant economic growth and social progress. Many of these reforms are unprecedented or experimental and are expected to be

refined and improved upon. Other political and social factors may also lead to further readjustments and refinements of the reform measures. These adjustments and refinements may not always have a positive effect on the operations of the Group.

#### **Legal system**

Since 1979, many laws and regulations governing economic matters have been promulgated in the PRC. However, the PRC system of laws is still not comprehensively established. The interpretation of PRC laws may be influenced by policy changes reflecting domestic political and social changes. In addition, the enforcement of PRC laws may be uncertain and sporadic. It may also be difficult to enforce judgement in the PRC.

Many laws and regulations in the PRC are promulgated in broad principles and the PRC government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. The general effect of legislation since 1982, when the National People's Congress amended the constitution to authorise foreign investment, has been to enhance significantly the protection afforded to foreign investment enterprises in the PRC. However, there can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon the Group.

### **RISKS RELATING TO THE PLACING**

#### **Dilution**

The Issue Price is substantially higher than the adjusted net tangible asset value per Share, being HK\$0.10. Subscribers of Placing Shares will therefore experience immediate and substantial dilution in net tangible asset value per Share.

#### **Forward-looking statements**

Included in this prospectus are various forward-looking statements which can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “anticipate”, “estimate”, “continue”, “believe” or other similar words. These statements are forward-looking and reflect the current expectations of the Board. These statements are subject to a number of risks and uncertainties, including but not limited to, changes in the economic and political environments in the countries to which the Group offers its services to, changes in technology and changes in the Internet marketplace. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. In light of the inherent risks and uncertainties, potential investors of the Placing Shares should keep in mind that there can be no assurance that the forward-looking statements described in this prospectus will materialise.

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### **Developments in other markets**

Securities listed on the Stock Exchange have been, to varying degrees, influenced by economic and market conditions in other emerging markets and other countries. Although economic conditions vary among countries, investors' reactions to developments in one country may affect the securities of issuers in other countries, including Hong Kong. Volatility in other financial markets including the United States financial markets, may lead to increased volatility in other markets, including the Hong Kong stock market, and may adversely affect the price of the Placing Shares.

In addition, Hong Kong financial and securities markets are, to varying degrees, influenced by economic and market conditions in more industrialised countries, particularly the United States. Among other events, increases in interest rates in the United States and, more generally, events that increase the opportunity cost of investing outside the United States, may tend to reduce the attractiveness of securities investments in other countries, such as Hong Kong.

## WAIVERS FROM COMPLIANCE WITH GEM LISTING RULES AND COMPANIES ORDINANCE

For the purpose of the listing of the Shares on the GEM, the Company has sought a number of waivers from the Stock Exchange and the Securities and Futures Commission in relation to certain requirements under the GEM Listing Rules and the Companies Ordinance respectively. Details of such waivers are described below:

### MORATORIUM PERIOD — DISPOSAL OF RELEVANT SECURITIES

Rule 13.16 of the GEM Listing Rules requires every initial management shareholder of the Company (being a person who is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who is (or are) able, as a practical matter, to direct or influence the management of the Company immediately prior to the issue of this prospectus) shall undertake to the Company and the Stock Exchange that for a period (the “moratorium period”) of two years from the listing date, save as provided in Rule 13.17, it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its direct or indirect interest in the relevant securities.

Mr. Andrew Cho Fai Yao, Ms. Miriam Che Li Yao, Ms. Yao Lin Shiu Mei, Mr. Moses Kwok Tai Tsang, VSC, iMerchants Group or iMerchants (after all the Shares held by iMerchants Group are transferred to iMerchants pursuant to the iMerchants Agreement), TN Development and Huge Top are considered to be the initial management shareholders of the Company under the GEM Listing Rules and would be subject to the moratorium period of two years referred to above.

An application has been made to the Stock Exchange for:

- (i) a waiver from strict compliance with the two year moratorium period under Rule 13.16 in respect of 102,400,000 Shares held by Mr. Andrew Cho Fai Yao (*Note 2*), 61,440,000 Shares held by Ms. Yao Lin Shiu Mei, 51,200,000 Shares held by Mr. Moses Kwok Tai Tsang, 278,000,000 Shares held by VSC, 204,800,000 Shares held by iMerchants Group or 204,800,000 Shares to be held by iMerchants upon completion of the iMerchants Agreement, 245,760,000 Shares held by TN Development and 162,832,944 Shares (*Notes 1 and 2*) held by Huge Top (representing respectively approximately 7.05%, 4.23%, 3.52%, 19.15%, 14.11%, 14.11% (which is the same 14.11% held by iMerchants Group before the completion of the iMerchants Agreement), 16.93% and 11.21% of the issued share capital of the Company immediately following the listing of the Shares on GEM and taking into account the Distribution but without taking into account Shares which may be issued pursuant to the exercise of the Over-allotment Option and the BNP Prime Peregrine Option) and in respect of the Shares that may be held by Ms. Miriam Che Li Yao (*Note 2*), to the effect that such two year moratorium period be reduced to six months;

*Notes:*

- (1) As at the Latest Practicable Date, there were 340,881,846 VSC Shares in issue. On the assumption that none of the VSC Warrants and none of the VSC Exercisable Options are exercised on or before 12th April, 2000 and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution on the basis of 1,673 Shares for every 2,000 VSC Shares, Huge Top will be entitled to 162,832,944 Shares under the Distribution.

(2) As at the Latest Practicable Date, Ms. Miriam Che Li Yao was interested in 2,000,000 VSC Exercisable Options. On the assumption that none of the VSC Warrants or the VSC Exercisable Options are exercised on or before 12th April, 2000, other than the 39,124,800 VSC Warrants held by Huge Top, the 6,900,000 VSC Exercisable Options held by Mr. Andrew Cho Fai Yao and the 2,000,000 VSC Exercisable Options held by Ms. Miriam Che Li Yao, and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution on the basis of 1,466 Shares for every 2,000 VSC Shares, Huge Top, Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao will be entitled to 171,416,864 Shares, 5,060,032 Shares and 1,466,676 Shares under the Distribution.

- (ii) subject to (i) above, an additional waiver from strict compliance by TN Development with the two year moratorium period (as may be reduced pursuant to the waiver sought under (i) above) under Rule 13.16 in respect of 245,760,000 Shares held by TN Development (representing approximately 16.93% of the issued share capital of the Company immediately following the listing of the Shares on GEM but without taking into account Shares which may be issued pursuant to the exercise of the Over-allotment Option and the BNP Prime Peregrine Option) so that TN Development may enter into Revenue Option Agreements with additional Founding Members during the six month moratorium period. The Shares held by TN Development are, or are intended to be, the subject of options exercisable by Designated Employees and by Founding Members pursuant to the Share Option Agreements and the Revenue Option Agreements, respectively;
- (iii) a waiver from strict compliance by iMerchants Group with the two year moratorium period under Rule 13.16 so that iMerchants Group may, subject to fulfilment of certain conditions, transfer after completion of the Placing all of its shareholding in the Company of 204,800,000 Shares (representing approximately 14.11% of the issued share capital of the Company immediately following the listing of the Shares on GEM but without taking into account Shares which may be issued pursuant to the exercise of the Over-allotment Option and the BNP Prime Peregrine Option) to iMerchants pursuant to the iMerchants Agreement; and
- (iv) a waiver from strict compliance by VSC with the two year moratorium period under Rule 13.16 in respect of a stock borrowing arrangement entered into between BNP Prime Peregrine Securities and VSC to facilitate settlement of over-allocation in connection with the Placing pending exercise of the Over-allotment Option and/or acquisition of Shares in the secondary market.

The granting of an Over-allotment Option together with the accompanying stock borrowing arrangement is adopted by BNP Prime Peregrine Securities to facilitate the distribution of the Shares under the Placing. The waiver application has been made on the basis that (1) such stock borrowing arrangement from VSC will only be effected by BNP Prime Peregrine Securities for settlement of over-allocation in connection with the Placing; (2) the maximum number of Shares borrowed from VSC will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option; and (3) the same number of Shares will be returned to VSC or its nominees (as the case may be) no later than three business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised or (ii) the day on which the Over-allotment Option is exercised in full.



The Stock Exchange has indicated it will grant the above waivers on the condition that, in respect of the waiver referred to in paragraph (i) above, the Initial Management Shareholders are not allowed to dispose of any Relevant Securities in the second six month period after listing if such disposal would result in the group of persons constituting the Initial Management Shareholders (excluding TN Development) ceasing to have, in aggregate, control over 35% of the voting powers at general meetings of the Company.

### **CONTINUING CONNECTED TRANSACTIONS**

Details of the proposed transactions between the Company or its subsidiaries and members of the VSC Group or members of the iM Group are set out in the paragraph headed "Continuing Connected Transactions" under the section headed "Relationship with the VSC Group and the iM Group".

After the Reorganisation and upon the listing of the Shares on GEM, the agreements and arrangements between the Company or its subsidiaries and the VSC Group or the iM Group referred to above will constitute continuing connected transactions for the Company (as defined under the GEM Listing Rules).

The Directors (including the independent non-executive Directors) are of the view that such connected transactions referred to above are in the ordinary course of business of the Group, on normal commercial terms, and are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned. Certain connected transactions constitute non-exempt continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are subject to the reporting requirements set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. The Directors consider strict compliance with Rule 20.35 and Rule 20.36 of the GEM Listing Rules to be impractical and not of benefit to the Company's shareholders. As such, the Company has applied to the GEM Listing Division for a waiver from the announcement requirements as required 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 a period up to 31st March, 2003. Please refer to the section headed "Relationship with the VSC Group and the iM Group" for details of the application to the Stock Exchange for a conditional waiver in respect thereof.

After reviewing the documents and information provided by the Group and relying upon the confirmation of the Directors, the Sponsor is of the view that such connected transactions are in the ordinary course of business of the Group, on normal commercial terms and are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned.

### **FINANCIAL PERIOD REPORTED ON**

Rule 7.03(1) of the GEM Listing Rules requires that in the case of a new applicant the accountants' report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries covering at least the 2 financial years immediately preceding the issue of the listing document.

Rule 11.10 of the GEM Listing Rules requires that a new applicant must have an accountants' report prepared in accordance with Chapter 7 of the GEM Listing Rules covering at least two financial years immediately preceding the issue of the listing document.

**Under paragraph 31 of Part II of the Third Schedule to the Companies Ordinance (as amended by the Notice of Exemption dated 22nd October, 1999 issued by the Securities and Futures Commission), this prospectus is required to include a report by the auditors of the Company and its subsidiaries in respect of each of the two financial years immediately preceding the issue of this prospectus.**

**As the financial year of the Group ends on 31st March and this prospectus includes the combined results of the Group covering the two financial years ended 31st March, 1999 and 9 months ended 31st December, 1999, the Directors consider full compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and paragraph 31 of the Third Schedule of the Companies Ordinance respectively, in respect of the financial year immediately preceding the date of this prospectus ended 31st March, 2000, to be unduly burdensome. The Company has thereby applied for a waiver from strict compliance with such GEM Listing Rules from the Stock Exchange and for a waiver from strict compliance with such paragraph 31 from the Securities and Futures Commission. The Stock Exchange and the Securities and Futures Commission have granted such waivers. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31st December, 1999, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.**

## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Underwriters, any of their respective directors or any other person involved in the Placing.

### CONSENT OF THE BERMUDA MONETARY AUTHORITY

The Bermuda Monetary Authority has given its consent to the issue of the Placing Shares pursuant to the Placing as mentioned herein (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and the BNP Prime Peregrine Option), the issue of Shares pursuant to the Pre-Placing, the issue of Shares pursuant to the Reorganisation and the Capitalisation Issue, the issue of Shares upon the exercise of options granted under the Share Option Scheme and the issue of Shares pursuant to the general mandate referred to in the paragraph headed "Shareholders' resolutions of the Company" in Appendix V to this prospectus. A copy of this prospectus has also been filed with the Registrar of Companies in Bermuda. In giving such consent and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any of the statements made or opinions expressed in this prospectus. None of the Placing Shares may be offered or sold in Bermuda, by means of any document, or to any person, firm or company regarded as a resident of Bermuda for exchange control purposes.

## UNDERWRITING

### **Fully Underwritten**

This prospectus is published solely in connection with the Placing.

The Placing is fully underwritten by the Underwriters. Information about the underwriting arrangements is set out in the section headed “Underwriting” of this prospectus.

### **Issue Price**

The Placing Shares are being offered at the Issue Price.

### **The Placing Shares are to be only offered in certain jurisdictions**

Pursuant to the Underwriting Agreement, it is expected that the Underwriters or selling agents nominated by the Underwriters shall conditionally place the Placing Shares on behalf of the Company at the Issue Price with investors in Hong Kong and in certain other jurisdictions.

The Placing is subject to the conditions as stated in the paragraph “Conditions of the Placing” under the section headed “Structure of the Placing” in this prospectus.

The distribution of this prospectus and the offering or sale of the Placing Shares in certain jurisdictions is restricted by law, in particular, but without limitation, the following:

#### *United States*

The Shares have not been and will not be registered under the US Securities Act or under any securities regulatory authority of any jurisdiction of the United States and may not be offered or sold in the United States, or to, or for the benefit of, US persons except in a transaction not subject to, or in accordance with, an applicable exemption from the registration requirements of the US Securities Act. Terms used in this section have the meanings given to them by Regulation S.

Accordingly, the Placing Shares are being offered and sold by the Underwriters only (i) in the United States by the Lead Underwriter and certain other Underwriters through their respective United States broker-dealer affiliates to QIBs in accordance with Rule 144A, and (ii) outside the United States in offshore transactions pursuant to Regulation S under the US Securities Act.

In addition, until 40 days after the commencement of the offering of the Placing Shares, any offer or sale of the Placing Shares within the United States (whether as part of the Placing or not) by any dealer (whether or not participating in the Placing) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such registration requirements.

### *United Kingdom*

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Placing Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995. In addition, no person may issue or pass on to any person in the United Kingdom this prospectus or any other document received in connection with the Placing unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom such document may otherwise lawfully be issued or passed on.

### *Italy*

The Placing Shares have not been offered or sold and will not be offered or sold and offering material relating to the Placing Shares has not and will not be distributed directly or indirectly, in Italy or to a resident of Italy other than to a professional investor, as that term is defined in Article 30, second paragraph of Legislative Decree No. 58 of 24th February, 1998 (being the entities defined as qualified operators in Article 31, second paragraph of the CONSOB (Commissione Nazionale per le Società e la Borsa) Regulation No. 11522 dated 1st July, 1998) and in compliance with the procedures provided therein.

### *Singapore*

This prospectus has not been and will not be registered as a prospectus with the Registrar of Companies and Businesses in Singapore. Accordingly, this prospectus or any other offering document or other material in connection with the offer of the Placing Shares may not be issued, circulated or distributed in Singapore, either directly or indirectly, nor may any of the Placing Shares be offered for subscription or purchase, or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Placing Shares be made, either directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 106C of the Singapore Companies Act, (b) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other provision of the Singapore Companies Act.

### *Japan*

The Placing has not been and will not be registered under the Securities and Exchange Law of Japan. The Placing Shares may not be offered or sold, directly or indirectly in Japan or to, or for the benefit of any resident of Japan, except pursuant to an applicable exemption from the registration requirements of the Securities and Exchange Law of Japan and in compliance with any other applicable Japanese laws. The offer and solicitation for the Placing Shares will only be made to not more than 49 investors in Japan pursuant to Article 2, paragraph 3, item 2(B) of the Securities and Exchange Law.

Each person acquiring the Placing Shares will be required to or deemed by its acquisition of the Placing Shares to confirm that it is aware of the restrictions on offers by the Placing Shares described in this prospectus.

### **APPLICATION FOR LISTING ON GEM**

The Company has applied to the GEM Listing Committee of the Stock Exchange for listing of and permission to deal in the Shares in issue, and the Shares which are to be issued as described herein (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and the BNP Prime Peregrine Option), on the GEM.

No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and at present no such listing or permission to deal is being or proposed to be sought. The market capitalisation of the Company on the date and at the time when dealings in the Shares commence is estimated to be HK\$1,568 million based on 1,452,000,000 Shares and the Issue Price.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of its issued share capital in the hands of the public which, in the case of the Company, is not less than 15%.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are unsure about the taxation implications of the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Placing Shares, you should consult an expert.

The Company, the Directors, the Sponsor, the Underwriters and any other person involved in the Placing do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, or purchase, holding or disposal of, or dealing in or the exercise of any rights in relation to, the Placing Shares.

### **HONG KONG BRANCH REGISTER AND STAMP DUTY**

All Shares issued pursuant to applications made in the Placing will be registered on the Company's branch register of members to be maintained in Hong Kong. The Company's principal register of members is maintained by Butterfield Corporate Services Limited in Bermuda. Only Shares registered in the Company's branch register of members maintained in Hong Kong may be traded on GEM.

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

### **SHARES WILL BE ELIGIBLE FOR CCASS**

If the Stock Exchange grants the listing of and permission to deal in the Shares on GEM and the Company complies with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares

on GEM or on any other date as determined by Hongkong Clearing. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

Settlement of transactions between members of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **STRUCTURE OF THE PLACING**

Details of the structure of the Placing, including conditions, are set out in the section headed “Structure of the Placing” in this prospectus.

## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

### DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Andrew Cho Fai Yao	Flat B, 5/F The Somerset 67 Repulse Bay Road Repulse Bay Hong Kong	Chinese
Drina C. Yue	Flat B, 8/F Suncrest Tower 1 Monmouth Terrace Wanchai Hong Kong	American
Miriam Che Li Yao	16/F, 34 Belleview Drive Repulse Bay Hong Kong	Chinese
<i>Non-executive Directors</i>		
Moses Kwok Tai Tsang	House C7, Hillgrove 18 Cape Drive Chung Hom Kok Hong Kong	British
Lena Foo	10B, Hatton Place 1A Po Shan Road Hong Kong	Chinese
Daniel Takuen Shih	Unit 3909 The Atrium 88 Queensway Hong Kong	American
<i>Independent non-executive Directors</i>		
Yeung Kwok Keung	C2-3 Evergreen Villa 43 Stubbs Road Hong Kong	Chinese
Philip King Huen Ma	A1, 7/F, South Bay Garden 33 South Bay Close Hong Kong	Chinese



**PARTIES INVOLVED**

<b>Sponsor</b>	BNP Prime Peregrine Capital Limited 23rd Floor, New World Tower 16–18 Queen's Road Central Hong Kong
<b>Global Co-ordinator and Bookrunner</b>	BNP Prime Peregrine Securities Limited 23rd Floor, New World Tower 16–18 Queen's Road Central Hong Kong
<b>Lead Manager</b>	BNP Prime Peregrine Securities Limited 23rd Floor, New World Tower 16–18 Queen's Road Central Hong Kong
<b>Co-Managers</b>	ABN AMRO Rothschild 30th Floor, Edinburgh Tower The Landmark, Central Hong Kong  Asia Financial (Securities) Limited 10th Floor, Asia Financial Centre 120 Des Voeus Road Central Hong Kong  Credit Lyonnais Securities (Asia) Limited 33rd Floor, Tower 2, Lippo Centre 89 Queensway Hong Kong  Kleinwort Benson Limited 33rd Floor, Jardine House One Connaught Place Central Hong Kong  Salomon Brothers International Limited 111 Buckingham Palace Road London SW1W 0SB United Kingdom
<b>Legal Advisers to the Company</b>	<i>As to Bermuda law</i> Conyers Dill & Pearman 3408, Two Exchange Square 8 Connaught Place Central Hong Kong

	<p><i>As to Hong Kong law and United States law</i>  Baker &amp; McKenzie  14th Floor, Hutchison House  10 Harcourt Road  Central  Hong Kong</p>
<b>Legal Advisers to the Underwriters</b>	<p><i>As to Hong Kong law</i>  Johnson Stokes &amp; Master  16–19th Floors, Prince's Building  10 Chater Road  Central  Hong Kong</p> <p><i>As to United States law</i>  Kaye, Scholer, Fierman, Hays &amp; Handler, LLP  Suites 2006–2011  One International Finance Centre  1 Harbour View Street  Central  Hong Kong</p>
<b>Auditors and reporting accountants</b>	<p>Arthur Andersen &amp; Co  <i>Certified Public Accountants</i>  21st Floor, Edinburgh Tower  The Landmark  15 Queen's Road Central  Hong Kong</p>
<b>Property Valuers</b>	<p>Chesterton Petty Limited  16th Floor, CITIC Tower  1 Tim Mei Avenue  Central  Hong Kong</p>

## CORPORATE INFORMATION

<b>Registered office</b>	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
<b>Head office and principal place of business</b>	52nd Floor, The Center 99 Queen's Road Central Hong Kong
<b>Company homepage/ website</b>	<a href="http://www.iSteelAsia.com">http://www.iSteelAsia.com</a>
<b>Company secretaries</b>	Johnson, Sai Hou Ho <i>FCCA, HKSA</i> Ira Stuart Outerbridge III*
<b>Members of Audit Committee</b>	Yeung Kwok Keung Philip, King Huen Ma
<b>Qualified accountant</b>	Johnson, Sai Hou Ho <i>FCCA, HKSA</i>
<b>Compliance officer</b>	Andrew, Cho Fai Yao
<b>Authorised representatives</b>	Andrew, Cho Fai Yao Johnson, Sai Hou Ho
<b>Bermuda resident representative</b>	John Charles Ross Collis
<b>Bermuda deputy resident representative</b>	Anthony Devon Whaley
<b>Principal share registrar and transfer office in Bermuda</b>	Butterfield Corporate Services Limited 65 Front Street Hamilton Bermuda
<b>Hong Kong branch share registrar and transfer office</b>	Central Registration Hong Kong Limited 19th Floor, Hopewell Centre 183 Queen's Road East Hong Kong

\* Mr. Ira Stuart Outerbridge III will resign upon listing of the Shares on GEM

**Principal bankers**

- ABN AMRO Bank N.V.  
14th Floor, United Centre  
95 Queensway  
Hong Kong
- Banque Nationale de Paris  
6th Floor Central Tower  
28 Queen's Road Central  
Hong Kong
- Hang Seng Bank Limited  
83 Des Voeux Road Central  
Hong Kong
- The Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central  
Hong Kong

## INDUSTRY OVERVIEW

*The information provided in this section is derived from various publications. This information has not yet been prepared or independently verified by the Company, the Sponsor, the Underwriters or their respective advisers.*

### INTRODUCTION

Steel is an important raw material used throughout the world to construct and manufacture a variety of products. The principal industries in which steel is used are the construction industry, transport infrastructure such as road, bridge and rail together with the automotive, ship-building, electronic appliance and computer industries. Electronic components, industrial equipment and medical applications are also important segments of the market, particularly for specialty and stainless steels. Different grades of steel with different properties and characteristics are produced by adjusting the chemical composition and varying one or more stages of the production process. There is a large number of catalogued grades of steel ranging from basic grades such as railway tracks to sophisticated high alloy and stainless grades for specialised applications. Asia is the largest steel producing and consuming region in the world largely because the PRC, Japan and Korea are among the six largest steel producing and consuming nations in the world. However, most steel mills in Asia (other than in the PRC and India) are dependent on the import of iron ore and coal from Australia, Brazil, North America and South Africa.

### STEEL PRODUCTION

The annual production of crude steel of the major steel producing nations of the world in the four years ended 31st December, 1998 is shown below and indicates three nations from the Asia-Pacific region (the PRC, Japan and Korea) are among the six largest steel producing nations of the world.

<b>Global production of crude steel</b> (by country)	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
	(millions of tonnes)			
PRC	95.4	101.2	108.9	114.3
United States	95.2	95.5	98.5	97.7
Japan	101.6	98.8	104.5	93.5
Germany	42.1	39.8	45.0	44.7
Russia	51.6	49.3	48.4	42.5
Korea	36.8	38.9	42.6	40.0
Other	329.7	327.0	351.1	342.6
<b>Total</b>	<b>752.4</b>	<b>750.5</b>	<b>799.0</b>	<b>775.3</b>

Source: International Iron & Steel Institute

### STEEL CONSUMPTION

The annual consumption of finished steel products of the major steel consuming nations in the four years ended 31st December, 1998 is shown below and indicates five nations from the Asia-Pacific region (the PRC, Japan, Korea, India and Taiwan) are among the seven largest steel consuming nations of the world.

**Global consumption of finished steel products<sup>(1)</sup>**  
*(by country)*

	1995	1996	1997	1998
	<i>(millions of tonnes)</i>			
United States	99.4	106.7	113.1	119.1
PRC	87.4	97.3	103.5	113.9
Japan	80.0	80.6	82.1	70.3
Korea	35.5	37.6	38.1	25.1
Germany	35.1	31.6	34.0	34.3
India	22.2	22.8	22.9	23.5
Taiwan	20.1	18.0	21.0	20.2
Other	275.7	266.8	283.8	285.2
	655.4	661.4	698.5	691.6

(1) The above figures are apparent steel consumption as they are derived from various sources.

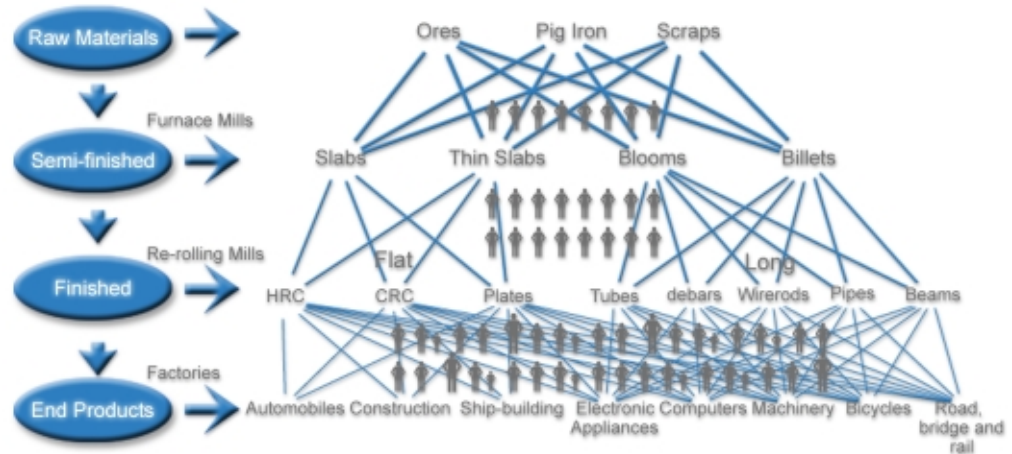
Source: International Iron & Steel Institute

## SUPPLY CHAIN

The supply chain for the steel industry involves a number of major parties including:

- *mining companies* which provide the basic raw materials in steel making, namely iron ore and coking coal;
- *steel mills* which produce pig iron as well as low margin, semi-finished products and higher margin, finished steel products;
- *traders* which buy and sell such products;
- *transportation companies* which ship, truck and deliver raw materials, semi-finished and finished products; and
- *end users* which utilise finished steel products in their manufacturing processes.

A complex web of trading relationships has evolved between various parties in the supply chain. These various relationships are illustrated by the connected lines in the diagram below:



Source: iSteelAsia.com Limited

Notes:

- (1) HRC and CRC are abbreviations for hot rolled coils and cold rolled coils respectively.
- (2) The above diagram is for illustrative purposes only.

As the supply chain network in the steel industry is characterised by fragmentation, geographical separation, bulk transportation and an inefficient flow of information in what is a dynamic market, there are a number of constraints and inefficiencies within the supply chain, which are summarised below:

*Negotiations to complete a deal are labour intensive.* Negotiations and transactions are largely based on telephone conversations, faxes and telexes. Extensive human resources are required to support this labour-intensive process. One of the objectives of the industry is to minimise such manpower resources without sacrificing service quality.

*Smaller players find it difficult to reduce supply chain costs.* Unlike the major steel companies, smaller players are not able to benefit from volume discounts from third parties in the supply chain. The interests of smaller players could be better served if they collaborated to negotiate bulk discount deals from surveyors, banks, transportation and insurance companies. The Directors are not aware of any formal mechanism for any such collaboration.

*Unnecessarily large inventory levels are being maintained.* The maintenance of a large inventory as a precaution for unanticipated orders is inefficient as it ties up working capital. Participants of the steel industry tend to maintain unnecessarily large inventory levels because they are unable to ascertain market demand. They lack the necessary information to make an informed decision in relation to their production schedules and purchase orders.

*Lack of information transparency in Asia.* Relative to the amount of global steel trade which involves Asia, Asia's coverage by many international steel journals, magazines and content providers is low owing to the diversity of languages and countries in Asia. Consequently, the flow of information to and from Asia is interrupted and cross-border transactions involving Asia are impeded.

*Transportation logistics.* The supply chains of Asia often spread across many countries with disparate currencies, laws and languages. Most sales of steel products involve complex transportation and storage logistics as there are a large number of players handling such logistics. Buyers devote a large amount of time in contacting various parties to ascertain shipping schedules, available space and prices.

*Impossible to communicate with all potential trading partners.* Each steel industry player is unable to get in contact with all potential counterparties before concluding a deal. Unlike the major steel companies, with whom trading partners may prefer to negotiate directly to achieve better terms, smaller players often rely on traders to overcome inefficiencies in the flow of information about the identity of potential buyers and sellers. Even with such traders, it may not be possible to achieve the market price because the realised price will not reflect the full extent of demand for, or as the case may be, supply of, that product. This phenomenon is more apparent in cross border steel trading activities than in domestic steel markets.

*Surplus stock cannot be disposed of efficiently.* Stock may become surplus to requirements for a variety of reasons such as a sudden change in prices, import duties or the financial status of buyers or sellers along the supply chain. In addition, steel mills accumulate over-rolled and odd-lot sized products and wish to promptly dispose of such surplus stock. However, inefficiencies in the flow of information about the identity of potential buyers results in surplus stock being sold at prices less than what could be realised in a market auction.

Given the number of constraints and inefficiencies in the supply chain, the Internet has been identified as a means of improving the efficiency of the supply chain in the steel business.

### **B2B E-COMMERCE**

The Internet was conceived by the Advanced Research Projects Agency ("ARPA") of the United States government in 1969 and was first known as the ARPANet. The original aim was to create a network that would allow users of a research computer at one university to be able to "talk to" research computers at other universities. A side benefit of ARPANet's design was that, because messages could be routed or rerouted in more than one direction, the network could continue to function even if parts of it were destroyed in the event of a military attack or other disaster.



Today, the Internet is a global network of interconnected computer networks that is emerging as a mass communications and commerce medium, enabling millions of people world-wide to share information, create communities among businesses and persons with similar interests and conduct business electronically. The most widely used part of the Internet is the World Wide Web ("WWW" or called the "Web"). Using the Web, individuals as well as enterprises can display information for people having access to the Internet to view. In addition, websites can be linked via hypertext to other sites that might be of interest to viewers.

The increased popularity and use of the Internet has allowed enterprises to conduct business with other enterprises or consumers through the Internet. The conduct of commerce over the Internet between business enterprises is generally referred to as B2B e-commerce.

E-commerce websites can be either vertical or horizontal sites. A vertical site targets a particular industry whereas horizontal sites cover a broad spectrum of industries and products. Various aspects of a vertical site are described below.

*Operating a vertical site demands expertise.* Dedicated human resources with industry expertise are required to realise the business potential of a vertical site. The typical founders of vertical sites have significant industry experience. They tend to know their industry well and can offer solutions to address the particular needs of that industry.

*Minimal barriers to entry.* As there are minimal barriers to the establishment of a vertical site, it is vital for the operator of a vertical site to be the first mover and to possess management hustle to capture the business of key players in that particular industry.

*The spiral effect.* As a vertical site begins to attract the attention and then the business of key participants in its respective industry segment, it may be able to feature a broader range of merchandise. As the vertical site then enhances its content, its transaction volume tends to increase. This leads to increased user participation, which in turn, leads to increased suppliers. The spiral effect creates its own inertia.

*Vertical sites attract a narrower audience.* As a vertical site is more focused and tends to foster a community, it attracts users who keep returning. Consequently, users of vertical sites are valuable as they are more likely to be genuine buyers and sellers. Moreover, industry participants are willing to pay for advertisements to be placed on a vertical site.

*Vertical sites are less diversified.* Diversified horizontal sites reduce risk and, if the model is scalable, duplicate opportunity. However, horizontal sites encounter the challenge of providing enormous amounts of compelling content, products and services to satisfy the needs and interests of their broad base of users.

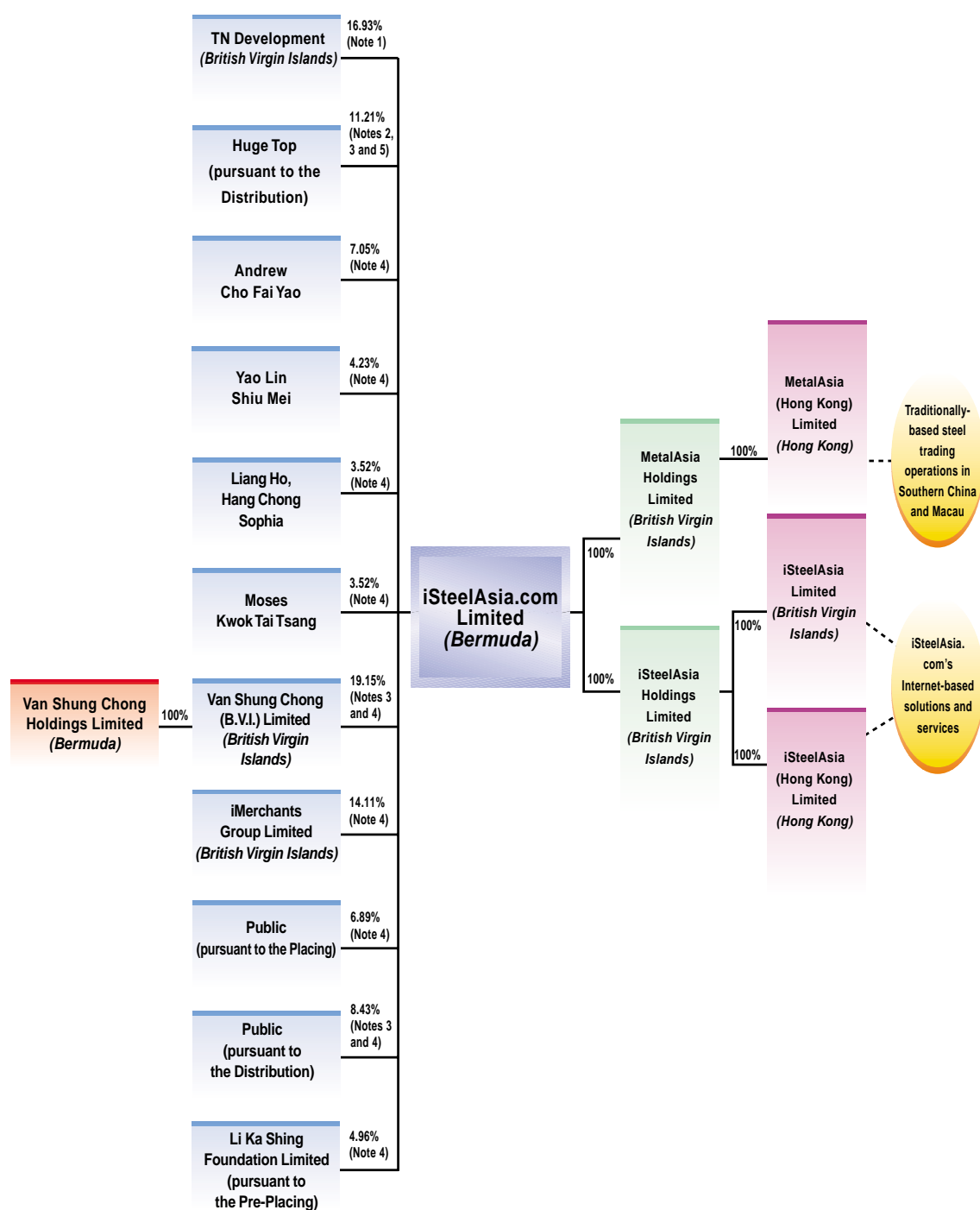
## GENERAL OVERVIEW OF THE GROUP

### INTRODUCTION

The Group is principally engaged in the provision of trading and other value-added services for participants in the supply chain of the steel industry. The Group's traditional steel trading operation originated in 1994 by the VSC Group. The VSC Group is the largest shareholder of the Company. Historically, the Group has sourced steel products and arranged value-added services for its customers through telephone calls, facsimile transmissions and personal visits. Value-added services include assisting customers with inventory management and logistic arrangements. As the industry becomes increasingly competitive, many competitors are beginning to adopt the latest technology to increase their productivity and profits. Against this background, the iSteelAsia.com website was launched in December 1999. The iSteelAsia.com website provides an Internet-based platform as an additional means for buyers to source steel products and sellers to sell steel products with online access to a range of value-added information and services such as the procurement of trade finance against which the steel products are shipped and relevant information on the steel industry. On 10th February, 2000, the Company was incorporated with the intention of taking over the traditional trading operation of the VSC Group and the operation of the iSteelAsia.com website. All of the Company's services, including those of its subsidiaries, are focused on serving customers in the steel industry.

## CORPORATE STRUCTURE

The following chart sets out a simplified corporate structure of the Company immediately following completion of the Pre-Placing, Placing and the Capitalisation Issue (assuming the Over-allotment Option and the BNP Prime Peregrine Option are not exercised and that none of the VSC Warrants and none of the VSC Exercisable Options are exercised on or before 12th April, 2000):



## GENERAL OVERVIEW OF THE GROUP

*Notes:*

- (1) The issued share capital of TN Development is owned as to 10% by Mr. Andrew Cho Fai Yao, 6% by Ms. Yao Lin Shiu Mei, 5% by Ms. Liang Ho, Hang Chong Sophia, 5% by Mr. Moses Kwok Tai Tsang, 54% by Van Shung Chong (B.V.I.) Limited and 20% by iMerchants Group. The Shares held by TN Development 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 (9.88%) and the Revenue Option Agreements (7.05%), respectively. If the respective options are not exercised during the prescribed periods, the Directors believe that TN Development may extend the prescribed exercise periods.
- (2) The board of directors of Huge Top comprises Mr. Andrew Cho Fai Yao, who is the chairman of VSC and Ms. Miriam Che Li Yao who is an executive director of VSC. Mr. Andrew Cho Fai Yao directly or indirectly owns more than one-third of the issued share capital of Huge Top.
- (3) As at the Latest Practicable Date, there were 340,881,846 VSC Shares in issue. On the assumption that none of the VSC Warrants and none of the VSC Exercisable Options are exercised on or before 12th April, 2000 and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution on the basis of 1,673 Shares for every 2,000 VSC Shares, Huge Top will be entitled to 162,832,944 Shares under the Distribution. The commencement of dealings in the Shares allotted pursuant to the Distribution will take place at the same time as the commencement of dealings in the Placing Shares.
- (4) The percentages do not take into account the exercise of the BNP Prime Peregrine Option and the Over-allotment Option nor the exercise of the Employee Options or the Revenue Options. Upon the exercise of the BNP Prime Peregrine Option and the Over-allotment Option in full but without taking account of any Shares to be issued upon the exercise of options to be granted under the Share Option Scheme or which may be issued or repurchased by the Company pursuant to the general issue and repurchase mandates granted to the Directors as described in Appendix V and on the assumption that none of the VSC Warrants and none of the VSC Exercisable Options are exercised on or before 12th April, 2000, and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution, the percentage shareholdings of TN Development, Huge Top, Mr. Andrew Cho Fai Yao, Ms. Yao Lin Shiu Mei (the mother of Andrew Cho Fai Yao), Ms. Liang Ho, Hang Chong Sophia (who is an acquaintance of the Yao family), Mr. Moses Kwok Tai Tsang, Van Shung Chong (B.V.I.) Limited, iMerchants Group, the public and the Li Ka Shing Foundation will be approximately 16.73%, 11.08%, 6.97%, 4.18%, 3.48%, 3.48%, 18.92%, 13.94%, 16.32% and 4.90% respectively of the enlarged issued share capital of the Company.

Upon the exercise of the BNP Prime Peregrine Option and the Over-allotment Option in full but without taking account of any Shares to be issued upon the exercise of options to be granted under the Share Option Scheme or which may be issued or repurchased by the Company pursuant to the general issue and repurchase mandates granted to the Directors as described in Appendix V and on the assumption that none of the VSC Warrants or the VSC Exercisable Options, other than the 39,124,800 VSC Warrants held by Huge Top, the 6,900,000 VSC Exercisable Options are exercised on or before 12th April, 2000, held by Mr Andrew Cho Fai Yao and the 2,000,000 VSC Exercisable Options held by Ms. Miriam Che Li Yao, the percentage shareholdings of TN Development, Huge Top, Mr. Andrew Cho Fai Yao, Ms. Yao Lin Shiu Mei (the mother of Mr. Andrew Cho Fai Yao), Ms. Liang Ho, Hang Chong Sophia (who is an acquaintance of the Yao family), Mr. Moses Kwok Tai Tsang, Van Shung Chong (B.V.I.) Limited, iMerchants Group, the public, the Li Ka Shing Foundation and Ms. Miriam Che Li Yao will be approximately 16.73%, 11.66%, 7.31%, 4.18%, 3.48%, 3.48%, 18.92%, 13.94%, 15.30%, 4.90% and 0.10% respectively of the enlarged issued share capital of the Company.

- (5) Mr. Andrew Cho Fai Yao, Ms. Miriam Che Li Yao and Ms. Yao Lin Shiu Mei are beneficially interested in 50%, 5% and 10% of the issued share capital of Huge Top. The balance of the issued share capital of Huge Top is owned by the family members of Mr. Andrew Cho Fai Yao and a director of VSC and one of his family members.

## HISTORY AND DEVELOPMENT

The Group originated as part of the operations of the VSC Group. The VSC Group was founded by VSC's honorary chairman, Mr. Yao Shu Sheng in 1961.

In February 1994, the shares of VSC were listed on the Stock Exchange. In the same year, the VSC Group began to realise the potential benefits from the growth in demand for steel and started its traditional trading operation to supply both construction and industrial steel products in Southern China.

In April 1997, the Group's traditional trading operation was established by the VSC Group as a separate division from the VSC Group's other principal business of sourcing and stockpiling construction and industrial materials for property developers and contractors in Hong Kong. The trading operation's customers included end-users, distributors and stockists in Southern China. A marketing team led by a director was formed to carry out marketing activities by personal calls and factory visits. During the first quarter of 1998, the Group's traditional trading division started to offer logistic arrangements for its customers and began to assist them with their custom declarations and transportation including loading and unloading, trucking and shipping services.

In June 1999, Mr. Andrew Cho Fai Yao, Chairman of the Company and the senior management of the iMerchants Group conceived iSteelAsia.com, an Internet-based vertical portal to address the inefficiencies and problems inherent in the supply chain of the steel industry. They believed it would expand the marketplace for both buyers and sellers by eliminating geographic barriers, foster more transparency leading to truer market prices, reduce transaction costs for both buyers and sellers, drive a more cohesive community by creating interaction between buyers and sellers, and provide a centrally accessible standard format for trading.

The four driving forces for the creation of iSteelAsia.com were first, the global steel industry was fragmented — information flows were inefficient and substantial transaction costs were being incurred; secondly, the global steel industry was suffering from excess production capacity — steel prices were depressed, margins were being squeezed and steel mills and traders were searching for ways to increase their respective revenue and to reduce costs and for a more responsive means of accessing information in the market; thirdly, the Internet boom and e-commerce trend — the ever increasing acceptance of the Internet to facilitate B2B transactions had a potential application to the steel industry; and fourthly, existing portals and vertical sites were inadequate — other sites were found to be too general, or either focused on steel trade or on the dissemination of information, but not on both, or focused on the North American or European steel markets but not focused on the Asia-Pacific region which includes some of the largest steel producing and consuming nations in the world.

In mid-October 1999, a working team well-versed in the operation of the steel industry was assembled by the VSC Group and, together with a technical team from iMerchants, commenced work on building, customerising and implementing the system architecture and solutions for iSteelAsia.com.

In December 1999, iSteelAsia.com was formally launched as the first vertical portal for the steel industry with an Asia-Pacific focus. A number of well-established enterprises in the steel industry expressed their interest in becoming Founding Members.

In January 2000, the first online steel trade was conducted on iSteelAsia.com. A site revamp was conducted in January 2000.

The Company was incorporated on 10th February, 2000 under the laws of Bermuda.

On 2nd March, 2000, the Group entered into a memorandum of understanding with SK Global Co., Ltd. one of the largest business conglomerates in Korea, to develop a country specific website in Korea together with TriGem Computer Inc., Korea Thrunet Co., Ltd. and e-Capital Co., Ltd.

On 6th March, 2000, the Group entered into a memorandum of understanding with Steelscreen.com, a European-focused, online trading platform for steel and aluminium products. The purpose was to provide a basis for co-operation in the future to explore ways to jointly develop software and hardware applications, cross-refer customers and transactions and to provide each other's customers with access to the other's value-added services.

### ACTIVE BUSINESS PURSUITS

Throughout the period of 36 months immediately preceding the date of this prospectus, the Group's focused line of business has been providing trading and other value-added services in the supply chain for the steel industry. Historically, the Group has sourced steel products and arranged value-added services for its customers through telephone calls, facsimile transmissions and personal visits. As the industry becomes increasingly competitive, many competitors are beginning to adopt the latest technology to increase their productivity and profit. Against this background, the iSteelAsia.com website was launched in December 1999.

The following is a summary of the Group's active business pursuits for each of the three years ended 31st March, 2000.

#### **For the fiscal year ended 31st March, 1998**

*Business objectives/strategies:* The trading operation was established as a separate division by the VSC Group to service its trading customers. As the market became increasingly competitive, the trading operation began to explore additional value-added services to be offered to its customers such as logistic arrangements. Furthermore, the marketing objective of the Group began to concentrate on securing higher margin clients in Southern China. The marketing efforts of the Group mostly consisted of personal call and factory visits.

*Range of services offered:* Sourcing construction products and industrial products through telephone calls, facsimile transmissions and personal visits.

*Target markets:* End-users, distributors and stockists based in Southern China and Macau.

*Employees:* The trading operation had a total of two full time employees, being one marketing employee and one support staff, and three part time employees, being one director, one manager and one support staff.

### **For the fiscal year ended 31st March, 1999**

*Business objectives/strategies:* Steel prices dropped substantially during the year ended 31st March, 1999 as excessive supply from steel mills in Korea, Malaysia, Indonesia and Thailand, which were suffering from over-capacity and deflation, saturated the steel market. Decreases in steel prices for industrial steel products were more apparent than the fall in price of construction steel products since industrial steel products are generally more expensive. The trading operation thus adjusted its marketing focus and aimed to sell less industrial steel in view of the sharp decline in price. Instead, marketing efforts were devoted to increasing sales of construction steel. The trading operation was able to maintain competitive prices for its construction steel products by benefiting from the bulk purchasing power of the VSC Group.

*Range of services offered:* Sourcing construction steel products such as rebars, H-piles and wire rods and industrial steel products such as steel coils and arranging value-added services for its customers through telephone calls, facsimile transmission and personal visits.

*Target markets:* End-users, distributors and stockists based in Southern China and Macau.

*Employees:* The trading operation had a total of three full time employees, being two marketing employees and one support staff, and three part time employees, being one director, one manager and one support staff.

### **For the fiscal year ended 31st March, 2000**

*Business objective/strategy:* The Group aimed to increase its market share in Southern China by providing more valued-added services such as assisting some of its customer's custom declaration teams and providing logistical support services to expedite the delivery process and to expand and diversify its customer base from largely end-users to include more distributors and stockists. The Group's principal objective was to achieve the first mover advantage as the first steel vertical portal to be launched with an Asian-Pacific focus, to create brand name awareness through promotional activities and establish strategic alliances with various value-added information and service providers including content providers such as Reuters, banking service providers such as ABN AMRO Bank, third party surveyors such as SGS Mineral Services of Switzerland and Inspectorate and insurance brokers and companies such as Houlder Insurance Brokers (Far East) Limited and Federal Insurance Company, a member of the Chubb group of insurance companies respectively.

*Range of services offered:* Sourcing construction steel products such as rebars, H-piles and wire rods and industrial steel products such as steel coils and arranging value-added services for its customers through telephone calls, facsimile transmission and personal visits. Since the launch of the iSteelAsia.com website in December 1999, the Group has provided an Internet-based platform for buyers to source steel products and sellers to sell

steel products with online access to a range of value-added services such as the procurement of trade finance against which the steel products are shipped and relevant information on the steel industry.

*Target markets:* The traditional trading operation targeted PRC and Macau customers with representative offices or agents in Hong Kong. The initial target markets for iSteelAsia.com were Hong Kong and the PRC. Negotiations with joint venture partners in Korea began and a temporary office in Seoul was opened in February 2000.

*Employees:* Significant efforts were used to recruit suitable candidates to join the Group's senior management team and technical team.

### STRENGTHS

The Directors believe that the competitive strengths of the Group are as follows:

#### **In-depth knowledge of the steel industry**

The Group's management team possesses extensive knowledge of, and contacts in, the steel industry especially in respect of the Asia-Pacific region, the largest steel producing and consuming region in the world. The Directors believe these personnel are invaluable in assisting the Group to formulate and implement its strategies and to expand its business in the future. In particular, the Group's chairman and an executive director are also the chairman and an executive director respectively of the VSC Group which has had more than 30 years of experience in the steel industry. Furthermore, the Directors believe that the market reputation of the Group's largest shareholder, VSC, will provide additional business opportunities to the Group.

#### **First mover advantage with respect to the online trading platform**

Prior to the launch of the iSteelAsia.com website, the steel industry lacked an Asia Pacific focused online trading platform for steel products. Having obtained prominence and momentum from establishing the first Asia-Pacific focused, bilingual (English and Chinese) vertical portal for the steel industry, the Directors believe that the Group is well positioned to take advantage of its niche in the Asia-Pacific region which is the largest steel producing and consuming region in the world.

#### **Established Founding Members**

Established steel mills, traders, processing centres and end-users have been identified as potential Founding Members. The Directors believe that the reputation and leading industry standings of the Founding Members will provide liquidity, promote the success of iSteelAsia.com and will encourage other participants in the industry to become Corporate Members.

#### **Comprehensive website**

The Directors believe as more value-added services become available, iSteelAsia.com can provide a one-stop solution for steel mills, traders, processing centres and end-users. In addition to English, content is readable in simplified Chinese characters and there are also plans to translate content into the Japanese and Korean languages, which the Directors believe will be welcomed by many industry participants operating in the Asia-Pacific region.



## STRATEGIES

The Directors have identified the following business strategies:

### **Emphasise customer relationship management**

As an intermediary in the supply chain for the steel industry, the provision of quality services to facilitate the sourcing and procurement of steel products amongst its customers is the essence of the Group's business. Accordingly, the Group has prioritised customer relationship management as its overriding objective. The Directors believe in the importance of understanding the customer's needs and of devising solutions and facilitating access to services to meet those needs. To further expand the operation of the Group, branch offices are to be established and local expertise is to be recruited to build on customer relationships with steel mills, traders, processing centres and end-users in the area. A customer relationship management team is to be formed to serve Members and to identify their needs. An international management consultant has been engaged to advise the Group in relation to, among other things, customer relationship management for the steel industry.

### **Build a strong brand name**

The Group will continue to build a strong brand name by promoting its services through customer focused initiatives. The traditional trading operation will work closely with its customers to provide the specialised services and solutions they demand. Furthermore, the Group will continue to encourage its existing customers to utilise the iSteelAsia.com trading platform to conduct their steel trading activities. iSteelAsia.com is being marketed at roadshows, presentations and in the media as a creditable, reliable, secure and neutral marketplace. Established steel industry enterprises are being invited to become Founding Members to build a strong brand name. In addition, the Group intends to engage Scient to assist iSteelAsia.com to develop its e-business.

### **Forge relationships with strategic partners to expand value-added services**

The Directors intend to enrich the content of iSteelAsia.com by forming alliances with quality content providers and sourcing research reports from steel industry analysts. Furthermore, additional value-added services, including the provision of payment status tracking services, online B2B banking facilities, shipping information and shipment booking, third party surveying services, cargo insurance and logistic support services may be offered through the iSteelAsia.com website. The Directors also intend to enhance the user interfaces to improve process efficiencies and reduce the costs of manual order processing.

### **Establish country specific websites for Asia's domestic steel markets**

The Directors intend to leverage off the achievement of iSteelAsia.com of being the first Asia-Pacific focused vertical portal to be launched for the steel industry by adapting its concept and technology to countries in the Asia-Pacific region to establish country specific websites which cater for domestic steel trade. The Group's strategy is to establish joint ventures with local partners to develop and operate such sites and to seek an active management role in such joint ventures.

## TRADITIONAL TRADING OPERATION

The trading operation was originally commenced by the VSC Group in 1994 in response to the establishment in the province of Guangdong, the PRC of a large number of manufacturers of consumer steel products such as computer casings, white goods such

as refrigerators and washing machines and electronic appliances. This business supplies both construction steel and industrial steel products to customers for use primarily in Southern China. Steel products are usually classified as either long products (construction steel) or flat products (industrial steel). Long products such as rebars, H-piles, pipe piles, sheet piles are mainly for construction uses. Rebars are bars or rods of steel made to various specifications in respect of their chemical compositions, dimensions and mechanical properties. H-piles are mostly used in foundation work and are essential components used by the construction industry for the reinforcement of concrete. Flat products like steel coils with cold-rolled, hot dipped galvanised and electric galvanised products are mainly for industrial uses in the manufacture of computer casings, white goods and electronic appliances.

A breakdown of the Group's turnover of construction steel and industrial steel products for the Relevant Period is set out below:

	Year ended 31st March,		Nine months ended
	1998	1999	31st December,
	(HK\$'000)	(HK\$'000)	1999
			(HK\$'000)
Construction steel	31,713	75,080	68,109
Industrial steel <sup>(1)</sup>	70,609	40,571	59,987
	102,322	115,651	128,096

Note:

- (1) The turnover for industrial steel products includes commissions earned by the Group for the provision of procurement services to the VSC Group. For more information, see the section headed "Relationship with the VSC Group and the iM Group".

Comparing the year ended 31st March, 1999 with the year ended 31st March, 1998, sales revenue from construction steel products more than doubled and sales revenue from industrial steel products almost halved. These changes were primarily attributable to the following reasons. Steel prices dropped substantially during the year ended 31st March, 1999 as excessive supply from steel mills in Korea, Malaysia, Indonesia and Thailand, which were suffering from over-capacity and deflation, saturated the steel market. Decreases in steel prices for industrial steel products were more apparent than the fall in price of construction steel products since industrial steel products are generally more expensive. The trading operation thus adjusted its marketing focus and aimed to sell less industrial steel in view of the sharp decline in price. Instead, marketing efforts were devoted to increasing sales of construction steel. The trading operation was able to maintain competitive prices for its construction steel products by benefiting from the bulk purchasing power of the VSC Group. During the nine months ended 31st December, 1999, steel prices gradually

recovered and the trading operation managed to further develop its customer base and secure more sales of both construction steel and industrial steel products. The table below sets out a breakdown by tonnes sold of construction steel and industrial steel products for the Relevant Period:

	Year ended 31st March, 1998                      1999		Nine months ended 31st December, 1999
	<i>by number of tonnes sold</i>		
Construction steel	11,989	37,569	34,389
Industrial steel	16,207	11,535	19,261
	28,196	49,104	53,650

All of the Group's products are purchased from the VSC Group who, in turn, sources them from steel mills globally including in Korea, Japan, Taiwan and Thailand as well as the PRC. All of the Group's purchases were in Hong Kong dollars with general credit terms of one to two months provided by the VSC Group. The Group is able to benefit from the VSC Group's purchasing power and from only paying the VSC Group at cost (including, without limitation, transportation and warehousing costs incurred in respect of such supply). This arrangement is mutually beneficial as it enables the VSC Group to also achieve lower prices for its own purchases. The Group's trading operation assists with the logistics of packing, loading, unloading, trucking and the shipping of goods from Hong Kong to end-users in the PRC as it has now acquired several years of logistics experience. Another value-added service is assisting customers to complete their custom declarations. The Group's regular customers include factories, project based companies and stockists in Southern China and Macau together with their Hong Kong based purchasing affiliates. The Group's sales are denominated in Hong Kong dollars, US dollars and Renminbi. There has been no sales return and bad debt write-off during the Relevant Period. A provision for bad and doubtful debts of approximately HK\$1.5 million was provided for several slow-moving outstanding debts during the nine months ended 31st December, 1999.

In the Relevant Period, the Group's largest and only supplier was the VSC Group. In the years ended 31st March, 1998 and 1999 and in the nine months ended 31st December, 1999, the steel products purchased by the VSC Group for on-sale to the Group accounted for approximately 8%, 11% and 15% of the VSC Group's total purchases of steel products. The Group's largest customer, which, in each case, was an independent third party, in the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999, accounted for approximately 15%, 24% and 32% respectively of the Group's turnover. For the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999, the Group's five largest customers, all of which were independent third parties, accounted for approximately 44%, 63% and 73% respectively of the Group's turnover. None of the Directors of the Company, their associates or any shareholders (which to the knowledge of the Directors of the Company owned more than 5% of the Company's share capital) had a beneficial interest in the five largest customers of the Group.

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

### iSTEELASIA.COM — ONLINE STEEL TRADING PLATFORM

The online steel trading platform offers various core services and value-added services which are similar in functionality to those offered by the traditional steel trading operation, but which cannot be matched by the traditional steel trading operation in terms of the efficiency with which they are delivered by the online steel trading platform.

#### Core Services

The four core services available on iSteelAsia.com are *Online Procurement*, *Online Auction*, *Industry Info* and *The Steel Talk*, all of which are more fully described below. Those services enable iSteelAsia.com to facilitate commerce, display focused content with a comprehensive and updated news archive and foster a community spirit and stickiness among Members. Online Procurement and Online Auction enable online trading transactions in a wide range of steel products by matching buyers and sellers in an online trading environment. The identity of each party is not disclosed to the other party until the transaction is agreed. As at the Latest Practicable Date, a total of 11 transactions amounting to approximately US\$33 million and 137,000 tonnes of steel products had been agreed through *Online Procurement* and *Online Auction*.

*Online Procurement.* This service enables a Corporate Member to effect an online purchase of the products required in three steps. The buy side refers to companies intending to purchase products. The sell side refers to companies selling into the procurement process of the buy side companies.

- Posting a purchase request (the buy side)
  - the buyer specifies details such as product category, description, quantity and close bid date and may add any additional terms and conditions
  - each qualifying Member will receive an e-mail invitation to offer a quote
- Offering a quote (the sell side)
  - the seller can check the details of the invited request
  - the seller offers a quote by submitting the price, quantity and validation period and may add any additional terms and conditions
  - any discrepancy between the offer and the request can be specified

- Negotiating and closing the deal
  - all quotes will be immediately transmitted to the buyer's response list
  - the buyer can choose whether to accept, reject or negotiate each quote
  - sellers will be notified by e-mail if their quote is rejected or is required to be negotiated
  - sellers will only be identified when their quote is accepted and the identity of each party will be disclosed to each other by iSteelAsia.com; and the seller will be obliged to pay a commission currently ranging from 0.10% to 1.00% of the agreed price upon the acceptance of the quote irrespective of whether or not the transaction is ultimately completed

*Online Auction.* This service enables a Corporate Member to effect an online auction of its products in three steps.

- Posting a product for auction (the sell side)
  - the seller specifies details such as product category, product description, quantity, auction type, duration and currency
  - the seller may also specify the required location and add any additional terms and conditions
  - each qualified Member will receive an e-mail invitation to bid
- Specifying a bid (the buy side)
  - the buyer can check the particulars of the auction
  - the buyer specifies the bid price and quantity and the amendments (if any) to the proposed terms and conditions
  - any discrepancy between the offer and the bid can be specified
- Accepting or rejecting a bid is at the discretion of the seller
  - unlike a conventional auction, the winning bid does not necessarily have to be the highest bid as the seller is entitled to accept or reject each bid in its absolute discretion
  - buyers will be notified when their bid is accepted and the identity of each party will be disclosed to each other by iSteelAsia.com; the seller will be obliged to pay a commission currently ranging from 0.15% to 1.50% of the agreed price upon the acceptance of the bid, irrespective of whether or not the transaction is ultimately completed

*Industry Info.* This service has been designed to enable Members and visitors to access a comprehensive array of informative sites in five categories:

- Industry News
  - English and Chinese language news service which has the capability to extend beyond steel industry news to equity news, foreign-exchange, country reports, international commodities news, shipping reports, bunker fuel reports and other regional financial news when available from content providers.
- Hyperlinks Library
  - web links to major steel mills, associations and institutes, publications and shipping management companies
- Industry Calendar
  - highlights major upcoming industry events, conferences and seminars
- Industry Reports
  - has the capability to include analyses from consulting firms, extracts from metal magazines and press interviews with leaders in the steel industry
- Industry Standards
  - a summary of steel production standards in different countries

*The Steel Talk.* Members can express their opinions, share their ideas and chat with other Members on topical subjects in the steel industry which is intended to facilitate and enhance communication between Members.

### **Value-added services**

The Directors believe that the Group can enhance its role as an intermediary in the steel supply chain by providing referrals to value-added services such as customs clearance, surveying, financial, freight and insurance services to assist customers to settle trades. The online steel trading platform provides online access and referrals to value-added service providers which are similar to those referrals which may be made by the traditional trading operation but unmatched in terms of efficiency and price.

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

- third party surveyors
- banks

- shipping
- insurance companies
- content providers

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

*Banks.* Sellers customarily require buyers to procure trade finance against which the goods are shipped. The Group is working with ABN AMRO Bank as a value-added service provider to develop arrangements pursuant to which integrated services will be available. Settlement options would involve the value-added service provider acting as the buyer's bank to open letters of credit or execute payment orders and acting as the seller's receiving bank. System integration would enable online reporting of the settlement status of each transaction and online selection of settlement and payment options.

*Shipping.* Depending on whether a transaction is free on board or cost and freight, the buyer or, as the case may be, the seller, has to arrange shipping. The party responsible currently has to fax or telephone as many shipping companies in the Asia-Pacific region as possible. The Group is planning to enter into arrangements with shipping companies pursuant to offer Corporate and Founding Members an online shipping schedule and booking facility.

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

*Content providers.* Steel industry participants are interested in up to the minute news and information which has an impact on the steel industry. The Group has entered into an agreement with Reuters to provide information for the iSteelAsia.com website for two years which expires in the first quarter of 2002. The Directors are also planning to enter into further arrangements with major steel magazines in the region and steel industry analysts to enrich the content of Industry Info.

## MEMBERSHIP

Users of iSteelAsia.com are classified as either visitors, Individual Members, Corporate Members or Founding Members. Membership is free. As at 7th April, 2000, iSteelAsia.com had 1,070 Individual Members and 310 Corporate Members.

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

Identity	Functional Accessibility	Posting Privileges	Registration Requirements	Other Benefits <sup>(1)</sup>
Visitors	<i>The Steel Talk</i> and <i>Industry Info</i>	Nil	Not required	Nil
Individual Members	<i>The Steel Talk</i> and <i>Industry Info</i>	<i>The Steel Talk</i>	Personal Registration (online)	Nil
Corporate Members	All	<i>Online Procurement</i> , <i>Online Auction</i> and <i>The Steel Talk</i>	Company Registration, <sup>(2)</sup> Verification <sup>(3)</sup>	— <sup>(4)</sup>
Founding Members	All	<i>Online Procurement</i> , <i>Online Auction</i> and <i>The Steel Talk</i>	By invitation only	Revenue Options

Notes:

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

## Commission Rates

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

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

The Directors believe that the rates being charged are competitive when compared with online Internet-based competition.



### Founding Members

Established international steel enterprises are being identified as the Founding Members. The number of Founding Members is to be expected to be limited to between 20 and 30. Founding Members enjoy all of the benefits and privileges available to Corporate Members. The Directors believe that the reputation and leading industry standings of the Founding Members will provide liquidity, promote the success of iSteelAsia.com and will encourage other participants in the industry to become Corporate Members.

The following companies are currently in discussions, which are beyond the preliminary stage, with TN Development with a view to becoming Founding Members.

*Amsteel Mills Sdn Bhd* operates a steel mill in Malaysia.

*CCC Steel GmbH* is a large international steel trading joint venture established between Coutinho Caro & Co., Hamburg, Germany and Grupo Villacero, Monterrey, Mexico.

*CMC (Australia) Pty. Ltd.* is the Sydney based trading and marketing subsidiary of the Commercial Metals Company which was established in 1915 and has its head office in Dallas, Texas.

*Hanwa Co., Ltd.* is a Japanese trading house which was established in 1947 and provides its steel customers with logistical support and warehousing services.

*ICDAS Celik Enerji Tersane ve Ulasim Sanayi A.S.* has been operating a steel mill in Turkey for more than 25 years.

*Scaw Metals Limited* has been operating a steel mill in South Africa since 1937 and is a member of the Anglo American Industrial group of companies.

*Shougang Concord International Enterprises Company Limited* is a Hong Kong based steel trader whose shares are listed on the Main Board of the Stock Exchange and is a member of the Beijing Shougang group of companies.

*SK Global Co., Ltd.* is a member of one of Korea's business conglomerates. It was established in 1953 and operates through 50 branches with business in more than 100 countries. It is a trader for a wide range of steel to chemical products.

*Stemcor (S.E.A.) Pte Ltd.* is a Singapore based steel trader and a member of the UK's Stemcor group of companies.

*Van Shung Chong Hong Limited* is a member of the VSC Group.

None of the proposed Founding Members (other than Van Shung Chong Hong Limited, a member of the VSC Group) referred to in the preceding paragraph are connected persons (as defined under the GEM Listing Rules) nor are they associates (as defined under the GEM Listing Rules) of the Directors, chief executive, management shareholders or substantial shareholders of the Company and its subsidiaries. The selection of the Founding Members

under the Revenue Option Agreement is based on, inter alia, their reputation in the industry, their business connections and the anticipated contribution to the Company, in particular, the iSteelAsia.com steel trading platform, in the future. The Directors would like to note that additional companies, other than those referred to above, may be invited to enter into the Revenue Option Agreement in the future.

To incentivise Founding Members to channel their transactions through iSteelAsia.com, Founding Members may, in certain circumstances, become entitled to purchase up to an aggregate amount of 102,400,000 Shares from TN Development upon exercise of the Revenue Options. Each Founding Member's entitlement to Revenue Option is to be set out in a Revenue Option Agreement. Once a Founding Member enters into a Revenue Option Agreement, the name of the Founding Member will be disclosed on the iSteelAsia.com website. The Directors expect that, subject to any amendment or variation to what is currently being proposed, the Revenue Option Agreements would include the following provisions. The exercise price will be equivalent to an amount per Share equal to 5 per cent. of the Issue Price. The determination of the exercise price for the Revenue Options was based on commercial terms after taking into account, among other things, the reputation, business connections and anticipated future contribution to the iSteelAsia.com steel trading platform of the Founding Members. The initial number of available Shares for each of the three relevant financial years is set out below:

Year ending 31st March,	Available Number of Shares	Percentage of Share capital immediately following the Pre-Placing and the Placing
2001	51,200,000	3.53%
2002	25,600,000	1.76%
2003	25,600,000	1.76%
	102,400,000	7.05%

Each participating Founding Member's entitlement to a proportionate share of the available number of Shares will be based on the extent, if at all, to which the commissions generated by that Founding Member in the applicable year exceed its annual target as a proportion of the aggregate of all such excess amounts generated by Founding Members in the relevant year. The annual target will be US\$200,000 for a steel mill or a steel trader and US\$100,000 for a steel processing centre or a steel end-user. If none of the Founding Members achieve their annual target in any applicable year, the available number of Shares in the following year will be increased accordingly. If some of the Founding Members fail to achieve their respective annual targets in any applicable year, the Founding Members whose annual targets are exceeded will be entitled to a proportionate share of the available number of Shares for such year as calculated in accordance with the provisions set out above. Accordingly, the maximum number of Shares which may be transferred, no earlier than April 2001, to any member of the VSC Group or any other Founding Member achieving its target would be the number of available Shares specified in the table above assuming no other Founding Members achieve their annual targets.

### **Corporate Members**

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

### **Individual Members**

Any individual may apply to become an Individual Member by completing an application form and by selecting a password and a user name. An applicant, once accepted as an Individual Member, has access to news and content and may post information on *The Steel Talk*.

## **SALES AND MARKETING**

With respect to its trading operation, the Group's marketing efforts have been focusing on Hong Kong based customers with manufacturing operations in Southern China and include marketing of the Group's Internet-based solutions and services. The Group's sales are denominated in Hong Kong dollars, US dollars and Renminbi. There has been no sales return and bad debt write-off during the Relevant Period. Provision of bad and doubtful debts of approximately HK\$1.5 million is provided for several slow-moving outstanding debts during the nine months ended 31st December, 1999. The Group currently has two marketing representatives for its trading operation. Their marketing efforts consist of telemarketing and factory visits.

As for iSteelAsia.com, the Directors believe in the importance of having a critical mass of Corporate Members to enable iSteelAsia.com to negotiate better benefits with providers of value-added services and to become a prominent and liquid trading platform for the international steel market. The sales and marketing team is aiming to attract more quality names in the steel industry to become Corporate Members. The Group's sales and marketing efforts extend across a broad spectrum of the steel industry. In marketing iSteelAsia.com, the Group receives valuable feedback from users which is used to further enhance the services available on iSteelAsia.com. The following benefits are being promoted:

- reaching the steel community at any time
- enquiring, posting and negotiating a trade securely at a single stop
- extending market reach
- minimising research cost
- membership verification process

The Group's primary marketing efforts focus on one-to-one selling. The Group's sales team intends to visit each prospective Corporate Member to deliver on-site demonstrations and to encourage online trials. In addition, the senior management team of the Group have extensive personal networks in both the steel industry and e-commerce. Through press interviews, seminars and other appropriate medium, it is the intention of the Directors to increase iSteelAsia.com's brand name awareness, reveal the benefits of online steel trading and influence steel industry trends.

To market the Group's Internet-based solutions and services and in furtherance of the Group's commitment to customer relationship management, the Group has established a temporary office in Seoul, Korea, appointed a consultant in Shanghai and business development executives in Texas for the Americas and in Dusseldorf for Europe, and is identifying agents in the Philippines and Taiwan.

### TECHNOLOGY IMPLEMENTATION AND SECURITY

The Directors believe that data integrity and site performance are vital to building up users' confidence in a website. Information security is a major concern for online applications on the Internet. To ensure a solid security foundation for its online trading platform, iSteelAsia.com utilises technology which has been adopted by various Internet banking and e-commerce projects. These technologies include, but are not limited to, SSL channel encryption. The Directors are currently reviewing the implementation of further security measures, such as digital certificates or smart card features, if deemed necessary and operating procedures and audit controls, to secure the proprietary nature of pricing information for the benefit of both sellers and buyers.

The Group's Chief Technology Officer has the overall responsibility for technology implementation and the security aspects of iSteelAsia.com's operation which are expected to be primarily outsourced to iMerchants, pursuant to the Outsourcing Agreement. iMerchants is the service bureau vendor providing iSteelAsia.com with hardware network infrastructure. The Directors believe this arrangement is beneficial to the Group as outsourcing will alleviate the Group from the intense capital investment on hardware and software and from the risk of obsolescence. The Directors understand that iMerchants intends to migrate iSteelAsia.com's network infrastructure to Digital Island to provide for faster access and better connectivity to the website. Further details of the Outsourcing Agreement are set out in the section headed "Relationship with the VSC Group and the iM Group".

The year 2000 compliance issue primarily arises from using two digits to represent the four-digit calendar year in the early days of computer programming to save data storage and cost of memory. As a result, the two digits "00" will be misinterpreted as the year "1900" rather than the year "2000" if the computer systems are not year 2000 compliant. Potential risks for the Group include the risk that one or more Members or value-added service providers may not be year 2000 compliant. If any one of these risks materialise, there could be a material adverse effect on the business prospects, financial condition and results of operation of the Group. The Directors are aware of the importance of ensuring year 2000 compliance in order to avoid system failures, miscalculations, inaccurate data processing and information recording causing disruptions of operations, including disruptions of the Group's website.

None of the foregoing has occurred in relation to the Group as at the Latest Practicable Date. The Directors believe that iMerchants, who has responsibility for the website development and maintenance, has already taken all necessary steps to achieve year 2000 compliance for the Group's iSteelAsia.com operation.

## INTELLECTUAL PROPERTY

The Group is acquiring certain domain names and applying for various trademarks, details of which are referred to in the paragraph headed "Intellectual Property" in Appendix V to this prospectus.

## COMPETITION

The Directors believe that competition within the supply chain network in the steel industry comes in two major forms — online and offline. Within the online form of competition, it can be further divided into Internet-based or EDI-based category. The Group's future success significantly depends upon the extent to which steel industry participants change over from effecting offline transactions via intermediaries to the Group's online solutions and services.

### Online Internet-based competition

In addition to iSteelAsia.com, there are currently a number of websites that facilitate online metal transactions including [www.e-steel.com](http://www.e-steel.com), [www.metalsite.net](http://www.metalsite.net), [www.steelspider.com](http://www.steelspider.com), and [www.steelscreen.com](http://www.steelscreen.com). These competitors are English language based, North American or European focused portals that offer services such as transaction capability and general industry information. Websites that offer market places for online steel trading include, but may not be limited to, [www.steelbroker.com](http://www.steelbroker.com), [www.steelexpress.com](http://www.steelexpress.com) and [www.metalworld.com](http://www.metalworld.com).

Other websites such as [www.worldmetal.com](http://www.worldmetal.com) and [www.i-metal.com](http://www.i-metal.com) may offer online trading and value-added services for all types of metal including steel products. However, the Directors believe that its iSteelAsia.com website is currently the only bi-lingual portal based on a many-to-many model which has been specifically designed for the steel industry in the Asia-Pacific region with the aim of providing a platform with both content and commerce in Asian languages.

### Online EDI-based competition

Prior to the introduction of the Internet many enterprises conducted e-commerce through the use of EDI. Although EDI has brought certain advantages to its adopters, the Directors believe that with the increased popularity of the Internet, there are a number of constraints to EDI which include (i) EDI has generally been conducted over a proprietary network, requiring significant capital investment and (ii) EDI involves a distributed software solution, which is typically expensive and complex. The Directors believe that although EDI involves a number of participants in the supply chain, its application is based on a one-to-many model, usually involving the relationship between a large steel mill and its customers, whereas Internet-based portals are based on a many-to-many model.

### **Offline competition**

Traditionally, traders such as the Group in its trading operation have played major roles as intermediaries in the steel industry. Trading-oriented intermediaries capitalise on the possession of market information and/or connections with steel industry buyers and sellers. If the world steel industry migrates to an online community, information may become more transparent. Consequently, the Directors believe that the business environment for trading-oriented intermediaries will become much more competitive as online transactions increase. In addition to a trading role, value-added intermediaries also provide services such as credit facilities and arrange transportation logistics especially for small and medium-sized buyers. The Directors believe value-added intermediaries such as the Group will continue to play a role in the supply chain.

## STATEMENT OF BUSINESS OBJECTIVES

### INTRODUCTION

The Group is principally engaged in the provision of trading and other value-added services for participants in the supply chain of the steel industry. The Group's traditional steel trading operation was originated in 1994 by the VSC Group, the largest shareholder of the Company immediately after the Placing. Historically, the Group has sourced steel products and arranged value-added services for its customers through telephone calls, facsimile transmissions and personal visits. Value-added services include assisting customers with inventory management and logistic arrangements. As the industry becomes increasingly competitive, many competitors are beginning to adopt the latest technology to increase their productivity and profits. Against this background, the iSteelAsia.com website was launched in December, 1999. The iSteelAsia.com website provides an Internet-based platform as an additional means for buyers to source steel products and sellers to sell steel products with online access to steel industry information and a range of value-added services such as insurance and trade finance. On 10th February, 2000, the Company was incorporated with the intention of taking over the traditional trading operation of the VSC Group and the operation of the iSteelAsia.com website. All of the Company's solutions and services, including those of its subsidiaries, are focused on serving customers in the steel industry. Given the size of the steel industry, the increased popularity of Internet and the inherent inefficiency in the supply chain of the steel industry, the Directors believe that the potential for an Internet-based vertical portal for the steel market is significant. Although the Group's traditionally based steel trading operation accounted for all of the Group's turnover during the Relevant Period, the Directors anticipate that most of the future growth potential of the Group stems operation from its Internet-based operation.

It is the aim of the Directors to establish iSteelAsia.com as the premier B2B vortal for the steel community in the Asia-Pacific region with a critical mass of buyers and sellers who effect an ever-increasing proportion of transactions through iSteelAsia.com's trading platform. While the Directors intend to initially focus on cross-border trade involving the Asia-Pacific region, they also intend to pursue business opportunities to adapt iSteelAsia's concept and technology to Asia's domestic steel markets and to position iSteelAsia.com as a prominent, informative and liquid trading platform for the international steel industry.

The Directors consider that iSteelAsia.com has successfully passed its first stage which principally consisted of the establishment of a presence in the steel industry and the launch of iSteelAsia.com. During the second stage, the Directors will focus on (i) customer relationship management, (ii) building a strong brand name, (iii) forging relationships with strategic partners to expand value-added services and (iv) establishing country specific websites for Asia's domestic steel markets.

Expansion and acquisition strategies will play a significant role in the Group's future growth plan. Through mergers, acquisitions, cooperative arrangements, strategic alliances, share swaps and joint ventures, the Group will continue to seek out suitable investment candidates and business partners. The Directors are currently evaluating a number of business opportunities. However, the evaluation and related negotiations with the relevant parties are only in preliminary stages and there is no assurance that any of these negotiations will be consummated.

### GENERAL ASSUMPTIONS

The Group's statement of business objectives, as currently envisaged by the Directors, is based on the following general assumptions:

- There will be no material changes in the existing laws (whether in the PRC, Hong Kong or any part of the world), policies or industry or regulatory treatment relating to the Group, e-commerce or in the political, economic or market conditions in which the Group operates.
- Inflation, interest rate and exchange rates will not differ materially from those prevailing as of the Latest Practicable Date.
- No material changes in the bases or rates of taxation applicable to the Group.
- Suitable personnel can be recruited and retained by the Group.
- There will be no change in the funding requirement for each of the near term development strategies described herein from the amount as currently estimated by the Group's management.
- External financing will be readily available to the Group.
- There will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its property or facilities.
- There will be continuous growth in support for, and acceptance of, the B2B format of e-commerce on the Internet.
- Participants in the supply chain of the steel industry will adopt the Internet-based format of iSteelAsia.com.
- The Founding Members and participants in the steel industry supply chain will support the development of iSteelAsia.com.
- The Group will be successful in forming strategic alliances with value-added service providers.
- The Group will be successful in identifying and working with joint venture partners in developing local versions of iSteelAsia.com in Asia's domestic steel markets.

In addition, reference is made to the risk factors set out in the section headed "Risk factors", the materialisation of any of which may delay or otherwise affect the attainment by the Group of one or more of its business objectives.



### WARNING

*The business objectives of the Group mentioned in this section are based on the existing plans and intentions of the Group which are either in a conceptual stage or a preliminary stage. Furthermore, such intentions and plans are based on assumptions of future events which by their nature are subject to uncertainty. The Group's actual course of action may therefore vary from the intentions and plans set out above. Although the Directors will endeavour to execute such plans in accordance with the aforesaid terms and timeframe, there can be no assurance that the plans of the Group will materialise, result in the conclusion of any agreement or be executed in accordance with the aforesaid timeframe or that the objectives of the Group will be fully accomplished or accomplished at all.*

Although the Directors believe that iSteelAsia.com has a viable business model, a vertical portal for the steel industry is a relatively new B2B e-commerce business concept. Furthermore, the operation of iSteelAsia.com is currently in a rapid growth stage and there are various competitive forces at work in the market. Although the Group's management team has placed high priority in analysing the market development and has engaged international consulting firm(s) to assist with the formulation of its strategies, there can be no assurance that competitive forces in the market will not change the industry landscape which may render the Group's business objectives impracticable or impossible.

As the Internet is an emerging industry and is developing at a very rapid pace, the Group may need to amend its business plan according to changes in its operating environment. As such, the Directors consider it inappropriate to specify a definite time as to when the net proceeds from the issue of the Placing Shares will be used. In light of the keen competition in the Internet industry (including B2B vertical portals for the steel industry), the Directors are also of the view that the amount and timing of payment of such proceeds to be spent on a particular business objective is sensitive and confidential commercial information. Therefore, the Directors consider that it is not in the interests of the Group to state the amount of such proceeds to be used in each of the forward-looking periods in this prospectus.

## STATEMENT OF BUSINESS OBJECTIVES

### Business objectives for the period from the Latest Practicable Date to 30th September, 2000

Market Research	Development of Services	Marketing Activities	Resources Deployment
<ol style="list-style-type: none"> <li>1. Continue to engage international consulting team(s) to assist with the formulation of overall business strategy</li> <li>2. Additional research will be conducted to investigate the possibility of establishing operations in individual Asian countries</li> <li>3. Investigate the viability of implementing a loyalty rebate scheme to encourage Corporate Members to use iSteelAsia.com as their major sales and purchasing channel</li> <li>4. Explore the feasibility of launching Korean and/or Japanese language support on iSteelAsia.com</li> <li>5. Explore new revenue sources such as advertising on the website</li> <li>6. Undertake feasibility study to assess the possibility of forming an alliance with a distributor of steel products in the PRC</li> <li>7. The traditional trading operation will explore the possibility of sourcing a range of long products from Northern China to be distributed in Southern China</li> </ol>	<ol style="list-style-type: none"> <li>1. Revamp the website through simplifying work flow and/or core trading features and/or enhancing the existing functions</li> <li>2. Introduce new features such as more user-friendly website interfaces, newsletters and/or steel analyst reports</li> <li>3. Explore the feasibility of acquiring additional content for the Group's websites</li> <li>4. Begin to form technical alliances with international high-tech companies</li> <li>5. Begin to develop country specific websites for the domestic steel markets in Korea, the PRC and India</li> <li>6. Soft launch of silicon steel products which are widely used in the production of transformers by the traditional trading operation</li> </ol>	<ol style="list-style-type: none"> <li>1. Focus on the PRC and Korea</li> <li>2. Continue to leverage off iSteelAsia.com's strength as the first Asian focused vertical portal for the steel industry</li> <li>3. Continue to create international brandname awareness of the iSteelAsia.com website through press conferences, conventions, conferences and personal visits to well-established industry participants in various countries such as Korea, the PRC and/or India</li> <li>4. Continue to establish strategic alliances with various participants in the supply chain</li> <li>5. Continue to establish hyperlinks with other e-commerce websites</li> <li>6. Explore the possibility of establishing branches or representative offices in strategically important countries to enhance customer relationship management</li> <li>7. Begin to offer user-training seminars on utilising the benefits of the iSteelAsia.com website</li> <li>8. Focus on traditional customers who are not yet ready to migrate to online trading and to assess their needs for highly specialised services such as warehousing and minimising inventory costs</li> </ol>	<ol style="list-style-type: none"> <li>1. Efforts will be made to continue to expand the rest of the senior management team, technical team and marketing team in the head office</li> <li>2. Begin efforts on assembling domestic teams for individual countries with an initial focus of hiring the senior management teams</li> </ol>

**Business objectives for the six-month period ending  
31st March, 2001**

Market Research	Development of Services	Marketing Activities	Resources Deployment
<ol style="list-style-type: none"> <li>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</li> <li>2. Additional research will be conducted to investigate the possibility of establishing country specific websites in additional individual Asian countries</li> <li>3. An annual strategic review workshop will be conducted which will include a review of local market developments</li> <li>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</li> <li>5. Explore the possibility of marketing lubricated electric galvanised steel sheet with colour matching codes, stainless steel and PVC collated steel</li> </ol>	<ol style="list-style-type: none"> <li>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</li> <li>2. Explore the feasibility of launching Thai and Indian language support on the website</li> <li>3. Explore new revenue sources to diversify sources of revenue which may be derived from the iSteelAsia.com website</li> <li>4. Acquire additional content if appropriate</li> <li>5. Explore the feasibility of implementing functions on the website to restrict Members' access to a posting by specifying seller restriction information</li> <li>6. Examine the viability of implementing functions on the website for Individual Members to register for news update service through e-mail notifications</li> <li>7. Examine the feasibility of implementing an online real time help function on the website</li> <li>8. Examine the necessity of implementing additional security measures on the website</li> <li>9. Offer electro-galvanised steel wire and long products sourced from the PRC</li> </ol>	<ol style="list-style-type: none"> <li>1. Continue to focus on the PRC and Korea</li> <li>2. Begin to focus on India and Thailand</li> <li>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)</li> <li>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</li> <li>5. Begin to evaluate the feasibility of organising a conference for all users of the iSteelAsia.com website</li> </ol>	<ol style="list-style-type: none"> <li>1. Continue efforts to expand the senior management team, technical team and marketing team in the head office</li> <li>2. Continue efforts to assemble domestic teams for individual countries including support staff</li> </ol>

## STATEMENT OF BUSINESS OBJECTIVES

### Business objectives for the six-month period ending 30th September, 2001

Market Research	Development of Services	Marketing Activities	Resources Deployment
<ol style="list-style-type: none"> <li>1. Continue to assist the operation team in formulating/revamping/refining its overall and focused country business strategy</li> <li>2. Additional research will be conducted to investigate the possibility of establishing a country specific website in an additional Asian country such as Taiwan and/or other countries in the world</li> <li>3. Two half-yearly strategic review workshops for the Group's senior management will be conducted</li> <li>4. Identify and develop sources of steel piles in Japan which are not manufactured in the PRC</li> <li>5. Explore the South-East Asia market which may have excessive steel demand as a result of insufficient production capacity</li> </ol>	<ol style="list-style-type: none"> <li>1. Efforts will be made to continue to revamp and/or enhance the functions on the website as appropriate</li> <li>2. Explore the feasibility of launching additional language support (both Asian and others) on the website</li> <li>3. Explore new revenue sources to diversify sources of revenue</li> <li>4. Begin to acquire content for the website, if possible</li> <li>5. Begin efforts to establish mirror sites to enhance performance of the iSteelAsia.com website</li> <li>6. Implement an online real time help function on the website</li> <li>7. Commence trading of steel bearing piles for foundation use in constructing high rise buildings in Shenzhen and Guangzhou as well as power plants</li> <li>8. Commence trading of rebars and cold rolled steel sheets for sale in Vietnam</li> </ol>	<ol style="list-style-type: none"> <li>1. Continue to focus on the PRC, Korea, India and Taiwan</li> <li>2. Begin to focus on Thailand</li> <li>3. Explore opportunities in other countries in Asia and elsewhere</li> <li>4. 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 international industry participants in various countries</li> <li>5. Continue to establish strategic alliances with various participants in the supply chain</li> <li>6. Explore the possibility of allying with other online businesses</li> <li>7. Develop a relationship with a new steel mill with a view to acting as its agent to assist its distribution of products to Southern China and Hong Kong</li> </ol>	<ol style="list-style-type: none"> <li>1. Focus efforts to assemble domestic teams for individual countries</li> </ol>

**Business objectives for the six-month period ending  
31st March, 2002**

Market Research	Development of Services	Marketing Activities	Resources Deployment
1. Continue to assist the operation team in formulating/revamping/refining global business strategy if appropriate	1. Efforts will be made to continue to revamp and/or enhance the functions on the Group's websites as appropriate	1. Continue with those countries that show promise; redeploy/reallocate efforts as appropriate	1. Continue to focus efforts to assemble and/or expand the domestic team for individual countries
2. Additional research will be conducted to investigate the possibility of establishing operations in individual countries on a worldwide basis	2. Explore the feasibility of launching additional language support on iSteelAsia.com	2. Explore opportunities in other countries on a worldwide basis, if appropriate	
3. An annual strategic review workshop will be conducted to review the overall operation	3. Explore new revenue sources to diversify sources of revenue	3. Continue to create brandname awareness through promotional activities such as press conferences, conventions, conferences and personal visits to well-established industry participants in various countries	
4. Continue to explore additional value-added services to be offered to suppliers and customers including, but not limited to, financing arrangements with steel mills in Commonwealth of Independent States	4. Continue to acquire content if appropriate	4. Further diversify the sources of supply to steel mills in Northern China	
	5. Continue to establish mirror sites to enhance performance in focused countries	5. Continue to leverage on the excessive demand in South-East Asia market	
	6. Commence trading of PRC manufactured steel beams	6. Focus effort to capture steel service centres which play a key role in the supply chain since the end-users rely very much on the steel slitting and cutting services provided by these service centres	
	7. Commence trading of slabs and hot-rolled steel coils		

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### **For the fiscal year ending 31st March, 2003**

The Directors are of the view that it is not practicable to state the Group's business plans in detail on a half-year basis beyond the fiscal year ending 31st March, 2003. However, the Directors have identified the following matters as representing the major focus of its business objectives for the fiscal year ending 31st March, 2003.

The long term objective of the traditional trading operation is to serve customers who are not ready for an online trading platform or those who have special requirements that require a high degree of personal assistance. As such, the Directors believe that the traditional steel trading operation will continue to be an important part of the Group's operation. The traditional trading operation will need to continue to innovate in providing value-added services to end customers and to expand its product range to meet customer demand. In many cases, the end customers might need other related products such as alloy metals or additives. Suppliers such as steel mills may require steel rollers, refractories, iron ore and coal. It is also the management's belief that the stockist operation in Shunde, Southern China will expand into other building materials while servicing the same group of customers. The Group's traditional trading operation will help to expand the export market for the PRC's mills by actively marketing through the Group's network, and by organising technical seminars on behalf of these domestic PRC mills. In addition, the Group will also explore opportunities to further develop its customer base in other parts of the PRC outside Southern China.

The Group plans to undertake ongoing revamps/enhancements of its websites to finesse the quality of available services. Renewed sales and marketing initiatives will be used to reinvigorate inactive Members and to attract new Members. These initiatives will increasingly be driven by local staff who will devise and implement campaigns tailored to the needs of their particular market. Another objective is to use further brandname building efforts to increase trading activities on the website.

## USE OF PROCEEDS

The Directors believe that the net proceeds of the Placing will strengthen the Group's capital base and will provide funding for the Group's business objectives.

The net proceeds of the issue of the Placing Shares, after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Placing, are estimated to be approximately HK\$88.4 million. The Directors presently intend to use such net proceeds as follows:

- approximately HK\$31.0 million to acquire interests in value-added information and service provider(s) (which will account for approximately 50% of such amount), fund start-up and on-going operating costs (which will account for approximately 35% of such amount) and the development of a country specific website (which will account for approximately 15% of such amount);
- approximately HK\$15.5 million to engage 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;
- approximately HK\$26.4 million to conduct 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; and
- approximately HK\$15.5 million to acquire content for the Group's websites.

As the Group's traditional trading operation has reached a relatively mature stage of development, none of the net proceeds are being specifically allocated for such operation.

Should the Over-allotment Option and the BNP Prime Peregrine Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$18.1 million, based on the Issue Price, which, together with the net proceeds from the Placing, will amount to approximately HK\$106.5 million. The Directors intend to use approximately HK\$5.9 million of the additional net proceeds to form additional strategic alliances with other value-added service providers and the balance of approximately HK\$12.2 million as general working capital.

In the event that part of the business plans of the Group does not materialise or proceed as planned, the Directors will carefully evaluate the then requirements of the Group and other relevant factors and circumstances and may reallocate such part or parts of the net proceeds to other business plans, new projects and/or investment opportunities of the Group and/or to place the same in short term deposits so long as the Directors consider that to be in the best interests of the Company and its shareholders taken as a whole. Any material departure from the use of proceeds stated above will be the subject of an announcement by the Company. To the extent that the net proceeds of the issue of the Offer Shares under the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with licensed banks in Hong Kong.

The Directors believe that the net proceeds from the Pre-Placing and the Placing will not be sufficient to finance all of the Group's activities referred to above which are scheduled to be undertaken prior to 31st March, 2002. In the event of any shortfall, the Directors expect that the Group should be able to raise additional finance from various sources including, but not limited to, the international and domestic capital markets, banks and internal resources or through a combination of these sources. In the event that additional financing cannot be obtained, the Group may have to scale back its scheduled activities referred to above.



## RELATIONSHIP WITH THE VSC GROUP AND THE iM GROUP

### RELATIONSHIP WITH THE VSC GROUP

Immediately following the completion of the Pre-Placing, the Placing and the Capitalisation Issue, VSC will indirectly hold approximately 19.15% of the enlarged issued share capital of the Company, assuming neither the Over-allotment Option nor the BNP Prime Peregrine Option is exercised, and 18.92% of the enlarged issued share capital of the Company if the Over-allotment Option and the BNP Prime Peregrine Option are exercised in full. Huge Top, the controlling shareholder of VSC, was interested in about 57.09% of the issued share capital of VSC as at the Latest Practicable Date.

Mr. Yao Shu Sheng, the father of Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao, founded the business of the VSC Group in 1961 as an importer and stockholder of reinforcement steel bars in Hong Kong. VSC is a company whose shares are listed on the Main Board of the Stock Exchange. The VSC Group's construction and industrial material operations are principally engaged in the business of stockholding and supplying steel in Hong Kong in which the VSC Group enters into long term contracts with property developers and contractors in Hong Kong, supplying them with steel according to the progress of construction for which it is required to hold a sufficient inventory of steel. The Directors do not believe that iSteelAsia's operation competes with that of the VSC Group's operations referred to above as iSteelAsia is not engaged in, and has no intention of, providing such services to property developers and contractors in Hong Kong.

The Company is managed by three executive Directors being Ms. Drina C. Yue, who is engaged full time in the business of the Company and is responsible for the Group's operations and Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao, who are also directors of VSC and certain members of the VSC Group.

Mr. Moses Kwok Tai Tsang, a non-executive Director of the Company, is also an independent non-executive director of VSC.

After the Reorganisation and upon the listing of the Shares on GEM, a number of transactions between the Group and the VSC Group are expected to continue or to be entered into in the future. Details of such transactions are set out in the paragraph headed "Continuing Connected Transactions" below.

### RELATIONSHIP WITH THE iM GROUP

Immediately following the completion of the Pre-Placing, the Placing and the Capitalisation Issue, iMerchants Group will indirectly hold approximately 14.11% of the enlarged issued share capital of the Company, assuming neither the Over-allotment Option nor the BNP Prime Peregrine Option is exercised, and 13.94% of the enlarged issued share capital of the Company if the Over-allotment Option and the BNP Prime Peregrine Option are exercised in full.

The iM Group was founded in mid-1996 with an aim to combine consulting, systems development, systems integration and web design skills to provide e-commerce solutions for businesses in Asia. Through its subsidiary, iMerchants, the iM Group's e-commerce services can be classified into two categories — e-commerce consulting and service bureau operations. iMerchants' e-commerce consulting involves defining online strategies,

developing e-commerce structures and integrating web applications with clients' other systems. The service bureau operations involve offering e-commerce outsourcing services by operating an infrastructure that provides its clients with e-commerce infrastructures which comply with both the technology and business requirements for conducting e-commerce. iMerchants is a company whose shares have been listed on the GEM since 31st March, 2000.

Ms. Lena Foo, a non-executive Director of the Company, is also an executive director of iMerchants.

## CONTINUING CONNECTED TRANSACTIONS

The Group has from time to time conducted transactions with the VSC Group or the iM Group who are connected persons for the purposes of the GEM Listing Rules.

- A. After completion of the Pre-Placing, the Placing and the Capitalisation Issue, the following transactions will continue to be conducted on the same bases:

### **Administrative Services Agreement**

The VSC Group will continue to provide general office administrative and company secretarial services as may be requested by the Group from time to time. This arrangement may be terminated by either party giving two months' notice of termination to the other party. In consideration of the provision of the services, the VSC Group will be paid a fee of HK\$30,000 per calendar month by the Group together with reimbursement at cost of all expenses incurred in connection within the due and proper provision of services. For each of the two years ended 31st March, 1999 and the nine months ended 31st December, 1999, the amounts paid by the Group to the VSC Group for such services amounted to HK\$360,000, HK\$360,000 and HK\$270,000 respectively. For the year ended 31st March, 2000, it is estimated that the total amount paid by the Group to the VSC Group for such services did not exceed HK\$400,000.

### **Procurement Services Agreement**

The Group has from time to time provided sourcing, purchasing and quality control services on steel coils for the VSC Group's coil centre operation in return for a procurement service fee 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, which represents a similar rate chargeable for such service in the market. The arrangement may be terminated by either party giving two months' notice of termination to the other party.

For each of the two years ended 31st March, 1999 and the nine months ended 31st December, 1999, the total amount earned by the Group from the VSC Group for such services amounted to approximately HK\$374,000, HK\$999,000 and HK\$1,133,000 respectively. It is estimated that the total amount paid by the VSC Group to the Group for such services for the year ended 31st March, 2000 did not exceed HK\$2,000,000. For each of the three years ending 31st March, 2003, the amount payable by the VSC Group to the Group has been capped at HK\$3,000,000 per annum in anticipation of the growth of the coil centre's business.

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#### **Steel Supply Agreement**

The VSC Group will continue to source and supply steel to the Group on and subject to the standard terms and conditions of purchase of the Group and the Group will reimburse the VSC Group at cost (including, without limitation, transportation and warehousing costs incurred in respect of such supply). The arrangement may be terminated by either party giving two months' notice of termination to the other party. For each of the two years ended 31st March, 1999 and the nine months ended 31st December, 1999, the total purchases made by the Group from the VSC Group amounted to approximately HK\$96,254,000, HK\$106,732,000 and HK\$111,826,000 respectively. It is estimated that total purchases made by the Group from the VSC Group for the year ended 31st March, 2000 will not exceed HK\$175,000,000.

For each of the three years ending 31st March, 2003, the total purchases made by the Group from the VSC Group pursuant to the steel supply agreement have been capped at HK\$350,000,000 per annum in anticipation of future business growth especially with online trading business.

- B. The Group has recently entered into the following transactions with the VSC Group or the iM Group which will continue after completion of the Pre-Placing, the Placing and the Capitalisation Issue:

#### **Sub-tenancy Agreement**

Pursuant to a sub-tenancy agreement dated 13th April, 2000 entered into between iSteelAsia HK, a wholly-owned subsidiary of the Company and CFY Enterprises Limited, a wholly-owned subsidiary of VSC, CFY Enterprises Limited has agreed to sub-let to the Group 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. The lease is for an initial fixed term of three months from 1st April, 2000 to 30th June, 2000 and thereafter on the basis of a monthly tenancy which may be terminated by iSteelAsia HK giving one month's notice. As the Group anticipates a period of rapid growth and is looking to expand its operation and personnel, the terms of the Sub-tenancy Agreement give the Directors flexibility in providing for the requirements of the Group from time to time. The rental is HK\$155,000 per month (which amount excludes rates, management fees and utilities charges but is inclusive of the initial renovation of the premises). iSteelAsia HK has also agreed under the sub-tenancy agreement to pay to CFY Enterprises Limited a due proportion of the rates, management fees and utilities charges calculated by reference to the area of the leased premises compared with the area leased by CFY Enterprises Limited as principal tenant. Chesterton Petty Limited, an independent property valuer, has reviewed the sub-tenancy agreement and confirmed that the rental payable for the premises represents market value.

For the term of the sub-tenancy agreement, the rental payable by iSteelAsia HK to CFY Enterprises Limited has been capped at HK\$1,860,000 per annum and the portion of the rates, management fees and utilities charges has been capped at HK\$1,000,000 per annum.

### **Outsourcing Agreement**

On 13th April, 2000, iSteelAsia HK and iMerchants have entered into the Outsourcing Agreement whereby, initially for a term with effect from 1st January, 2000 and until 31st December, 2001 (which term shall be automatically renewable unless terminated by either party giving 30 days' notice to the other party in non-defaulting situations), iMerchants agreed to provide, inter alia, (i) maintenance services from 1st January, 2000 for both the hardware and software used for the businesses carried on from time to time by iSteelAsia HK or its affiliates (including the provision of an auction and trading platform via a website for the steel related businesses carried out by iSteelAsia HK or its affiliates but excluding local-area-network services used in iSteelAsia HK's premises) (the "Businesses") to a required performance level, and (ii) certain specified man-day of enhancement services from 1st April, 2000 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 solutions. iSteelAsia HK has under the Outsourcing Agreement agreed to grant, and to procure that its affiliates grant, to iMerchants a right of first refusal to provide any information technology, electronic commerce, Internet or Internet related services or solutions required by any of them save and except for the local-area network services used on premises of iSteelAsia HK.

In consideration for the provision of such services, iSteelAsia HK will pay iMerchants a lump sum fee of HK\$950,000 for services relating to business consulting and marketing assistance and phase II release of the e-commerce trading platform; and a fee of US\$85,000 per month commencing on 1st April, 2000 payable in arrear at the end of each month, which shall be apportioned as to 33% for the maintenance services referred to in (i) above and as to 67% against which the actual man-days incurred by various grades of personnel in connection with the provision of the enhancement services referred to in (ii) above shall be charged. In respect of any excess of actual man-days incurred, iSteelAsia HK will pay to iMerchants further fees calculated by reference to such excess man-days of the personnel involved and the rates charged by iMerchants therefor. In respect of any shortfall of actual man-days incurred, such man-days will be carried forward to the following month. In addition, a fee of US\$500,000 has been charged to the Group by iMerchants for the website infrastructure setup and development services provided. For each of the three years ending 31st March, 2003, the annual amount payable by the Group to iMerchants pursuant to the Outsourcing Agreement has been capped at HK\$15,000,000 per annum.

Under the terms of the Outsourcing Agreement, iMerchants has agreed that it will not, during the term of the Outsourcing Agreement, provide the services as described in the agreement to any person or corporation the substantial business of which competes directly with the business of (i) online trading and selling of steel and (ii) providing steel-related services online, as at present carried on by iSteelAsia HK or its affiliates.

- C. After completion of the Pre-Placing, the Placing and the Capitalisation Issue, the Group may from time to time enter into the following transactions with VSC:

**Trading by the VSC Group via iSteelAsia.com**

The VSC Group may from time to time source/procure/distribute/sell steel products via the Group's iSteelAsia.com website. For each such sale, any applicable commission which may be payable by the VSC Group to the Group constitutes a non-exempt continuing connected transaction under Rule 20.26 of the GEM Listing Rules. For the year ended 31st March, 1999, turnover from the VSC Group's remaining steel stockholding and distribution businesses amounted to approximately HK\$1,017,000,000. Furthermore, in October 1999, the VSC Group acquired the entire voting share capital of Shougang Concord Steel Company Limited. Shougang Concord Steel Company Limited is also principally engaged in the steel stockholding and trading businesses. To take account of the additional turnover for the VSC Group which is anticipated as a result of that acquisition, 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 HK\$3.5 billion per annum while the commission which may be earned by iSteelAsia.com from the VSC Group has been capped at HK\$52.5 million. Such caps have been set based on the anticipated growth of the businesses of the VSC Group and the acquired Shougang Concord Steel Company Limited.

The administrative services agreement constitutes a continuing connected transaction which, pursuant to Rule 20.25(3) of the GEM Listing Rules, 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 iSteelAsia.com described above constitute non exempt continuing connected transactions of the Company (as defined in the GEM Listing Rules) and are subject to the reporting requirements set out in Rule 20.34, the announcement requirements set out in Rule 20.35 and the shareholders' approval requirements set out in Rule 20.36 of the GEM Listing Rules. The Directors consider that the strict compliance with such announcement and shareholders' approval requirements is impractical. As such, the Company has applied to the GEM for waivers from strict compliance therewith 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. The Stock Exchange has indicated that such waivers would be granted conditional on the following:

- (a) the non-exempt continuing connected transactions described above would not exceed the relevant annual caps referred to above;
- (b) the independent non-executive Directors shall review the connected transactions annually and confirm in the Company's annual report and accounts that the transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;

- (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
  - (iii) 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;
- (c) the auditors shall provide a letter to the Directors (with a copy to the GEM Listing Division of the Stock Exchange) annually, confirming that the transactions:
  - (i) have received the approval of the Directors;
  - (ii) are in accordance with the pricing policy of the Group if the transactions involve the provision of goods or services by the Group;
  - (iii) have been entered into in accordance with the relevant agreement governing the transactions; and
  - (iv) have not exceeded the relevant cap agreed with the Stock Exchange;
- (d) the Company shall promptly notify the GEM Listing Division of the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in Rules 20.27 and 20.28 respectively. The Company may have to re-comply with Rules 20.26(3) and (4) and any other conditions the GEM Listing Division of the Stock Exchange considers appropriate;
- (e) details of the transactions shall be disclosed in the Company's annual reports as described in Rules 20.34(1) to (5) of the GEM Listing Division; and
- (f) in addition to complying with Rules 20.26 to 20.28, where the aggregate consideration under each continuing connected transaction described above in any year is greater than their respective caps, the transaction and the aggregate consideration are subject to review and re-approval by independent shareholders at the annual general meeting following the initial approval and at each subsequent annual general meeting so long as the transaction continues. The independent non-executive Directors will be required to opine in the annual report whether or not the Company should continue with the agreement for the transaction.

## DIRECTORS, ADVISER, SENIOR MANAGEMENT, AUDIT COMMITTEE AND STAFF

### DIRECTORS

#### Executive directors

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

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

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

#### Non-executive directors

**Mr. Moses Kwok Tai Tsang**, aged 51, is a Director. He has been with the Group since June 1999. He holds a bachelor of arts degree from the State University of Minnesota and a master of social work degree from the University of Iowa, and has also completed post-graduate work at the University of Chicago. Mr. Tsang was previously with Goldman Sachs for over 20 years, during which he was a general partner of Goldman Sachs from 1988 to 1994 and was appointed Chairman and Managing Director of Goldman Sachs (Asia) LLC from 1989 to 1994. Since his retirement from the above positions at the end of 1994, Mr. Tsang has remained a limited partner of Goldman Sachs and was appointed Senior Advisor to Goldman Sachs (Asia) LLC for the period from January to September 1999. Mr. Tsang is also a non-executive director of VSC and a number of companies principally engaged in Internet-related businesses.

**Ms. Lena Foo**, aged 34, 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.

**Mr. Daniel Takuen Shih**, aged 48, is a Director of the Group and is responsible for the Group's overall strategy and direction. He joined the Group in March 2000. Mr. Shih holds a masters degree in electrical and computer engineering from the University of Cincinnati and a bachelor degree in electrical engineering from the Tatung Institute of Technology in Taiwan. Mr. Shih has over 20 years of experience of management and marketing in the information and technology sector with multinational corporations and firms in the United States, Japan and Hong Kong. Most recently, he was with Ernst & Young as the managing director and partner in charge of e-commerce and supply chain management consulting practices.

#### **Independent non-executive directors**

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

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

#### **ADVISER**

**Professor David B. Yoffie**, aged 45, is the Adviser to the Group. Professor Yoffie is the Max and Doris Starr Professor of International Business Administration at Harvard Business School and has been a member of the faculty since 1981. Professor Yoffie received his Masters degree and Ph.D. from Stanford University. Professor Yoffie is currently chairman of the Competition and Strategy Department and chairman of the Advanced Management and International Senior Management Programme. Professor Yoffie's research and consulting services have focused on competitive strategy and international competition. Professor Yoffie's activities include being on the Board of Directors of Intel Corporation, E-Ink Corporation, the National Bureau of Economic Research, and a private biotechnology company, as well as chairman of the advisory board of a European venture capital firm. He also serves on the Executive Committee for Harvard's Centre for International Affairs, and the



Department of Justice's International Competition Policy Advisory Committee. Professor Yoffie has lectured and consulted in more than 25 countries around the world with large industrial and service firms as well as governments and international organizations.

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

## **SENIOR MANAGEMENT**

**Mr. Riyaz Moorani**, aged 41, is the Group's Chief Technology Officer and is in charge of day to day maintenance of the Group's proprietary database and also managing the Group's technology outsourcing vendors. He joined the Group in March 2000. Mr. Moorani is a graduate of the Electrical Engineering Program of the University of Waterloo. He is also an inductee to the Smithsonian Institute American History Museum for "Best use of technology for the betterment of mankind". Mr. Moorani has over ten years of experience in the telecom and Internet business during which he has held senior management positions overseeing strategy architectural issues and system development as well as developing new products utilising Internet technologies.

**Mr. Sean Wan**, aged 44, is the Group's Chief Information Officer and is in charge of the Group's website development liaising with the information technology departments of the various value-added service providers to ensure a seamless solution and exploring ways to utilise the most advanced technology available to provide the best service to the Group's customers. Joining the Group in March 2000, he has over 20 years in the information technology industry, working for various multinational corporations in various parts of the world. Prior to joining the Group, Mr. Wan was a senior manager for 3Com Corporation in California, responsible for the design and implementation of 3Com's Internet B2B solution systems. Mr. Wan has over ten years of design, development and management experience at Seagate Technology where he was responsible for Web enabled high volume real-time manufacturing applications which have been regarded as the leading systems of their kind in the world. Mr. Wan obtained a masters degree in engineering from the University of Illinois. Mr. Wan is the brother of Ms. Drina C. Yue.

**Mr. Anthony Dixon**, aged 33, is the Group's Business Development Director. Mr. Dixon has over seven years steel trading experience with Stemcor, a leading international steel trading firm and is responsible for developing strategic alliances with local and international players in the steel industry that will strengthen the Group's position. Mr. Dixon joined the Group in February 2000. Mr. Dixon has an honours degree in business studies from City University in Nottingham, United Kingdom. In his capacity as a director since 1998 and as a deputy managing director since 1999 of their Far East operation, Mr. Dixon spearheaded Stemcor's growth within the region with responsibility for the Greater China, Korea and the Philippines.

**Mr. Johnson Sai Hou Ho**, aged 33, is the Company Secretary of the Group overseeing the accounting, finance and legal matters of the Group. He has been with the Group since the establishment of the trading operation in April 1997. He obtained his bachelor of social sciences degree, majoring in accounting, from the University of Hong Kong. Mr. Ho is the financial controller and company secretary of the VSC Group. Prior to joining the VSC Group, Mr. Ho was with Arthur Andersen & Co as a manager of its Tax and Business Advisory Services Division. Mr. Ho is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants.

**Mr. Jackson Lai**, aged 31, is the Senior Information Technology Manager of the Group. Mr. Lai is responsible for implementing the Group's technology strategies software and hardware. He joined the Group in March 2000. Mr. Lai received his bachelor of science degree magna cum laude in computer science from California State University in San Francisco. Mr. Lai has over six years of information technology experience specialising in Internet and Web related applications with a particular focus on the telecommunications industry. Prior to joining the Group in March 2000, Mr. Lai was a manager in the Advance Communications/Media Group of Arthur Andersen & Co in Hong Kong, and prior to that Mr. Lai was a senior system analyst for Cable & Wireless HKT, working on Internet applications.

**Mr. Martin Hui**, aged 44, is the Senior Manager, Strategic Alliances, of the Group. Mr. Hui is responsible for the establishment of strategic relationships with companies to provide solutions leading to a fully integrated supply chain platform for the steel industry. He has been with the Group since February 2000. Mr. Hui holds a bachelor of science degree in computing and mathematics from the University of Hong Kong. Prior to joining the Group, Mr. Hui was a Vice-President with Citibank, N.A., Hong Kong with project management experience for trade finance solutions and was also involved in software development, sales and marketing in different hardware and software vendors.

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

## **AUDIT COMMITTEE**

The Company has established an audit committee in accordance with the guidelines set out in "A Guide for the Formation of an Audit Committee" prepared by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises of both of the independent non-executive directors.

## **STAFF**

### **Overview of staff numbers**

As at 7th April, 2000, the Group had 48 full-time employees. An analysis by function is as follows:

Business development	16
Corporate support and finance	13
Technology	6
Sales and marketing	4
Customer service	5
Steel trading	4
	<hr/>
	48

An analysis by geographical location is as follows:

Hong Kong	37
PRC	5
Europe	1
India	1
Korea	1
Singapore	1
United States	2
	<hr/>
	48

### **Company's relationship with staff**

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

### **Share Option Scheme**

Pursuant to a resolution of the shareholders of Company passed on 13th April, 2000 the Company has conditionally approved the Share Option Scheme, the principal terms of which are set out in the section headed "Share Option Scheme".

The Share Option Scheme is conditional on the GEM Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme. Application will be made to the GEM Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the granting of the options under the Share Option Scheme and the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

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**Pension Scheme**

Details of the pension scheme of the Group are set out in the paragraph headed “Pension Scheme” in Appendix I to this prospectus.

**Employees’ Options**

Pursuant to the Share Option Agreements, the Designated Employees have been or, as the case may be, will be granted Employee Options to purchase an aggregate of 143,360,000 Shares from TN Development, representing 9.88% of the Company’s issued share capital immediately following completion of the Pre-Placing, the Placing and the Capitalisation Issue.

During the period from the first anniversary of entering into the Share Option Agreement to the second anniversary thereof, one-third of the Employee Options may be exercised and during the period from the second anniversary thereof to the third anniversary thereof, two-thirds of the Employee’s Options (to the extent not already exercised) may be exercised. To the extent not already exercised, all of the Employee Options may be exercised from the third anniversary until the fourth anniversary of entering into the Share Option Agreement. The exercise price per Share for all of the Employee Options is equal to five per cent. of the Issue Price. The determination of the exercise price for the Employee Options under the Share Option Agreement was based on commercial terms after taking into account, among other things, the work experience, business connections and anticipated future contribution to the Group of the employees. The Directors believe that the terms of the Employee Options are comparable with the general practice within the Internet industry.

Rules 5.41 to 5.59 of the GEM Listing Rules set out the minimum standard of good practice against which the issuer and its directors must measure their own conduct with respect to securities transactions by the directors (the “minimum standard of dealings”). Transfers of Shares to Designated Employees, whose directors are Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao, pursuant to the exercise of Employee Options cannot occur during certain periods covered by the minimum standard of dealings. Designated Employees who are also Directors will be subject to Rules 5.41 to 5.59 of the GEM Listing Rules.

Employee Options in respect of a total of 107,570,000 Shares, representing approximately 75% of the said 143,360,000 Shares, have been granted to two Directors and 43 employees of the Group. The selection of employees who are entitled to the Employee Options is based on, inter alia, their past experience, their business connections and the anticipated future contribution to the Company in the future. The 43 employees who have been granted the Employee Options are not connected persons (as defined under the GEM Listing Rules) nor are they associates (as defined under the GEM Listing Rules) of the Directors, chief executive, management shareholders or the substantial shareholders of the Company and its subsidiaries. One of the 43 employees who has been granted Employee Options is Mr. Sean Wan, a brother of Ms. Drina C. Yue, a Director. The two Directors who are entitled to the Employee Options are not connected with the remaining Directors, chief executive, substantial shareholders, or management shareholders, of the Company nor are they associates (as defined under the GEM Listing Rules) of any of them. For details as to the number of Employee Options granted to the Directors, see “Further Information about Directors, Senior Management and Staff” in Appendix V. Employee Options in respect of the remaining 35,790,000 Shares will be allocated and granted primarily to senior management who are to be appointed in the future, except during the Relevant Lock-up Period.

# SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, after the completion of the Pre-Placing, the Placing, the Capitalisation Issue and the Distribution and assuming that the Over-allotment Option and the BNP Prime Peregrine Option are not exercised, the following persons (not being Directors or chief executives of the Company) will be, directly or indirectly, interested in 10% or more of the voting power at any general meeting of the Company:

Name	Number of Shares	Percentage of share capital
Van Shung Chong (B.V.I.) Limited	278,000,000	19.15
VSC ( <i>Note 1</i> )	278,000,000	19.15
TN Development	245,760,000	16.93
Grand Bridge Enterprises Limited	204,800,000	14.11
iMerchants Group ( <i>Note 2</i> )	204,800,000	14.11
iMerchants ( <i>Note 3</i> )	204,800,000	14.11
Huge Top ( <i>Notes 4 and 5</i> )	162,832,944	11.21

*Notes:*

- (1) Van Shung Chong (B.V.I.) Limited is a wholly-owned subsidiary of VSC. The Shares referred to herein relate to the same parcel of Shares held by Van Shung Chong (B.V.I.) Limited.
- (2) Grand Bridge Enterprises Limited is a wholly-owned subsidiary of iMerchants Group. The Shares referred to herein relate to the same parcel of Shares held by Grand Bridge Enterprises Limited.
- (3) iMerchants is considered to be a substantial shareholder and an initial management shareholder upon completion of the acquisition of all the Shares held by iMerchants Group pursuant to the iMerchants Agreement. The Shares referred to herein relate to the same parcel of Shares held by Grand Bridge Enterprises Limited.
- (4) As at the Latest Practicable Date, there were 340,881,846 VSC Shares in issue. On the assumption that none of the VSC Warrants and none of the VSC Exercisable Options are exercised on or before 12th April, 2000 and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution on the basis of 1,673 Shares for every 2,000 VSC Shares, Huge Top will be entitled to 162,832,944 Shares under the Distribution.
- (5) Mr. Andrew Cho Fai Yao, Ms. Miriam Che Li Yao and Ms. Yao Lin Shiu Mei are interested in 50%, 5% and 10% of the issued share capital of Huge Top. The balance of the issued share capital of Huge Top is owned by family members of Mr. Andrew Cho Fai Yao and a director of VSC and one of his family members.

Save as disclosed above, but taking no account of any Shares which may be taken up pursuant to the Placing, the Directors are not aware of any person who will, immediately following completion of the Placing, be directly or indirectly interested in 10% or more of the Shares then in issue or equity interest in any member of the Group representing 10% or more of the equity interest in such company.

## INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, after the completion of the Reorganisation, the Pre-Placing, the Placing, the Capitalisation Issue and the Distribution and assuming that the Over-allotment Option and the BNP Prime Peregrine Option are not exercised, the following shareholders are the initial management shareholders who will be interested in 5% or more of the voting power at any general meeting of the Company or who are able, as a practical matter, to direct or influence the management of the Company:

Name	Number of Shares	Percentage of share capital
VSC	278,000,000	19.15
TN Development (Note 1)	245,760,000	16.93
iMerchants Group	204,800,000	14.11
iMerchants (Note 2)	204,800,000	14.11
Huge Top (Notes 3, 4 and 5)	162,832,944	11.21
Andrew Cho Fai Yao (Note 4)	102,400,000	7.05
Miriam Che Li Yao (Note 4)	—	—
Yao Lin Shiu Mei	61,440,000	4.23
Moses Kwok Tai Tsang	51,200,000	3.52

### Notes:

- (1) Please also refer to Note 1 to the corporate structure chart in the section headed "General Overview of the Group" in this prospectus.
- (2) iMerchants is considered to be a substantial shareholder and an initial management shareholder upon completion of the acquisition of all the Shares held by iMerchants Group pursuant to the iMerchants Agreement.
- (3) As at the Latest Practicable Date, there were 340,881,846 VSC Shares in issue. On the assumption that all the VSC Warrants and all the VSC Exercisable Options are not exercised on or before 12th April, 2000 and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution on the basis of 1,673 Shares for every 2,000 VSC Shares, Huge Top will be entitled to 162,832,944 Shares under the Distribution. Please also refer to Note 2 to the corporate structure chart in the section headed "General Overview of the Group" in this prospectus.
- (4) As at the Latest Practicable Date, Ms. Miriam Che Li Yao was interested in 2,000,000 VSC Exercisable Options. On the assumption that none of the VSC Warrants and none of the VSC Exercisable Options are exercised on or before 12th April, 2000, other than the 39,124,800 VSC Warrants held by Huge Top, the 6,900,000 VSC Exercisable Options held by Mr. Andrew Cho Fai Yao and the 2,000,000 VSC Exercisable Options held by Ms. Miriam Che Li Yao, and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution on the basis of 1,466 Shares for every 2,000 Shares, Huge Top, Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao will be entitled to 171,416,864 Shares, 5,060,032 Shares and 1,466,676 Shares respectively under the Distribution.
- (5) The shareholders of Huge Top have given an undertaking to the Stock Exchange that they will not dispose of their respective interests in the share capital of Huge Top during the Relevant Lock-up Period.

- (6) Mr. Andrew Cho Fai Yao, Ms. Miriam Che Li Yao and Ms. Yao Lin Shiu Mei are interested in 50%, 5% and 10% of the issued share capital of Huge Top. The balance of the issued share capital of Huge Top is owned by family members of Mr. Andrew Cho Fai Yao and a director of VSC and one of his family members.

Each of the Initial Management Shareholders has undertaken to the Company and the Stock Exchange, save as provided under waivers granted by the Stock Exchange as described under the section headed "Waivers from compliance with GEM Listing Rules and Companies Ordinance", that:

- (i) he or she or it (save and except for TN Development in respect of the period of six months from the expiry of the Relevant Lock-up Period) will place his or her or its Relevant Securities with an escrow agent acceptable to the Stock Exchange during the Relevant Lock-up Period and the period of six months from the expiry of the Relevant Lock-up Period;
- (ii) during the Relevant Lock-up Period, he, she or it will not, save as provided in the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his, her or its direct or indirect interest in the Relevant Securities;
- (iii) within the Relevant Lock-up Period he or she or it shall (a) when he or she or it pledges or charges any interest in the Relevant Securities, immediately inform the Company and the Sponsor in writing of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details; and (b) when he or she or it receives indications, either verbal or written, from any pledgee or chargee that the Relevant Securities pledged or charged by him, her or it will be or has been disposed of, immediately inform the Company and the Sponsor in writing of such indications or disposal. Upon receiving such information in writing, the Company will, as soon as practicable, notify GEM and make a public disclosure by way of a press announcement; and
- (iv) during the period of six months from the expiry of the Relevant Lock-up Period, he, she or it will not, save as provided in the GEM Listing Rules and save as consented to by all other Initial Management Shareholders, dispose of (nor enter into any arrangement to dispose of) nor permit the registered holder to dispose of (nor enter into any agreement to dispose of) any of his, her or its direct or indirect interest in the Relevant Securities so that the Initial Management Shareholders would together (excluding TN Development) cease to control less than 35% of the issued share capital of the Company.

Pursuant to waivers granted by the Stock Exchange as described under the section headed “Waivers from compliance with GEM Listing Rules and Companies Ordinance”, the above restrictions shall not prohibit:

- (a) TN Development from entering into Revenue Option Agreements with additional Founding Members;
- (b) iMerchants Group from transferring all of the Shares held by it to iMerchants pursuant to the iMerchants Agreement;
- (c) VSC from entering into stock borrowing arrangements with BNP Prime Peregrine Securities in order to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option; and
- (d) subject to the conditions stated above, any of the Initial Management Shareholders from disposing (or entering into any agreement to dispose of) any of his, her or its direct or indirect interest in the Relevant Securities so long as the Initial Management Shareholders together (excluding TN Development) control at least 35% of the issued share capital of the Company.

Each of the Initial Management Shareholders has severally given certain undertakings to the Company, the Sponsor and the Underwriters. Details of the undertakings are set out under “Undertakings” in the section headed “Underwriting” in this prospectus.



## SHARE CAPITAL

HK\$

*Authorised share capital:*

4,000,000,000	Shares	400,000,000
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*Issued share capital:*

2,300,000	Shares in issue at the date of this prospectus	230,000
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*Shares to be issued:*

1,277,700,000	Shares to be issued under the Capitalisation Issue	127,770,000
100,000,000	Shares to be issued under the Placing	10,000,000
72,000,000	Shares to be issued under the Pre-Placing	7,200,000

*Total:*

1,452,000,000	Shares	145,200,000
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*Notes:***1. Minimum Public Float**

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of its issued share capital in the hands of the public which, in the case of the Company, is not less than 15%.

**2. Assumptions**

This table assumes the Capitalisation Issue, the Placing and the Pre-Placing have become unconditional. It takes no account of any Shares which may be issued under the Over-allotment Option and the BNP Prime Peregrine Option, or under the general mandate to issue Shares (see below “General mandate to issue Shares”), or which may be repurchased by the Company (see below “General mandate to repurchase Shares”).

**3. Ranking**

The Placing Shares will rank equally with all Shares now in issue or to be issued, and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

**4. Share Option Scheme**

The Company has conditionally adopted a Share Option Scheme. A summary of the principal terms of the scheme is set out in the section headed “Share Option Scheme” in Appendix V “Statutory and General Information” to this prospectus.

**5. General mandate to issue Shares**

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot or issue and deal with unissued Shares with an aggregate nominal value of not more than:

- (a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Pre-Placing, Placing (such share capital shall include the Shares which may be issued pursuant to the Over-allotment Option and the BNP Prime Peregrine Option) and the Capitalisation Issue; and

- (b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any) pursuant to the general mandate for the purchase of Shares granted to the Directors referred to below.

This mandate is in addition to the power of the Directors to allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of options granted under the Share Option Scheme.

The mandate will expire:

- at the conclusion of the Company's next annual general meeting; or
- at the expiration of the period within which the Company is required by any applicable laws of Bermuda or its Bye-laws to hold its next annual meeting; or
- when varied or revoked by an ordinary resolution of its shareholders in general meeting;

whichever is the earliest.

For further details of this general mandate, see the section headed "Shareholders' resolutions of the Company" in Appendix V to this prospectus.

### **6. General mandate to repurchase Shares**

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of the Company in issue following the completion of the Pre-Placing, the Placing (including the Shares which may be issued pursuant to the Over-allotment Option and the BNP Prime Peregrine Option) and the Capitalisation Issue.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and/or requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in Appendix V to this prospectus.

The mandate will expire:

- at the conclusion of the Company's next annual general meeting; or
- at the expiration of the period within which the Company is required by any applicable laws of Bermuda or its Bye-laws to hold its next annual meeting; or
- when varied or revoked by an ordinary resolution of its shareholders in general meeting;

whichever is the earliest.

For further details of this general mandate, see the section headed "Shareholders' resolutions of the Company" in Appendix V to this prospectus.

## FINANCIAL INFORMATION

### INDEBTEDNESS

#### **Borrowing**

As at the close of business of 29th February, 2000, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had aggregate outstanding borrowings of approximately HK\$18,461,000, comprising liabilities due to a related company of approximately HK\$3,882,000 and loan from a shareholder of approximately HK\$14,579,000.

#### **Security**

As at 29th February, 2000, all of the Group's borrowings were unsecured.

#### **Disclaimer**

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptances or acceptance credit, or any guarantees or other material contingent liabilities outstanding at the close of business day on 29th February, 2000.

#### **No Material Change**

Subsequent to 29th February, 2000, a subsidiary of the Company, which was wholly-owned by VSC prior to the Reorganisation, borrowed a short-term bank loan of HK\$11,000,000, which was guaranteed by VSC and a subsidiary of the Company borrowed a short-term bank loan of HK\$14,000,000 which was guaranteed by the Company. The guarantee provided by VSC has been replaced with a guarantee provided by the Company after completion of the Reorganisation. In addition, on 13th April, 2000, the Group capitalised HK\$2,000,000 of a loan from a shareholder.

#### **Foreign exchange liabilities**

As at the date hereof, the Group did not have any significant liabilities denominated in a currency other than Hong Kong dollars.

The Directors have confirmed that, save for the above short-term bank loans, and the capitalisation of a shareholder's loan as disclosed herein, there have been no material changes in the indebtedness and contingent liabilities of the Group since 29th February, 2000.

### DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### **Net Current Assets**

As at 29th February, 2000, the Group had net current assets of approximately HK\$11,868,000. Current assets comprised accounts receivable of approximately HK\$15,347,000, inventories of approximately of HK\$5,104,000 and cash and bank deposits of approximately HK\$19,000. Current liabilities comprised accruals and other payables of approximately HK\$3,148,000, due to a related company of approximately HK\$3,882,000 and taxation payable of approximately HK\$1,572,000.

### **Borrowings and Bank Facilities**

As at 29th February, 2000, the Group had no banking facilities. Subsequent to 29th February, 2000, a subsidiary of the Company which was wholly owned by VSC prior to the Reorganisation borrowed a short-term bank loan of HK\$11,000,000, which was guaranteed by VSC and a subsidiary of the Company borrowed a short-term bank loan of HK\$14,000,000 which was guaranteed by the Company. The guarantee provided by VSC has been replaced with a guarantee provided by the Company after completion of the Reorganisation. The Group has relied on cashflow generated internally, loans provided by a shareholder (HK\$2,000,000 of a shareholder's loan was capitalised by the close of business on 13th April, 2000) and the bank financing obtained subsequent to 29th February, 2000 for its capital expenditure and operating requirements. See "Financial Information — Indebtedness". The Group expects to fund its capital expenditure and operating requirements with the proceeds from the Pre-Placing, the Placing, net operating cash inflow and may raise further finance in the future.

### **Capital commitment**

As at 29th February, 2000, the Group had no material capital commitment.

## TRADING RECORD

The audited combined results of the Group for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999 prepared on the basis that the existing Group structure was in place throughout the Relevant Period<sup>(1)</sup> and extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus, are summarised below:

	Year ended 31st March,		Nine months ended 31st December,
	1998	1999	1999
	HK\$'000	HK\$'000	HK\$'000
Turnover <sup>(2)</sup>	102,322	115,651	128,096
Cost of sales	(96,254)	(106,732)	(111,826)
Gross profit	6,068	8,919	16,270
Distribution and selling costs	(1,685)	(2,638)	(3,870)
Research and development costs	—	—	(2,245)
Administrative expenses	(1,934)	(2,982)	(8,888)
Profit from operations	2,449	3,299	1,267
Interest income	11	—	63
Profit before taxation	2,460	3,299	1,330
Taxation	(248)	(276)	(1,019)
Profit attributable to shareholders	2,212	3,023	311
Dividends <sup>(3)</sup>	6,800	—	—
Earnings per Share — Basic <sup>(4)</sup>	0.17 cents	0.24 cents	0.02 cents

### Notes:

- (1) Rule 7.03(1) of the GEM Listing Rules states that in the case of a new applicant, the accountants' report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Stock Exchange. Please refer to the paragraph headed "Other Information" below for the waiver applied for and granted by the Stock Exchange in respect thereof.

- (2) During the Relevant Period, turnover consisted of sales of merchandise in respect of which the VSC Group was the only supplier and commissions earned from the provision of procurement services to the VSC Group. The following table is an analysis of the combined turnover of the Group's attributable breakdown by type of activity of the Group and by geographic distribution for the two years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999 and is prepared on the same basis on which the above summary is prepared:

	Year ended 31st March, 1998 HK\$'000	1999 HK\$'000	Nine months ended 31st December, 1999 HK\$'000
Turnover:			
Sales of merchandise	101,700	114,652	126,963
Commission on procurement services	374	999	1,133
Purchase rebate	248	—	—
Total	102,322	115,651	128,096
Turnover:			
Mainland China	96,812	91,828	113,139
Macau and Vietnam	5,510	23,823	14,957
Total	102,322	115,651	128,096

- (3) VSC (Far East) Limited declared a dividend of HK\$6.8 million during the year ended 31st March, 1998 to its then shareholder which was paid during the year ended 31st March, 1999. Such dividend was financed from the Group's internal resources. Subsequent to 31st December, 1999, on 31st March, 2000, VSC (Far East) Limited declared an interim dividend of HK\$9 million to its then shareholder which was paid on 31st March, 2000.
- (4) The calculation of earnings per Share is based on the combined profit after taxation of the Group for the two years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999 and a total of 1,280,000,000 Shares in issue after the Capitalisation Issue during such years/period.

#### Other Information

Pursuant to paragraph 31 of the Third Schedule of the Companies Ordinance (as amended by the Notice of Exemption dated 22nd October, 1999 issued by the Securities and Futures Commission) and Rules 7.03(1) and 11.10 of the GEM Listing Rules respectively, the Company is required to include the financial results for each of the two years ended 31st March, 2000 in the accountants' report. The Securities and Futures Commission has granted a waiver from strict compliance with paragraph 31 of the Third Schedule of the Companies Ordinance and the Stock Exchange has granted waivers from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31st December, 1999, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

## ANALYSIS OF BREAKDOWN OF TURNOVER, MAJOR EXPENSES AND PROFITS

### General

The results of operation as shown in the trading record for the years ended 31st, March, 1998 and 1999 represent the Group's results of its steel trading business whereas for the nine months ended 31st December, 1999, the figures represent the combined results of the Group's steel trading business together with the initial development costs of iSteelAsia.com.

### *Turnover and revenue recognition*

The Group's turnover during the track record period comprises (i) the net invoiced value of merchandise sold after allowance for returns and discounts, (ii) commission on procurement services and (iii) others. 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 is recognised upon provision of the services. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

### *Website development costs*

Costs directly associated with development of specific websites, which include the external direct cost 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 Directors review and evaluate the recoverability of the carrying value of the website development costs periodically. Research and other development costs relating to website development and website maintenance costs are expensed in the period in which they are incurred.

### *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.

During the Relevant Period, the provision for taxation was made for the assessable profit related to the Group's steel trading business. Total profit before taxation from the Group's steel trading business amounted to approximately HK\$2,480,000, HK\$3,299,000 and HK\$7,972,000 respectively during the Relevant Period, and the corresponding effective tax rates were approximately 10.1%, 8.4% and 12.8% respectively. The fluctuation in effective tax rates was mainly because a portion of the Group's steel trading activities (which varied during the Relevant Period) were effected outside Hong Kong and the related profit

was thus not subject to Hong Kong profits tax. For the nine months ended 31st December, 1999, the Group's Internet business incurred a loss and accordingly no provision for taxation was made.

**For the nine months ended 31st December, 1999**

Turnover for the nine months ended 31st December, 1999 reached approximately HK\$128.1 million, representing approximately 110.8% of the annual turnover of the Group for the year ended 31st March, 1999. During the period, the Group's steel trading business continued to expand by diversifying its customer base from pure end users to include more distributors and stockists in Southern China which in turn increased the turnover of the Group. Gross margin for the nine months ended 31st December, 1999 was further improved to approximately 12.7% as the Group provided more value-added services such as assisting customers with custom declarations. Distribution and selling costs were increased further by approximately 46.7%, mainly due to more transportation and freight charges as a result of more logistic services being performed. However, the Group only recorded a combined profit attributable to shareholders of approximately HK\$0.3 million for the nine months ended 31st December, 1999 due to the write-off of initial set up costs of iSteelAsia.com of approximately HK\$6.6 million.

The initial set up costs for iSteelAsia.com for the period amounted to approximately HK\$6.6 million, which consisted of research and development costs of approximately HK\$2.2 million and promotion and marketing costs of approximately HK\$3.0 million and staff recruitment cost of approximately HK\$1.4 million included in administrative expenses. Excluding these set up costs, the profit before taxation and the net profit margin of the Group's steel trading operation for the period improved further to approximately HK\$8.0 million and 5.4% respectively.

The significant increase in taxation for the period is attributable to the increase in net profit from the Group's trading operation and the loss incurred for the Internet business is not yet deductible for Hong Kong profits tax purposes.

**Fiscal year ended 31st March, 1999 compared with fiscal year ended 31st March, 1998**

Turnover for the year ended 31st March, 1999 amounted to approximately HK\$115.7 million, an increase of approximately 13.0% over the year ended 31st March, 1998 whereas the profit attributable to shareholders improved by 36.7% to approximately HK\$3.0 million.

Following the establishment of the Group's steel trading division in April 1997, the Group gradually developed its customer base in Southern China and increased its sales. Gross margin increased from approximately 5.9% for the year ended 31st March, 1998 to 7.7% for the year ended 31st March, 1999, representing the division's success in securing more higher profit margin business by providing more value-added services to its customers such as logistic arrangements. Under such arrangements, the distribution and selling costs increased by approximately 56.6% since the Group needed to bear more transportation and freight charges for delivering the steel to its customers in Southern China. Administrative expenses increased by approximately 54.2% mainly due to the increase in exchange loss arising from the depreciation of the Renminbi from the customers in Southern China and in



other sundry items. As a whole, the Group managed to achieve an improvement in its net profit margin from approximately 2.2% for the year ended 31st March, 1998 to 2.6% for the year ended 31st March, 1999.

## PROPERTY INTERESTS

### Property leased in Hong Kong

The office of the Group is situated on 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong. The premises have a total saleable area of approximately 3,890 sq.ft. and are sub-leased from CFY Enterprises Limited, a wholly-owned subsidiary of the VSC Group. The principal terms of the above sub-tenancy agreement with CFY Enterprises Limited are set out in the section headed "Relationship with the VSC Group and the iM Group — Continuing Connected Transactions".

### Property Valuation

The property interest of the Group has been valued to be of no commercial value as at 13th April, 2000 by Chesterton Petty Limited, an independent property valuer. The texts of the letter with a summary of valuation and a valuation certificate of this property interest prepared by Chesterton Petty Limited are set out in Appendix III to this prospectus.

## LOSS ESTIMATE, DIVIDENDS AND WORKING CAPITAL

The Directors estimate that, in the absence of unforeseen circumstances and on the bases set out in Appendix II to this prospectus, the combined loss after taxation but before extraordinary items of the Group for the year ended 31st March, 2000 will not be more than HK\$7 million. The Directors are not aware of any extraordinary items which have arisen, or are likely to arise, in respect of the year ended 31st March, 2000. The texts of the letters from Arthur Andersen & Co, the reporting accountants of the Group and from the Sponsor in respect of the loss estimate are set out in Appendix II to this prospectus.

On the basis of the above loss estimate and on the assumption that the Pre-Placing, the Placing and the Capitalisation Issue had been completed and a total of 1,452,000,000 Shares had been in issue on 1st April, 1999, the forecast pro forma fully diluted loss per Share is equivalent to 0.48 cents. This does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, the BNP Prime Peregrine Option and options granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors referred to in the paragraph headed "Shareholders' resolutions of the Company" in Appendix V to this prospectus or otherwise.

### Dividends

The Directors do not anticipate paying dividends in the foreseeable future. The Directors anticipate that all earnings in the foreseeable future will be retained to finance the continuing development of its business. However, future dividends, if any, will be declared or paid at the discretion of the Board and will depend upon, among other things, the Company's operations, capital requirements and surplus, general financial conditions, contractual restrictions and such other factors as the Board of Directors may deem relevant.

**Working Capital**

Taking into account the net proceeds of the Pre-Placing and the Placing, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

**DISTRIBUTABLE RESERVES**

As at 31st December, 1999, the Company had no reserve available for distribution to shareholders.

**ADJUSTED NET TANGIBLE ASSETS**

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31st December, 1999 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	<i>HK\$'000</i>
Audited combined net assets of the Group as at 31st December, 1999	3,741
Less: Website development costs	(3,882)
	(141)
Combined loss attributable to shareholders of the Group for the two months ended 29th February, 2000 based on its unaudited management accounts	(2,534)
Capitalisation of shareholder's loan ( <i>Note 2</i> )	2,000
Net proceeds of issuing new shares by a wholly-owned subsidiary of the Company ( <i>Note 3</i> )	3,875
Interim dividend ( <i>Note 4</i> )	(9,000)
Proceeds of the Pre-Placing	57,600
Estimated net proceeds of the Placing	88,429
Adjusted net tangible assets	140,229
Adjusted net tangible assets value per Share ( <i>Note 1</i> )	HK\$0.10

*Notes:*

- (1) Based on the 1,452,000,000 Shares expected to be in issue immediately following the Pre-Placing, the Placing and the Capitalisation Issue, but not taking into account any Shares which may fall to be allotted and issued pursuant to exercise of the Over-allotment Option, the BNP Prime Peregrine Option or which may fall to be issued pursuant to the exercise of any options granted under the Share Option Scheme or which may be issued or repurchased by the Company pursuant to the general mandates referred to in the section headed "Further Information about the Company" in Appendix V to this prospectus, or otherwise.
- (2) On 13th April, 2000, the Group's shareholder's loan as at 31st December, 1999 amounting to HK\$2,000,000 was capitalised.

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- (3) On 13th April, 2000, iSteelAsia Holdings, a wholly-owned subsidiary of the Company, issued new shares to Grand Bridge Enterprises Limited, a wholly-owned subsidiary of iMerchants Group, for a consideration of US\$500,000 (equivalent to approximately HK\$3,875,000).
  - (4) On 31st March, 2000, VSC (Far East) Limited declared and paid an interim dividend of HK\$9 million to its then shareholder.

#### **NO MATERIAL CHANGE**

The Directors confirm that since 31st December, 1999, being the date to which the latest audited combined financial statements of the Group were made up, there has been no material adverse change in the financial or trading position or prospects of the Group.

## SPONSOR'S INTERESTS

Neither BNP Prime Peregrine Capital nor its associates expect to have accrued any material benefit as a result of the successful outcome of the Placing, other than the following: (i) by way of underwriting commissions to be paid (or new Shares to be issued pursuant to the BNP Prime Peregrine Option) to its associate, BNP Prime Peregrine Securities, for acting as one of the Underwriters to the Placing; (ii) the respective normal advisory and documentation fees to be paid to BNP Prime Peregrine Capital as sponsor of the Placing; (iii) by a sponsorship agreement entered into between BNP Prime Peregrine Capital and the Company on 14th April, 2000 pursuant to which BNP Prime Peregrine Capital has been appointed as sponsor of the Company for the remainder of the financial year of the Company ending 31st March, 2001 and for the period of 24 months commencing from 1st April, 2001 and the Company shall pay an agreed fee to BNP Prime Peregrine Capital for its provision of such services; and (iv) certain associates of BNP Prime Peregrine Capital, whose ordinary businesses involve the trading and dealing in securities, may involve in the trading of and dealing in the securities of the Company.

No director or employee of BNP Prime Peregrine Capital or BNP Prime Peregrine Securities has a directorship in the Company or any other company in the Group.

## UNDERWRITING

### UNDERWRITERS

BNP Prime Peregrine Securities Limited, ABN AMRO Rothschild, Asia Financial (Securities) Limited, Credit Lyonnais Securities (Asia) Limited, Kleinwort Benson Limited and Salomon Brothers International Limited.

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription by way of the Placing on and subject to the terms and conditions of this prospectus. In addition, the Company has granted the Over-allotment Option to the Underwriters exercisable by BNP Prime Peregrine Securities (on behalf of the Underwriters) from time to time during the period of 28 days from the date of this prospectus to require the Company to issue up to an aggregate of 15,000,000 additional Shares, representing 15% of the Shares initially offered in the Placing, on the same terms as those applicable to the Placing.

Subject to the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares (subject only to allotment and despatch of share certificates) not later than 14th May, 2000 and to certain other terms and conditions set out in the Underwriting Agreement, the Underwriters have agreed to apply and/or subscribe or procure placees to apply for and/or subscribe the Placing Shares which have not been placed pursuant to the Placing.

#### Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Placing Shares will be subject to termination if any of the following events occur at any time prior to 10:00 a.m. on the Despatch Date:

1. if there shall develop, occur or come into force any event or series of events, matters or circumstances concerning or relating to, or any change in:
  - (i) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government, strikes, lockouts, fire, flooding, civil commotion, acts of war, acts of God, explosion, epidemic or terrorism); or
  - (ii) any change or deterioration in local, national, international, financial, economic, political, military, industrial, fiscal, stock market, regulatory or market conditions and matters (including, without limitation, any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange); or
  - (iii) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or elsewhere relevant to the Company and its subsidiaries; or

- (iv) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the United States or by the European Union (or any member thereof) on Hong Kong or the PRC; or
  - (v) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, Bermuda or elsewhere relevant to the Group; or
  - (vi) any other change whether or not ejusdem genesis with any of the foregoing, or
2. any of the Underwriters becoming aware of the fact that, or has reasonable cause to believe that:
- (i) any statement, reasonably considered by BNP Prime Peregrine Securities (on behalf of the Underwriters) to be material, contained in this prospectus or any other such document in relation to the Placing was, when any of such documents were issued, or has become, untrue, incorrect or misleading in any respect; or
  - (ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom reasonably considered by BNP Prime Peregrine Securities to be material; or
  - (iii) any breach, reasonably considered by BNP Prime Peregrine Securities (on behalf of the Underwriters) to be material, of any of the representations and warranties contained in the Underwriting Agreement (other than those given by the Underwriters or the Sponsor, if any); or
  - (iv) any breach, reasonably considered by BNP Prime Peregrine Securities (on behalf of the Underwriters) to be material, of any of the other obligations and provisions of the Underwriting Agreement by any party to the Underwriting Agreement (other than any of the Underwriters or the Sponsor); or
  - (v) any event, act or omission which gives or is likely to give rise to any material liability of the Company or VSC pursuant to the indemnities given in the Underwriting Agreement; or
  - (vi) any adverse change in the business or in the financial or trading position or prospects of any member of the Group which in the reasonable opinion of BNP Prime Peregrine Securities (on behalf of the Underwriters) is material,
- which, in the reasonable opinion of BNP Prime Peregrine Securities (on behalf of the Underwriters):
- (a) is or will be, or is likely to be, materially adverse to the business, financial or other condition or prospects of the Group taken as a whole; or
  - (b) makes it inadvisable or inexpedient to proceed with the Placing.

### Undertakings

Each of the Initial Management Shareholders has severally undertaken with the Company, the Sponsor and the Underwriters that he, she or it will not and will procure that none of his, her or its associates or companies controlled by or nominees or trustees holding interest for him, her or it will (unless with the prior written consent of BNP Prime Peregrine Securities and unless in compliance with the GEM Listing Rules) dispose of (or enter into any agreement to dispose of) any of the Relevant Securities or any interests therein, or any shares held indirectly or indirectly by him, her or it or his, her or its associates in any company which is the beneficial owner of any of such Relevant Securities or interests nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his, her or its direct or indirect interest in the Relevant Securities within the Relevant Lock-up Period except pursuant to the stock borrowing agreement entered into between VSC and BNP Prime Peregrine Securities.

The Initial Management Shareholders have further undertaken with the Company, the Sponsor and the Underwriters that they shall procure that their respective Relevant Securities are placed for the Relevant Lock-up Period and for the period of six months from the expiry of the Relevant Lock-up Period in escrow on terms acceptable to the Stock Exchange with an escrow agent acceptable to the Stock Exchange (save and except TN Development in respect of the period of six months from the expiry of the Relevant Lock-up Period).

Furthermore, each of the Initial Management Shareholders has undertaken to the Company, the Sponsor and the Underwriters to comply with the following requirements:

- (a) in the event that he, she or it pledges or charges any direct or indirect interest in any of the Relevant Securities under Rule 13.17(2) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.17(5) of the GEM Listing Rules, at any time during the Relevant Lock-up Period to inform the Company, the Sponsor and BNP Prime Peregrine Securities (for itself and on behalf of the Underwriters) in writing immediately thereafter, disclosing the details as required by the GEM Listing Rules;
- (b) to inform the Company, the Sponsor and BNP Prime Peregrine Securities (for itself and on behalf of the Underwriters) in writing immediately in the event that he, she or it becomes aware that the pledgee or chargee has disposed of or intends to dispose of any such interest in the Relevant Securities and of the number of the Relevant Securities affected; and

The Initial Management Shareholders have jointly and severally undertaken to the Company, the Sponsor and BNP Prime Peregrine Securities (for itself and on behalf of the Underwriters) that during the period of six months from the expiry of the Relevant Lock-up Period, he, she or it will not, and will procure that none of his, her or its associates or companies controlled by or nominees or trustees holding interest for him, her or it will, save as provided in the GEM Listing Rules, dispose of (nor enter into any arrangement to dispose of) nor permit the registered holder to dispose of (nor enter into any agreement to dispose of) any of his, her or

its direct or indirect interest in the Relevant Securities so that the Initial Management Shareholders (other than TN Development) would together cease to control 35% of the issued share capital of the Company.

Each of the above undertakings by the Initial Management Shareholders also applies in respect of any Shares returned pursuant to the above mentioned stock borrowing agreement.

The Company has undertaken with BNP Prime Peregrine Securities that it will not, and each of the Initial Management Shareholders jointly and severally has undertaken with BNP Prime Peregrine Securities to procure that the Company will not, without the prior written consent of BNP Prime Peregrine Securities and unless in compliance with the GEM Listing Rules, allot or issue, agree to allot or issue, accept subscriptions for, offer, sells, contract to sell, or grant or agree to grant any options or warrants or other rights in or carrying the right to subscribe for or otherwise dispose of Shares or other securities (including securities convertible into or exchangeable for Shares) of the Company or any interest therein or announce an intention to do so within the Relevant Lock-up Period, except pursuant to an issue of Shares upon the exercise of the Over-allotment Option, the BNP Prime Peregrine Option or options which may be granted under the Share Option Scheme.

#### **Commission and expenses**

The Underwriters will receive a commission of 4.0% of the aggregate Issue Price of all the Placing Shares, out of which they will pay any sub-underwriting commission, and BNP Prime Peregrine Capital will in addition receive a financial advisory fee and a documentation fee in relation to the Placing. Such fee and commission, together with the GEM listing fees, the Stock Exchange transaction levy, legal and other professional fees, printing and other expenses relating to the Placing which are currently estimated to be approximately HK\$19.6 million in total (assuming that the Over-allotment Option is not exercised) are payable by the Company.

#### **BNP Prime Peregrine Option**

The Company has granted an option in favour of BNP Prime Peregrine Securities under the Underwriting Agreement pursuant to which the Company may be required to issue and allot up to an aggregate of 2,500,000 additional new Shares at the Issue Price to BNP Prime Peregrine Securities (or its nominee(s)) in lieu of the payment of all or part of the underwriting and management fee (but not the selling concessions) payable by the Company to BNP Prime Peregrine Securities in respect of the Placing Shares underwritten by BNP Prime Peregrine Securities pursuant to the Underwriting Agreement (but excluding any underwriting and management fee payable to BNP Prime Peregrine Securities as a result of the exercise of the Over-allotment Option). The BNP Prime Peregrine Option will be exercisable at the absolute discretion of BNP Prime Peregrine Securities no later than 5:00 p.m. on the Despatch Date. Pursuant to the BNP Prime Peregrine Option, BNP Prime Peregrine Securities may opt for all or part of the aggregate amount of the management and underwriting fee payable to it under the Underwriting Agreement in respect of the Placing Shares underwritten by it (but excluding any underwriting and management fee payable to BNP Prime Peregrine Securities as a result of the exercise of the Over-allotment Option) to be paid by way of an allotment of new Shares (which allotment shall not be made at any time earlier than the Despatch Date), and any remaining management and underwriting fee not opted to be paid by way of new Shares by exercising the BNP Prime Peregrine Option will be



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payable by the Company to BNP Prime Peregrine Securities in accordance with the terms of the Underwriting Agreement. Assuming the BNP Prime Peregrine Option is exercised in full, BNP Prime Peregrine Securities will hold about 0.17% of the enlarged issued share capital of the Company (assuming the Over-allotment Option is fully exercised).

**Underwriters' interest in the Group**

Save as pursuant to the Underwriting Agreement, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe or to nominate persons to subscribe for securities in any member of the Group.

## STRUCTURE OF THE PLACING

### THE PLACING

#### **Issue Price**

The Issue Price is HK\$1.08 per Share. Based on the Issue Price of HK\$1.08 per Share, plus 1% brokerage and 0.011% Stock Exchange transaction levy, one board lot of 2,000 Shares will amount to a total of approximately HK\$2,181.84.

#### **Placing**

The Company is initially offering 100,000,000 new Shares at the Issue Price (excluding any Shares to be issued pursuant to the Over-allotment Option and the BNP Prime Peregrine Option). The Placing is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement.

It is expected that the Underwriters or selling agents nominated by them will conditionally place the Placing Shares (other than Shares to be placed with employees of the Company as described below) on behalf of the Company pursuant to an international placement with professional, institutional and other investors in Hong Kong, the United States, Europe and elsewhere, subject to certain restrictions. Such professional, institutional and other investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing Shares will be offered in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions, as defined in Regulation S under the US Securities Act, and in the United States to qualified institutional buyers, as defined in Rule 144A under the US Securities Act. The Placing Shares are unlikely to be allocated to individual retail investors.

Approximately 10,000,000 Placing Shares (representing 10.0% of the Placing Shares and approximately 0.69% of the enlarged issued share capital of the Company upon completion of the Pre-Placing, the Placing, assuming the Over-allotment Option and the BNP Prime Peregrine Option are not exercised) will be offered, at the Issue Price by the Company on a preferential basis as to allocation only, to certain employees of the Group who are not connected persons (as defined in the GEM Listing Rules) of the Company.

The allocation of the Placing Shares is based on a number of factors including the level and timing of demand, and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its Shares after the listing of the Shares on GEM. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base for the benefit of the Company and its shareholders taken as a whole.

### CONDITIONS OF THE PLACING

Acceptance of applications for the Placing Shares is conditional upon:

#### **(a) Listing**

the GEM Listing Committee granting listing of, and permission to deal in, all the Shares in issue and the Shares to be issued as mentioned herein on GEM; and

**(b) Underwriting Agreement**

the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with its terms or otherwise, in each case, on or before 14th May, 2000.

If any of these conditions is not fulfilled on or before 14th May, 2000, the Placing will not proceed and all monies paid by the investors under the Placing will be returned without interest. The terms on which monies will be returned are set out in the placing letter in respect of the Placing.

**OVER-ALLOTMENT OPTION**

Pursuant to the Underwriting Agreement, the Company has granted to BNP Prime Peregrine Securities (on behalf of the Underwriters) the right but not the obligation of the Over-allotment Option, exercisable for 28 days from the date of this prospectus, to require the Company to issue up to an aggregate of 15,000,000 additional Shares, representing 15% of the number of Shares initially available under the Placing. These Shares will be issued at the Issue Price for the purpose of covering over-allocations in the Placing. In order to facilitate settlement of over-allocations in connection with the Placing pending the exercise of the Over-allotment Option, a stock borrowing arrangement has been entered into between BNP Prime Peregrine Securities and VSC. An application has been made to the Stock Exchange for a waiver from strict compliance with the two year moratorium period on disposal of securities under Rule 13.16, in order to allow VSC to enter into this stock borrowing arrangement. Details of such waiver are set out in the section headed "Waiver from compliance with GEM Listing Rules and Companies Ordinance" in this prospectus. BNP Prime Peregrine Securities may also cover such over-allocations by, amongst other means, purchasing Shares in the secondary market or by a combination of purchases in the secondary market and exercise of the Over-allotment Option either in full or in part. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full (but the BNP Prime Peregrine Option is not exercised), the Offer Shares will represent approximately 7.84% of the enlarged issued share capital of the Company immediately after completion of the Placing. In the event that the Over-allotment Option is exercised, an announcement will be made on the GEM website, and in the South China Morning Post in English and the Hong Kong Economic Times in Chinese.

**STABILISATION**

In connection with the Placing, BNP Prime Peregrine Securities (on behalf of the Underwriters) may over-allot up to an aggregate of 15,000,000 additional Shares (such over-allocations may be covered by exercising the Over-allotment Option in full or in part, at any time up to 28 days from the date of this prospectus) and/or by purchasing Shares in the secondary market and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Issue Price. Any such over-allocation purchase transactions will be made in compliance with all applicable laws.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial issue prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocations in the relevant offer. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the direction and absolute discretion of BNP Prime Peregrine Securities. The stabilisation price to cover the over-allocation will not normally be higher than the Issue Price. Relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

## APPENDIX I

## ACCOUNTANTS' REPORT

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, Arthur Andersen & Co, Certified Public Accountants, Hong Kong.

**ARTHUR ANDERSEN**

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

14th April, 2000

The Directors  
iSteelAsia.com Limited  
BNP Prime Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to iSteelAsia.com Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as "the Group") for inclusion in the prospectus of the Company dated 14th April, 2000 ("the Prospectus").

The Company was incorporated in Bermuda on 10th February, 2000 as an exempted company under the Companies Act 1981 of Bermuda. The Company has not carried on any material business since its incorporation, except that on 13th April, 2000, it acquired the entire issued share capital of iSteelAsia Holdings Limited and MetalAsia Holdings Limited through share exchanges and consequently became the holding company of the Group. iSteelAsia Holdings Limited and MetalAsia Holdings Limited act as intermediate holding companies of the other companies comprising the Group.

As at the date of this report, no audited financial statements have been prepared by the Company, iSteelAsia Holdings Limited, MetalAsia Holdings Limited and iSteelAsia Limited as they were not subject to any statutory audit requirements in their jurisdictions of incorporation, no audited financial statements have been prepared by MetalAsia (Hong Kong) Limited as it was incorporated subsequent to 31st December, 1999, and no audited financial statements have been prepared by iSteelAsia (Hong Kong) Limited as it was incorporated shortly before 31st December, 1999. There were no material transactions carried out by these companies during the years/period covered by this report. We have, however, reviewed all relevant transactions of these companies for the years/period covered by this report, and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

VSC (Far East) Limited ("VFE"), a company incorporated in the British Virgin Islands on 29th July, 1993, and the Steel Trading Division of Van Shung Chong Hong Limited ("STD"), a company incorporated in Hong Kong on 26th March, 1971, were engaged in steel trading business. VFE and Van Shung Chong Hong Limited were wholly-owned by Van Shung Chong (B.V.I.) Limited, a shareholder of the Company. As part of a reorganisation exercise, the assets, liabilities and businesses of VFE and STD were transferred to MetalAsia (Hong Kong) Limited effective from 31st March, 2000 and thereafter VFE became dormant and Van Shung Chong Hong Limited ceased its steel trading business. For the purpose of this report, the results of VFE and STD for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999 have been included in the combined results of the Group for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999, and the assets and liabilities of VFE and STD as at 31st December, 1999 have been included in the combined net assets of the Group as at 31st December, 1999.

We have acted as auditors of VFE and STD (part of Van Shung Chong Hong Limited) for the years ended 31st March, 1998 and 1999. For the purpose of this report, we have carried out an audit of the combined financial statements of iSteelAsia Limited, iSteelAsia (Hong Kong) Limited, VFE and STD for the nine months ended 31st December, 1999.

We have examined the audited financial statements of VFE and STD for the years ended 31st March, 1998 and 1999, and the audited combined financial statements of iSteelAsia Limited, iSteelAsia (Hong Kong) Limited, VFE and STD for the nine months ended 31st December, 1999, or since their respective dates of incorporation where this is a shorter period. Our examinations were made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999 and of the combined net assets of the Group as at 31st December, 1999 ("the Summaries") set out in this report have been prepared from the audited financial statements of the companies now comprising the Group as well as VFE and STD on the basis set out in Section 1 below, after making such adjustments as are appropriate.

The Directors of the respective companies now comprising the Group as well as VFE and STD are responsible for preparing financial statements of the respective companies which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The Directors of the Company are also responsible for the summaries of the combined results of the Group for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999 and of the combined net assets of the Group as at 31st December, 1999. It is our responsibility to form an independent opinion on the summaries of the combined results and of the combined net assets of the Group.

In our opinion, the Summaries, together with the notes thereon, give, for the purpose of this report, a true and fair view of the combined results of the Group for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999 and of the combined net assets of the Group as at 31st December, 1999.

## 1. BASIS OF PRESENTATION

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries (all of which are private companies or, if incorporated outside of Hong Kong, have substantially the same characteristics as a Hong Kong private company):

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
iSteelAsia Holdings Limited	British Virgin Islands 26th January, 2000	US\$10,000	100%	Investment holding
iSteelAsia (Hong Kong) Limited	Hong Kong 15th October, 1999	HK\$2	100%	Operation of an e-commerce vertical portal business for steel trading
iSteelAsia Limited	British Virgin Islands 27th October, 1999	US\$10	100%	Operation of an e-commerce vertical portal business for steel trading
MetalAsia Holdings Limited	British Virgin Islands 25th January, 2000	US\$2,000	100%	Investment holding
MetalAsia (Hong Kong) Limited	Hong Kong 24th January, 2000	HK\$4	100%	Trading of steel

The summary of the combined results includes the results of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the years/period covered by this report or since their respective dates of incorporation, where this is a shorter period, as well as the results of the VFE and STD. The summary of the combined net assets of the Group as at 31st December, 1999 has been prepared to present the assets and liabilities of the companies now comprising the Group as well as the assets and liabilities of VFE and STD as at that date, as if the current group structure had been in existence as at 31st December, 1999.

Significant transactions and balances between companies now comprising the Group, and between the companies now comprising the Group and VFE and STD, have been eliminated on combination.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

### a. 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.

### b. Turnover and revenue recognition

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

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 is recognised upon provision of the services. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

### c. 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.

### d. Advertising and promotion costs

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

### e. Staff retirement benefits

The costs of staff retirement benefits are expensed in the period in which they are incurred.

### f. Fixed assets and depreciation

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



Gains and losses on disposals of fixed assets are recognised in the profit and loss account based on the net disposal proceeds less the then carrying amount of the assets.

**g. Website development costs**

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

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

**h. Inventories**

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

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

**i. Operating leases**

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

**j. Foreign currency translation**

Companies within the Group maintain their books and records in Hong Kong dollars. Transactions in other currencies during the years/period are translated into Hong Kong dollars at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into Hong Kong dollars at the applicable rates of

exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains or losses are dealt with in the profit and loss account.

### 3. RESULTS

The following is a summary of the combined results of the Group for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999, prepared on the basis set out in Section 1 above:

		Year ended 31st March,		Nine months ended 31st December,
		1998	1999	1999
	Notes	HK\$'000	HK\$'000	HK\$'000
Turnover	(a)	102,322	115,651	128,096
Cost of sales		(96,254)	(106,732)	(111,826)
Gross profit		6,068	8,919	16,270
Distribution and selling costs		(1,685)	(2,638)	(3,870)
Research and development costs		—	—	(2,245)
Administrative expenses		(1,934)	(2,982)	(8,888)
Profit from operations		2,449	3,299	1,267
Interest income		11	—	63
Profit before taxation	(b)	2,460	3,299	1,330
Taxation	(c)	(248)	(276)	(1,019)
Profit attributable to shareholders		2,212	3,023	311
Dividends	(d)	6,800	—	—
Earnings per share — Basic	(e)	0.17 cents	0.24 cents	0.02 cents

Notes:

**a. Turnover and revenue**

Turnover and revenue comprised:

	Year ended 31st March, 1998		Nine months ended 31st December, 1999
	HK\$'000	HK\$'000	HK\$'000
Sales of merchandise	101,700	114,652	126,963
Commission on procurement services	374	999	1,133
Others	248	—	—
Total turnover	102,322	115,651	128,096
Interest income	11	—	63
Total revenue	102,333	115,651	128,159

**b. Profit before taxation**

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

	Year ended 31st March, 1998		Nine months ended 31st December, 1999
	HK\$'000	HK\$'000	HK\$'000
After charging —			
Staff costs	674	619	2,908
Less: amount included in research and development costs	—	—	(134)
	674	619	2,774
Provision for bad and doubtful debts	—	—	1,536
Operating lease rentals in respect of rented premises	260	268	205
Advertising and promotion costs	—	—	3,024
Depreciation of fixed assets	5	8	8
Net exchange loss	—	529	—
Auditors' remuneration	80	80	300
After crediting —			
Interest income from overdue accounts receivable	11	—	63
Net exchange gain	66	—	131

**c. Taxation**

Taxation charges comprised:

	<b>Year ended 31st March,</b>		<b>Nine months ended 31st December,</b>
	<b>1998</b>	<b>1999</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

Current taxation

— Hong Kong profits tax	248	276	1,019
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Hong Kong profits tax was provided at the rate of 16.5% for the year ended 31st March, 1998 and 16% for the year ended 31st March, 1999 and the nine months ended 31st December, 1999 on estimated assessable profit arising in or derived from Hong Kong.

There was no significant unprovided deferred taxation for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999.

**d. Dividends**

No dividend has been paid or declared by the Company since its incorporation.

The following dividend was declared by VSC (Far East) Limited to its then shareholder during the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999:

	<b>Year ended 31st March,</b>		<b>Nine months ended 31st December,</b>
	<b>1998</b>	<b>1999</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

VSC (Far East) Limited	6,800	—	—
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The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

**e. Earnings per share**

The calculation of basic earnings per share for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999 is based on the profit attributable to shareholders during the years/period and assuming 1,280,000,000 shares in issue and issuable, comprising 2,300,000 shares in issue as at the date of the Prospectus and 1,277,700,000 shares to be issued pursuant to the Capitalisation Issue as described in Appendix V to the Prospectus.

**f. Directors' and senior executives' emoluments**

i. Details of emoluments paid to directors of the Company were:

	Year ended 31st March, 1998		Nine months ended 31st December, 1999
	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—
Other emoluments			
— Basic salaries and allowances	63	65	53
— Bonuses <sup>#</sup>	60	60	300
	123	125	353

<sup>#</sup> The executive director was entitled to discretionary bonuses.

No director waived any emoluments during the years/period covered by this report. No incentive payment for joining the Group nor compensation for loss of office was paid or payable to any director for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999.

The number of directors whose remuneration falls within the following bands are as follows:

	Year ended 31st March, 1998		Nine months ended 31st December, 1999*
Nil to HK\$ 1,000,000	2	2	2

\* The band analysis for the nine months ended 31st December, 1999 is stated after annualising the emoluments paid during the nine months ended 31st December, 1999.

During the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999, a director received emoluments of approximately HK\$123,000, HK\$125,000 and HK\$353,000, respectively. The other director did not receive any emoluments during the years/period covered by this report.

Under the arrangements currently in force, the aggregate amount of fees and other emoluments payable to the directors of the Company for the year ended 31st March, 2000 is estimated to be approximately HK\$1,388,000.

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

	Year ended 31st March,		Nine months ended 31st December,
	1998	1999	1999
	HK\$'000	HK\$'000	HK\$'000
Basic salaries and allowances	658	750	635
Bonuses <sup>#</sup>	60	60	1,064
	718	810	1,699
Number of directors	1	1	1
Number of employees	4	4	4
	5	5	5

<sup>#</sup> The executive directors and certain senior management were entitled to discretionary bonuses.

During the years/period covered by this report, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The remuneration of each of the five highest paid individuals falls within the band of Nil to HK\$1,000,000 during the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999\*.

\* The band analysis for the nine months ended 31st December, 1999 is stated after annualising the emoluments paid during the nine months ended 31st December, 1999.

**g. Pension scheme**

The Group has arranged for its employees a defined contribution provident fund, which is managed by an independent trustee. Each of the Group and its employees makes monthly contributions to the scheme with an amount of 5% to 13% of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the Group's employer contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service, or at a reduced scale of between 30% to 90% after completing three to nine years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the Group's employer contribution. For the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999, the aggregate amount of employer contributions made by (credited to) the Group were approximately HK\$78,000, HK\$(134,000) and HK\$24,000, respectively, after deduction of forfeited contributions of approximately Nil, HK\$232,000 and HK\$18,000, respectively. As at 31st December, 1999, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

**h. Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to 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.

The Group had no banking facilities. Its operations were financed by shareholder's loan from Van Shung Chong (B.V.I.) Limited, which was unsecured and non-interest bearing (see Section 4.e).

Under an outsourcing agreement between the Group and iMerchants Limited, a related party, (i) iMerchants Limited developed a website for the Group during the period from October 1999 to December 1999 at a fee of US\$500,000 (equivalent to approximately HK\$3,882,000), and (ii) iMerchants Limited agreed to provide technical support, maintenance enhancement and security services to the e-commerce vertical portal of the Group during the period from 1st January, 2000 to 31st December, 2001 at a pre-determined minimum fee of approximately US\$1,908,000 (equivalent to approximately HK\$14,784,000).

In addition, the Group had the following transactions with related parties:

Name of related party/ Nature of transaction	Year ended 31st March,		Nine months ended 31st December,
	1998 HK\$'000	1999 HK\$'000	1999 HK\$'000
<b>Continuing —</b>			
Van Shung Chong Hong Limited (i)			
— Purchases made by the Group	96,254	106,732	111,826
— Commission earned by the Group	374	999	1,133
— Administrative fees paid by the Group	360	360	270
— Rental expenses paid by the Group	260	268	205
iMerchants Limited (ii)			
— Website development costs paid by the Group	—	—	3,882
<b>Non-continuing —</b>			
Van Shung Chong Hong Limited (i)			
— Research and development costs paid by the Group	—	—	2,245
— Advertising and promotion costs paid by the Group	—	—	2,889
CFY Enterprises Limited (i)			
— Recruitment fees paid by the Group	—	—	1,373

**Notes:**

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

- (ii) iMerchants Limited is owned and controlled by iMerchants Group Limited, a shareholder of the Company.

In the opinion of the Directors of the Company, the above related party transactions were carried out in the usual course of the business and on normal commercial terms.

#### 4. NET ASSETS

The following is a summary of the combined net assets of the Group as at 31st December, 1999, prepared on the basis set out in Section 1 above.

	Notes	HK\$'000	HK\$'000
Fixed assets	(a)		29
Website development costs	(b)		3,882
Current assets:			
Inventories	(c)	5,838	
Accounts receivable		23,002	
Cash and bank deposits		19	
Total current assets		28,859	
Current liabilities:			
Accruals and other payables		799	
Due to related companies	(d)	3,942	
Taxation payable		1,543	
Shareholder's loan, current portion	(e)	20,745	
Total current liabilities		27,029	
Net current assets			1,830
Total assets less current liabilities			5,741
Shareholder's loan, non-current portion	(e)		(2,000)
Net assets	(g)		3,741

Notes:

##### a. Fixed assets

Fixed assets comprised:

	Cost HK\$'000	Accumulated depreciation HK\$'000	Net book value HK\$'000
Computers and equipment	50	21	29



**b. Website development costs**

	<i>HK\$'000</i>
Cost	3,882
Less: Accumulated amortisation	—
	<u>3,882</u>

No amortisation of website development costs was recorded as the website had not been brought into economic use as at 31st December, 1999.

**c. Inventories**

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

**d. Due to related companies**

Name of related company	<i>HK\$'000</i>
Vantage Godown Company Limited (i)	60
iMerchants Limited (ii)	3,882
	<u>3,942</u>

*Notes:*

- (i) Vantage Godown Company Limited is wholly-owned by Van Shung Chong (B.V.I.) Limited, a shareholder of the Company.
- (ii) iMerchants Limited is owned and controlled by iMerchants Group Limited, a shareholder of the Company.

The amounts due to related companies were unsecured, non-interest bearing and without pre-determined repayment terms. Had interest been charged on the outstanding balances due to the related companies during the years/period covered by this report based on borrowing cost from commercial banks during the years/period of approximately 6.5% per annum, the Group would have paid interest, net of tax, of approximately HK\$3,300, HK\$3,300 and HK\$2,500, respectively, for the years ended 31st March, 1998 and 1999 and the nine months ended 31st December, 1999.

The amounts due to the related companies were fully settled subsequent to 31st December, 1999.

**e. Shareholder's loan**

Name of shareholder	HK\$'000
Van Shung Chong (B.V.I.) Limited	23,954
Van Shung Chong Hong Limited	(1,209)*
	22,745
Less: current portion	(20,745)
	2,000
Non-current portion	2,000

\* Subsequent to 31st December, 1999, the receivable from Van Shung Chong Hong Limited was utilised to offset part of the shareholder's loan from Van Shung Chong (B.V.I.) Limited.

The shareholder's loan was unsecured and non-interest bearing. Approximately HK\$20,745,000 of the loan was settled subsequent to 31st December, 1999, while the remaining balance of the loan of HK\$2,000,000 was capitalised subsequent to 31st December, 1999 (see Section 5.d).

**f. Commitments and contingent liabilities**

As at 31st December, 1999, the Group had no material commitments or contingent liabilities.

**g. Net assets of the Company**

The Company was incorporated on 10th February, 2000. On the basis as set out in Section 1 above, the net assets of the Company as at 31st December, 1999 amounted to approximately HK\$3,741,000, representing investment in subsidiaries.

**h. Distributable reserve**

The Company has not carried on any material business since its incorporation, except for the acquisition on 13th April, 2000 of the subsidiaries set out in Section 1 above. Accordingly, the Company had no reserve available for distribution to shareholders as at 31st December, 1999.

**5. SUBSEQUENT EVENTS**

The following significant transactions took place subsequent to 31st December, 1999 and up to the date of this report:

- a. on 31st March, 2000, VSC (Far East) Limited declared and paid an interim dividend of HK\$9,000,000 to its then shareholder;
- b. in March 2000, the Group obtained short-term bank loans of HK\$25,000,000 in aggregate, which were guaranteed by Van Shung Chong Holdings Limited and the Company;
- c. on 29th March, 2000, a third party agreed to subscribe for 72,000,000 shares of the Company for cash consideration of HK\$57,600,000, which is subject to certain conditions as described under the definition of "Pre-Placing" in the Prospectus;

- d. on 13th April, 2000, the Group's shareholder's loan as at 31st December, 2000 amounting to HK\$2,000,000 was capitalised;
- e. on 13th April, 2000, iSteelAsia Holdings Limited, a wholly-owned subsidiary, issued new shares to Grand Bridge Enterprises Limited, a wholly-owned subsidiary of iMerchants Group Limited, for a consideration of approximately HK\$3,875,000;
- f. the Group completed a reorganisation in preparation for a listing of shares of the Company on The Stock Exchange of Hong Kong Limited, the details of which are set out in the subsection headed "Corporate reorganisation" of Appendix V to the Prospectus; and
- g. at the special general meeting of the Company held on 13th April, 2000, resolutions were passed to effect the transactions set out in the subsection headed "Shareholders' Resolutions of the Company" of Appendix V to the Prospectus.

## 6. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st December, 1999. In addition, except as described in Section 5.a above, no dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st December, 1999.

Yours faithfully,  
**ARTHUR ANDERSEN & CO**  
*Certified Public Accountants*

**APPENDIX II****LOSS ESTIMATE**

The estimate of the combined loss after taxation but before extraordinary items of the Group for the year ended 31st March, 2000 is set out in the paragraph headed "Loss estimate, dividends and working capital" under the section headed "Financial information" of this prospectus.

**1. BASES**

The Directors have prepared the estimate of the combined loss after taxation but before extraordinary items of the Group for the year ended 31st March, 2000 based on the audited financial statements of the Group for the nine months ended 31st December, 1999, the unaudited management accounts of the Group for the two months ended 29th February, 2000 and an estimate of the results of the Group for the remaining one month ended 31st March, 2000. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ended 31st March, 2000. The estimate has been prepared on the basis of the accounting policies consistent in all material respects with those presently adopted by the Group as summarised in the accountants' report, the text of which is set out in Appendix I to this prospectus.

## 2. LETTERS

Set out below are texts of letters received by the Directors from Arthur Andersen & Co, the reporting accountants of the Company, and from the Sponsor in connection with the estimate of the combined loss after taxation but before extraordinary items of the Group for the year ended 31st March, 2000.

### (i) Letter from Arthur Andersen & Co



**ARTHUR ANDERSEN**

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

14th April, 2000

The Directors  
iSteelAsia.com Limited  
BNP Prime Peregrine Capital Limited

Dear Sirs,

We have reviewed the accounting policies applied and the calculations made in arriving at the estimate of the combined loss after taxation but before extraordinary items of iSteelAsia.com Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ended 31st March, 2000 ("the loss estimate"), for which the Directors of the Company are solely responsible, as set out in the prospectus of the Company dated 14th April, 2000. The loss estimate has been prepared by the Directors of the Company based on the audited financial statements of the Group for the nine months ended 31st December, 1999, the unaudited management accounts of the Group for the two months ended 29th February, 2000, and an estimate of the results of the Group for the remaining one month ended 31st March, 2000.

In our opinion, the loss estimate, so far as the accounting policies and calculations are concerned, has been properly compiled on the bases made by the Directors of the Company as set out in Section 1 of Appendix II to the above-mentioned prospectus, and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in our accountants' report dated 14th April, 2000, the text of which is set out in Appendix I to the above-mentioned prospectus.

Yours faithfully,  
**ARTHUR ANDERSEN & CO**  
*Certified Public Accountants*

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(ii) Letter from the Sponsor

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## BNP PRIME PEREGRINE

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BNP Prime Peregrine Capital Limited  
23/F., New World Tower  
16-18 Queen's Road Central Hong Kong

14th April, 2000

The Directors  
iSteelAsia.com Limited

Dear Sirs,

We refer to the estimate of the combined loss after taxation but before extraordinary items of iSteelAsia.com Limited (the "Company") and its subsidiaries for the financial year ended 31st March, 2000 as set out in the prospectus issued by the Company dated 14th April, 2000 (the "Prospectus").

We have discussed with you the bases upon which the loss estimate has been made. We have also considered the letter dated 14th April, 2000 addressed to yourselves and ourselves from Arthur Andersen & Co regarding the accounting policies and calculations upon which the loss estimate has been made.

On the bases set out in Appendix II to the Prospectus, and on the basis of the accounting policies and calculations reviewed by Arthur Andersen & Co we are of the opinion that the loss estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**BNP Prime Peregrine Capital Limited**  
**Isadora Li**  
*Deputy Managing Director*

## APPENDIX III

## PROPERTY VALUATION REPORT



International Property Consultants  
 Chesterton Petty Ltd  
 16/F CITIC Tower  
 1 Tim Mei Avenue  
 Central  
 Hong Kong

14th April, 2000

The Directors  
 iSteelAsia.com Limited  
 52nd Floor  
 The Center  
 99 Queen's Road Central  
 Hong Kong

Dear Sirs

**PORTIONS OF 52ND FLOOR, THE CENTER, 99 QUEEN'S ROAD CENTRAL, HONG KONG**

In accordance with your instructions for us to value the property interest held by iSteelAsia.com Limited (the "Company") or its subsidiary (together referred to as the "Group") in the above property, we confirm that we have carried out inspections, made relevant enquiries and carried out searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the property interest as at 13th April, 2000.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion".

Our valuation has been made on the assumption that the owner sells the property interest on the open market without the benefit of any deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interest and no forced sale situation in any manner is assumed in our valuation.

The property interest is a leasehold interest held by the Group and has no commercial value mainly due to its short term nature or the restriction on assignment or the lack of substantial profit rent.

We have been provided with extracts of title documents relating to the property interest and we have caused searches to be made at the Land Registry. We have not, however, inspected the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies obtained by us.

We have relied to a very considerable extent on information given by you and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, sub-tenancy agreement, occupancy, floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents and tenancy agreement provided to us and are therefore only approximations.

We have inspected the exterior of the property and, where possible, we have also inspected the interior of the premises. However, no structural survey has been made but in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the property is free of rot, infestation or any other structural defect. No test was carried out on any of the services.

We have not arranged for any investigation to be carried out to determine whether or not all equipment, plant and machinery and services which form part of, or are contained within the property are year 2000 compliant. We are therefore unable to report that these equipment, plant and machinery and services are year 2000 compliant. For the purposes of this valuation, we have assumed that the value of the property interest will not be adversely effected by the year 2000 problem.



No allowance has been made in our valuation for any charge, mortgage or amount owing on the property interest nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We enclose herewith our valuation certificate.

Yours faithfully  
For and on behalf of  
**Chesterton Petty Limited**  
**Charles C K Chan**  
*ARICS FHKIS MCIArb RPS(GP)*  
*Executive Director*

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 13th April, 2000
Portions of 52nd floor, The Center, 99 Queen's Road Central, Hong Kong	<p>The Center is a 70-storey commercial/office tower over a 3-level basement carpark completed in 1998. Office floors are located at the 9th to 79th floors (13th, 14th, 24th, 34th, 44th, 54th, 64th and 74th floors are omitted for numbering).</p> <p>The property comprises portions of the office area on the 52nd Floor of the building with a total saleable area of approximately 361.39 sq.m. (3,890 sq.ft.).</p> <p>The property is leased by the Group under a sub-tenancy agreement for an initial fixed term of three months from 1st April, 2000 (and thereafter terminable on one month's notice) at a monthly rent of HK\$155,000 exclusive of Government rent, rates, management and air-conditioning charges.</p>	The property is currently occupied by the Group as an office	No commercial value

## APPENDIX IV

SUMMARY OF THE CONSTITUTION OF THE  
COMPANY AND BERMUDA COMPANY LAW

Set out below is a summary of certain provisions of the memorandum of association (the "Memorandum of Association") and bye-laws (the "Bye-laws") of the Company and of certain aspects of Bermuda company law.

## 1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the "board") upon such terms and subject to such conditions as it thinks fit.

## 2. BYE-LAWS

The Bye-laws were adopted on 13th April, 2000. The following is a summary of certain provisions of the Bye-laws:

### (a) Directors

#### (i) *Power to allot and issue shares and warrants*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered

addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

*Note:* The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed "Bermuda Company Law" in this Appendix.

(v) *Financial assistance to purchase shares of the Company*

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor,

purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Bye-laws)) is beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by requests goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies oaths Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, than the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since

their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

*Note:* There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) *Borrowing powers*

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

**(b) Alterations to constitutional documents**

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.



**(e) Special resolution-majority required**

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

**(f) Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

**(i) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

**(k) Power for the Company to purchase its own shares**

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

**(l) Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

**(m) Dividends and other methods of distribution**

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed

surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

**(o) Call on shares and forfeiture of shares**

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day

appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

**(p) Inspection of register of members**

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of US\$10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

**(q) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of

the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Other provisions**

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

### **3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS**

The Memorandum of Association may be altered by the Company in general meeting in certain circumstances, consent to the alteration must be obtained from the Minister of Finance of Bermuda. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear

days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

#### **4. BERMUDA COMPANY LAW**

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

##### **(a) Share capital**

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

However, only premiums arising on the same class of shares can be used to pay up bonus shares or in providing for the premiums payable on redemption of shares referred to in (i) and (iii) above, respectively.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

**(b) Financial assistance to purchase shares of a company or its holding company**

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due; and the realisable value of the company's assets, after the giving of such financial assistance, would not thereby be less than the aggregate of its liabilities, issued share capital and share premium accounts. However, in certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

**(c) Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may only be made if at least two directors, by affidavit, declare that on the



effective date of the purchase and taking into account the purchase, the company is solvent or that all of the creditors of the company on that date have consented in writing to the purchase. In the case where a company is listed on an appointed stock exchange (as defined in the Companies Act), the affidavit may, at the option of the company, be sworn within thirty days after the end of each calendar quarter giving details of the purchases made during each quarter. The shares so purchased will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds. Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

**(d) Dividends and distributions**

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

**(e) Protection of minorities**

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

**(f) Management**

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company.

**(g) Accounting and auditing requirements**

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or, subject to the Companies Act, at such other place as the directors think fit and that such records shall at all times be open to

inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least seven days before the general meeting of the company at which the financial statements are to be tabled.

**(h) Auditors**

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who

has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

**(i) Exchange control**

An exempted company is usually designated as “non-resident” for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

**(j) Taxation**

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March, 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

**(k) Stamp duty**

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

**(l) Loans to directors**

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20% interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

**(m) Inspection of corporate records**

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge.

**(n) Winding up**

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his

acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

## **5. GENERAL**

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice dated 14th April, 2000 summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents Available for Inspections" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

**A. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES****1. Incorporation**

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 10th February, 2000. The Company has established a place of business in Hong Kong at 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong and was registered on 24th March, 2000 as an overseas company under Part XI of the Companies Ordinance. In connection with such registration, Andrew, Cho Fai Yao and Johnson, Sai Hou Ho have been appointed as the agents of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong at 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong. As the Company is incorporated in Bermuda, it operates subject to the Companies Act and to its constitution which comprises a memorandum of association and bye-laws. A summary of various parts of its constitution and relevant aspects of the Companies Act is set out in Appendix IV to this prospectus.

**2. Changes in share capital of the Company**

At the date of incorporation of the Company, its initial authorised share capital was HK\$100,000 divided into 1,000,000 Shares of HK\$0.10 each, all of which were issued and allotted nil paid to Van Shung Chong (B.V.I.) Limited on 21st February, 2000.

Pursuant to written resolutions passed by Van Shung Chong (B.V.I.) Limited, a wholly owned subsidiary of VSC and the then sole shareholder of the Company on 13th April, 2000:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$400,000,000 by the creation of an additional 3,999,000,000 Shares to rank pari passu with the existing Shares in all respects; and
- (b) the Directors were authorised to allot and issue 1,300,000 new Shares credited as fully paid and to credit as fully paid at par the 1,000,000 Shares issued nil paid on 21st February, 2000 as consideration and in exchange for the acquisition by the Company of the entire issued share capital of MetalAsia Holdings and iSteelAsia Holdings from Right Action Offshore Inc. (a company wholly owned by Mr. Andrew Cho Fai Yao), Strengthen Melody Inc. (a company wholly owned by Ms. Yao Lin Shiu Mei), Lee Tat Services Limited (a company wholly owned by Ms. Liang Ho, Hang Chong Sophia), Oboe Development Trading Limited (a company wholly owned by Mr. Moses Kwok Tai Tsang), Van Shung Chong (B.V.I.) Limited (a company wholly owned by VSC), Grand Bridge Enterprises Limited (a company wholly owned by iMerchants Group) and TN Development.

Assuming that the Pre-Placing, the Placing and the Capitalisation Issue become unconditional and the issue of the Placing Shares and the 72,000,000 new Shares under the Pre-Placing mentioned herein are made but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the BNP Prime Peregrine Option, the authorised share capital of the Company will be HK\$400,000,000



divided into 4,000,000,000 Shares and the issued share capital of the Company will be HK\$145,200,000 divided into 1,452,000,000 Shares fully paid or credited as fully paid, with 2,548,000,000 Shares remaining unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, pursuant to the exercise of the Over-allotment Option or the BNP Prime Peregrine Option, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the shareholders of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein, there has been no alteration in the share capital of the Company since the date of its incorporation.

### **3. Shareholders' resolutions of the Company**

Pursuant to the resolutions passed by the shareholders of the Company on 13th April, 2000:

- (a) conditional on the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and the Shares to be issued as mentioned herein and the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by BNP Prime Peregrine Securities on behalf of the Underwriters) and not being terminated in accordance with its terms or otherwise, in each case on or before 14th May, 2000:
  - (i) the Company approved and adopted the Bye-laws;
  - (ii) the Placing, the Pre-Placing, the Over-allotment Option and the BNP Prime Peregrine Option were approved and the Directors were authorised to allot and issue the Offer Shares, the 72,000,000 new Shares under the Pre-Placing and 2,500,000 new Shares pursuant to the exercise of the BNP Prime Peregrine Option respectively; and
  - (iii) conditional further on the GEM Listing Committee of the Stock Exchange granting approval of the Share Option Scheme, the rules of the Share Option Scheme were approved and adopted, and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options that may be granted under the Share Option Scheme and to do all such acts and things as they consider necessary or expedient to give effect to the Share Option Scheme;
- (b) conditional on the share premium account of the Company being credited pursuant to the Pre-Placing and the Placing, the sum of HK\$127,770,000, being part of the amount then standing to the credit of the share premium account of the Company, was directed to be capitalised by issuing 1,277,700,000 Shares, credited as fully paid at par, to the holders of Shares registered on the register of

members of the Company (or as they may direct) in proportion as nearly as possible to their respective shareholdings as at the close of business on 13th April, 2000;

- (c) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issues or scrip dividend schemes or other similar arrangements in accordance with the Bye-laws or pursuant to the exercise of any options which may be granted under the Share Option Scheme, Shares with an aggregate nominal value not exceeding 20% of (i) the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Pre-Placing, the Placing and the Capitalisation Issue and (ii) the aggregate nominal value of the share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option and the BNP Prime Peregrine Option, such mandate to remain in effect until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or Bermuda law to be held; or
  - (iii) the passing of an ordinary resolution by members of the Company in general meeting revoking or varying such mandate;
- (d) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange for this purpose, Shares with an aggregate nominal value not exceeding 10% of (i) the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Pre-Placing, the Placing and the Capitalisation Issue and (ii) the aggregate nominal value of the share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option and the BNP Prime Peregrine Option, such mandate to remain in effect until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or Bermuda law to be held; or
  - (iii) the passing of an ordinary resolution by members of the Company in general meeting revoking or varying such mandate;
- (e) the general unconditional mandate mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of Shares which may be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of Shares repurchased by the

Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above provided that such value shall not exceed 10% of (i) the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Pre-Placing, the Placing and the Capitalisation Issue and (ii) the aggregate nominal value of the share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option and the BNP Prime Peregrine Option.

#### 4. Corporate reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the structure of the Group in preparation for the listing of the Shares on GEM. The reorganisation involved the following:

- (a) On 30th March, 2000, iMerchants Group transferred 11,488,000 shares of HK\$0.10 each in iMerchants to Van Shung Chong (B.V.I.) Limited at a total consideration of HK\$17,000,000. The consideration was left as an outstanding debt due and payable by Van Shung Chong (B.V.I.) Limited to iMerchants Group and was on 13th April, 2000, set-off against the debt of the same amount due and payable by iMerchants Group to Van Shung Chong (B.V.I.) Limited referred to in paragraph (n) below.
- (b) On 10th April, 2000, iMerchants entered into two agreements with iSteelAsia Limited to transfer the domain names "iSteel.org" and "eSteelAsia.com" to iSteelAsia Limited at nil consideration.
- (c) On 13th April, 2000, Van Shung Chong (B.V.I.) Limited and iMerchants Group transferred 8 and 2 shares of US\$1.00 each in iSteelAsia Limited to iSteelAsia Holdings in consideration of iSteelAsia Holdings allotting and issuing 4 shares with a par value of US\$1.00 each and 1 share with a par value of US\$1.00, credited as fully paid, to Van Shung Chong (B.V.I.) Limited and Grand Bridge Enterprises Limited, a wholly-owned subsidiary of iMerchants Group, respectively.
- (d) On 13th April, 2000, the shareholder's loan of HK\$2,000,000 owed by iSteelAsia Limited to Van Shung Chong (B.V.I.) Limited was novated to iSteelAsia Holdings. The consideration for this novation was left as an outstanding inter-company debt for the same amount of this loan due and payable by iSteelAsia Limited to iSteelAsia Holdings.
- (e) On 13th April, 2000, iSteelAsia Holdings, allotted and issued at an aggregate subscription price of HK\$2,000,000, 7,996 shares with a par value of US\$1.00 each to Van Shung Chong (B.V.I.) Limited in consideration of the capitalisation of the loan of HK\$2,000,000 owed by iSteelAsia Holdings to Van Shung Chong (B.V.I.) Limited.
- (f) On 13th April, 2000, iSteelAsia Holdings allotted and issued for cash at an aggregate subscription price of US\$500,000, 1,999 shares with a par value of US\$1.00 each to Grand Bridge Enterprises Limited.

- (g) On 13th April, 2000, Van Shung Chong (B.V.I.) Limited transferred 1,000, 600, 500 and 500 shares with a par value of US\$1.00 each in iSteelAsia Holdings to Right Action Offshore Inc. (a company wholly owned by Mr. Andrew Cho Fai Yao), Strengthen Melody Inc. (a company wholly owned by Ms. Yao Lin Shiu Mei), Lee Tat Services Limited (a company wholly owned by Ms. Liang Ho, Hang Chong Sophia) and Oboe Development Trading Limited (a company wholly owned by Mr. Moses Kwok Tai Tsang) respectively, in consideration for the payment in cash of HK\$260,000, HK\$156,000, HK\$130,000 and HK\$130,000 respectively.
- (h) On 13th April, 2000, TN Development acquired 200, 120, 100, 100, 1,000 and 400 shares with a par value of US\$1.00 each in iSteelAsia Holdings from Right Action Offshore Inc., Strengthen Melody Inc., Lee Tat Services Limited, Oboe Development Trading Limited, Van Shung Chong (B.V.I.) Limited and Grand Bridge Enterprises Limited respectively. In consideration of such transfers, TN Development allotted and issued 10, 6, 5, 5, 54 and 20 shares with a par value of US\$1.00 each, credited as fully paid, to Mr. Andrew Cho Fai Yao, Ms. Yao Lin Shiu Mei, Ms. Liang Ho, Hang Chong Sophia, Mr. Moses Kwok Tai Tsang, Van Shung Chong (B.V.I.) Limited and Grand Bridge Enterprises Limited respectively.
- (i) On 13th April, 2000, iSteelAsia HK acquired from iSteelAsia Limited certain source codes and programs for the operation and maintenance of the iSteelAsia website pursuant to an asset transfer agreement dated 13th April, 2000 for a total consideration of US\$500,000. The consideration was left as an outstanding inter-company debt due and payable by iSteelAsia HK to iSteelAsia Limited.
- (j) On 13th April, 2000, CFY Enterprises Limited, a wholly-owned subsidiary of VSC, issued joint letters with iSteelAsia HK, notifying all the employees of CFY Enterprises Limited regarding their transfer to iSteelAsia HK.
- (k) On 13th April, 2000, MetalAsia HK acquired the steel trading business of Van Shung Chong Hong Limited for a total consideration of HK\$3,000,000. In consideration of this transfer, MetalAsia HK allotted and issued 1 share with a par value of HK\$1.00, credited as fully paid, to Van Shung Chong (B.V.I.) Limited.
- (l) On 13th April, 2000, MetalAsia HK acquired the steel trading business of VSC (Far East) Limited for a total consideration of HK\$500,000. In consideration of this transfer, MetalAsia HK allotted and issued 1 share with a par value of HK\$1.00, credited as fully paid, to Van Shung Chong (B.V.I.) Limited.
- (m) On 13th April, 2000, 4 shares with a par value of HK\$1.00 each in MetalAsia HK were transferred by Van Shung Chong (B.V.I.) Limited to MetalAsia Holdings. In consideration of this transfer, MetalAsia Holdings allotted and issued 2,000 shares with a par value of US\$1.00 each, credited as fully paid, to Van Shung Chong (B.V.I.) Limited.

- (n) On 13th April, 2000, Van Shung Chong (B.V.I.) Limited transferred 400 shares with a par value of US\$1.00 each in MetalAsia Holdings to iMerchants Group at a consideration of HK\$17,000,000. The consideration for this transfer was left as an outstanding debt due and payable by iMerchants Group to Van Shung Chong (B.V.I.) Limited and was on 13th April, 2000, set-off against the debt of the same amount due and payable by Van Shung Chong (B.V.I.) Limited to iMerchants Group referred to in paragraph (a) above.
- (o) On 13th April, 2000, Van Shung Chong (B.V.I.) Limited transferred 200, 120, 100 and 100 shares with a par value of US\$1.00 each in MetalAsia Holdings to Right Action Offshore Inc., Strengthen Melody Inc., Lee Tat Services Limited and Oboe Development Trading Limited respectively in consideration for the payment in cash of HK\$350,000, HK\$210,000, HK\$175,000 and HK\$175,000 respectively.
- (p) On 13th April, 2000, TN Development acquired 40, 24, 20, 20, 200 and 80 shares with a par value of US\$1.00 each in MetalAsia Holdings from Right Action Offshore Inc., Strengthen Melody Inc., Lee Tat Services Limited, Oboe Development Trading Limited, Van Shung Chong (B.V.I.) Limited and Grand Bridge Enterprises Limited respectively. In consideration of such transfers, TN Development allotted and issued 10, 6, 5, 5, 54 and 20 shares with a par value of US\$1.00 each, credited as fully paid, to Mr. Andrew Cho Fai Yao, Ms. Yao Lin Shiu Mei, Ms. Liang Ho, Hang Chong Sophia, Mr. Moses Kwok Tai Tsang, Van Shung Chong (B.V.I.) Limited and Grand Bridge Enterprises Limited respectively.
- (q) On 13th April, 2000, the Company acquired the entire issued share capital of MetalAsia Holdings and iSteelAsia Holdings from Right Action Offshore Inc., Strengthen Melody Inc., Lee Tat Services Limited, Oboe Development Trading Limited, Van Shung Chong (B.V.I.) Limited, Grand Bridge Enterprises Limited and TN Development respectively. In consideration of such transfers, the Company allotted and issued, credited as fully paid 184,000, 110,400, 92,000, 92,000, 12,000, 368,000 and 441,600 shares with a par value of HK\$0.10 each to Right Action Offshore Inc., Strengthen Melody Inc., Lee Tat Services Limited, Oboe Development Trading Limited, Van Shung Chong (B.V.I.) Limited, Grand Bridge Enterprises Limited and TN Development respectively, and the Company credited as fully-paid at par the 1,000,000 nil paid shares with a par value of HK\$0.10 each issued to Van Shung Chong (B.V.I.) Limited on 21st February, 2000.

## 5. Distribution

As referred to in the announcement of VSC dated 28th March, 2000, VSC intends to declare a special interim dividend which will be wholly satisfied by a distribution in specie of about 1,350 to 1,670 Shares for every 2,000 VSC Shares (subject to finalisation) to shareholders of VSC whose names appear on the register of members of VSC on the Record Date excluding those shareholders of VSC whose addresses are outside Hong Kong. The date on which Share certificates in respect of such Shares are to be despatched to shareholders of VSC is currently expected to be on or about 19th April, 2000.

**6. Changes in the share capital of subsidiaries**

The Company's subsidiaries are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of the Company's subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

- (a) On 27th October, 1999, iSteelAsia Limited (formerly known as Interactive Steel Asia Limited) allotted and issued for cash at par, 8 and 2 shares of US\$1.00 each to Van Shung Chong (B.V.I.) Limited and iMerchants Group (formerly known as Exploration Enterprises Limited).
- (b) On 13th April, 2000, the subscribers of MetalAsia HK transferred for cash at par, 1 share of HK\$1.00 to Van Shung Chong (B.V.I.) Limited and 1 share of HK\$1.00 to Andrew Cho Fai Yao, who holds such share on trust for Van Shung Chong (B.V.I.) Limited.
- (c) On 13th April, 2000, iSteelAsia Holdings allotted and issued, credited as fully paid, 4 shares and 1 share with a par value of US\$1.00 to Van Shung Chong (B.V.I.) Limited and Grand Bridge Enterprises Limited respectively in consideration of the transfer by Van Shung Chong (B.V.I.) Limited and iMerchants Group to iSteelAsia Holdings of 8 and 2 shares of US\$1.00 each in iSteelAsia Limited respectively.
- (d) On 13th April, 2000, iSteelAsia Holdings allotted and issued, credited as fully paid, 7,996 shares with a par value of US\$1.00 each to Van Shung Chong (B.V.I.) Limited in consideration of the capitalisation of the loan of HK\$2,000,000 owed by iSteelAsia Holdings to Van Shung Chong (B.V.I.) Limited.
- (e) On 13th April, 2000, iSteelAsia Holdings allotted and issued for cash at an aggregate subscription price of US\$500,000, 1,999 shares with a par value of US\$1.00 each to Grand Bridge Enterprises Limited.
- (f) On 13th April, 2000, the subscribers of iSteelAsia HK transferred for cash at par, 1 share of HK\$1.00 to iSteelAsia Holdings and 1 share of HK\$1.00 to Andrew Cho Fai Yao, who holds such share on trust for iSteelAsia Holdings.
- (g) On 13th April, 2000, MetalAsia HK allotted and issued, credited as fully paid, 2 shares with a par value of HK\$1.00 each to Van Shung Chong (B.V.I.) Limited in consideration of the transfer by Van Shung Chong Hong Limited and VSC (Far East) Limited of their respective steel trading businesses to MetalAsia HK.
- (h) On 13th April, 2000, MetalAsia Holdings allotted and issued, credited as fully paid, 2,000 shares with a par value of US\$1.00 each to Van Shung Chong (B.V.I.) Limited in consideration of the transfer by Van Shung Chong (B.V.I.) Limited of 4 shares with a par value of HK\$1.00 each in MetalAsia HK.

Save as aforesaid, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this prospectus.

## 7. Repurchase by the Company of its own securities

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities. The term “shares” in this paragraph 7 shall mean shares of all classes and securities which carry a right to subscribe or purchase the shares of a company listed on GEM.

### (a) **GEM Listing Rules**

The GEM Listing Rules permit companies listed on GEM to repurchase their shares on GEM subject to certain restrictions, the most important of which are summarised below:

#### (i) *Shareholders' approval*

All repurchases of shares on GEM by a company listed on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transaction.

*Note:* Pursuant to the resolutions passed by the shareholders of the Company on 13th April, 2000, a general unconditional mandate was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned herein (including any Shares which may be issued pursuant to the Pre-Placing, the exercise of the Over-allotment Option or the BNP Prime Peregrine Option) at any time until the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or Bermuda law to be held or the passing of an ordinary resolution by members of the Company in general meeting revoking or varying such mandate, whichever occurs first (the “Buyback Mandate”).

#### (ii) *Source of funds*

Any repurchases must be financed out of funds legally available for the purpose in accordance with the memorandum of association and bye-laws of the Company and the applicable laws of Bermuda. A company may not repurchase its shares on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

#### (iii) *Trading restrictions*

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company at the date of the passing of the ordinary resolution approving the repurchase mandate. A company may not issue or announce an issue of new shares for a period of 30 days

immediately following a repurchase of shares whether on GEM or otherwise (except pursuant to the issue of shares pursuant to an exercise of share options or similar instruments requiring the company to issue shares which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making share repurchases on GEM if the result of the repurchases would be that the number of the listed shares in public hands would fall below the relevant prescribed minimum percentage for that company as determined by the Stock Exchange. A company may only repurchase shares on GEM if (1) the purchase price is not higher than the latest (or current) independent bid price or the last independent sale (contract) price quoted or reported on the system (as defined in the Rules of the Stock Exchange), whichever is higher; and (2) the company has not made the opening bid nor any bid in the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may request.

(iv) *Status of repurchased shares*

The listing of all repurchased shares (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under Bermuda law, a company's repurchased shares shall be treated as cancelled.

(v) *Suspension of repurchase*

A company is prohibited from repurchasing shares on GEM at any time after a price-sensitive development has occurred or has been the subject of a decision until the price-sensitive information is made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of a company's half-year report or a quarterly report, a company may not repurchase its shares on GEM unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of shares on GEM if a company has breached the GEM Listing Rules.

(vi) *Reporting requirements*

Repurchases of shares on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of shares repurchases made during the financial year under review, showing the number of shares repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest price paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the repurchases made during the year



and the directors' reasons for making such repurchases. The company shall make arrangements with its broker who effects the repurchases to provide the company in a timely fashion the necessary information in relation to the repurchase made on behalf of the company to enable the company to report to the Stock Exchange.

(vii) *Connected parties*

Under the GEM Listing Rules, a company shall not knowingly repurchase shares from a connected person (as defined under the GEM Listing Rules) and a connected person shall not knowingly sell his shares to the Company, on GEM. As at the Latest Practicable Date and to the best of the knowledge of the Directors having made all reasonable enquires, none of the Directors or any of their Associates has any present intention to sell Shares to the Company.

(b) ***Exercise of the Buyback Mandate***

Exercise in full of the Buyback Mandate, on the basis of 1,452,000,000 Shares in issue immediately after listing of the Shares (and taking no account of the Shares which may be allotted pursuant to the Over-allotment Option or the BNP Prime Peregrine Option) could accordingly result in up to 145,200,000 Shares being repurchased by the Company during the period up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or Bermuda law to be held; or (iii) the revocation or variation of the Buyback Mandate by ordinary resolution of members of the Company in general meeting, whichever occurs first.

(c) ***Reasons for repurchases***

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

(d) ***General***

(i) There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Buyback Mandate is exercised in full. However, the Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(ii) The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules, the memorandum of association, the Bye-laws and the applicable laws of Bermuda.

- (iii) As at the Latest Practicable Date, no connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he has a present intention to sell Shares to the Company or has undertaken not to do so, if the Buyback Mandate is exercised.
- (iv) If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a shareholder, or a group of shareholders acting in concert, depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code.

## **B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP**

### **1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a placing agreement dated 29th March, 2000, between the Company and the Li Ka Shing Foundation pursuant to which the Li Ka Shing Foundation conditionally agreed to subscribe for 72,000,000 new Shares in cash at a subscription price of HK\$0.80 per Share;
- (b) an asset transfer agreement dated 13th April, 2000, between iSteelAsia HK and iSteelAsia Limited pursuant to which iSteelAsia HK acquired certain source codes and programs for the operation and maintenance of the iSteelAsia.com website from iSteelAsia Limited for an aggregate consideration of US\$500,000. The consideration was left as an outstanding inter-company debt due and payable by iSteelAsia HK to iSteelAsia Limited;
- (c) a business transfer agreement dated 13th April, 2000 between Van Shung Chong Hong Limited and MetalAsia HK pursuant to which Van Shung Chong Hong Limited transferred to MetalAsia HK its steel trading business for an aggregate consideration of HK\$3,000,000 which was satisfied by the allotment and issue of one share with a par value of HK\$1.00 in MetalAsia HK, credited as fully paid, to Van Shung Chong (B.V.I) Limited;
- (d) a business transfer agreement dated 13th April, 2000 between VSC (Far East) Limited and MetalAsia HK pursuant to which VSC (Far East) Limited transferred to MetalAsia HK its steel trading business for an aggregate consideration of HK\$500,000, which was satisfied by the allotment and issue of one share with a par value of HK\$1.00 in MetalAsia HK, credited as fully paid, to Van Shung Chong (B.V.I) Limited;

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- (e) an agreement dated 13th April, 2000 between Right Action Offshore Inc., Strengthen Melody Inc., Lee Tat Services Limited, Oboe Development Trading Limited, Van Shung Chong (B.V.I.) Limited, Grand Bridge Enterprises Limited and TN Development (as transferors), VSC, iMerchants Group, Andrew Cho Fai Yao, Yao Lin Shiu Mei, Liang Ho, Hang Chong Sophia and Moses Kwok Tai Tsang (as warrantors) and the Company (as transferee) pursuant to which the Company acquired the entire issued share capital of MetalAsia Holdings and iSteelAsia Holdings. In consideration of such transfers, the Company allotted and issued 184,000, 110,400, 92,000, 92,000, 12,000, 368,000 and 441,600 shares with a par value of HK\$0.10 each to Right Action Offshore Inc., Strengthen Melody Inc., Lee Tat Services Limited, Oboe Development Trading Limited, Van Shung Chong (B.V.I.) Limited, Grand Bridge Enterprises Limited and TN Development respectively, credited as fully paid, and the Company credited as fully-paid at par, the 1,000,000 nil paid shares with a par value of HK\$0.10 each issued to Van Shung Chong (B.V.I.) Limited on 21st February, 2000;
  - (f) a sub-tenancy agreement dated 13th April, 2000 between iSteelAsia HK and CFY Enterprises Limited, a wholly owned subsidiary of VSC pursuant to which CFY Enterprises Limited agreed to sub-let a portion of the office premises at 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong for a fixed term of three months commencing on 1st April, 2000 and thereafter on the basis of a monthly tenancy which may be terminated by iSteelAsia HK giving one month's notice, at a monthly rental (excluding rates, management fees and utilities charges but inclusive of initial renovation of the premises) of HK\$155,000;
  - (g) the Outsourcing Agreement;
  - (h) the Underwriting Agreement; and
  - (i) a deed of indemnity dated 14th April, 2000 executed by VSC, Andrew Cho Fai Yao, Yao Lin Shiu Mei, Liang Ho, Hang Chong Sophia, Moses Kwok Tai Tsang, Huge Top and TN Development in favour of the Group containing the indemnities in respect of taxation referred to in the paragraph headed "Estate duty and tax indemnity" under the section headed "Other Information" of this Appendix.

## 2. Intellectual property

The Group has applied for registration of the following trade marks.

Trade Mark	Place of Application	Class	Application Number	Application Date (applications pending)
<i>iSteelAsia.com</i>	Hong Kong	35	6409/2000	25th March, 2000
<i>iSteelAsia.com</i>	Hong Kong	36	6410/2000	25th March, 2000
<i>iSteelAsia.com</i>	Hong Kong	38	99 18492	15th December, 1999
<i>iSteelAsia.com</i>	Japan	35	2000-31138	28th March, 2000
<i>iSteelAsia.com</i>	Japan	36	2000-31138	28th March, 2000
<i>iSteelAsia.com</i>	Japan	38	2000-31138	28th March, 2000
<i>iSteelAsia.com</i>	PRC	35	2000039778	30th March, 2000
<i>iSteelAsia.com</i>	PRC	36	2000039779	30th March, 2000
<i>iSteelAsia.com</i>	PRC	38	2000039780	30th March, 2000
<i>iSteelAsia.com</i>	Malaysia	35	2000-03781	3rd April, 2000
<i>iSteelAsia.com</i>	Malaysia	36	2000-03779	3rd April, 2000
<i>iSteelAsia.com</i>	Malaysia	38	2000-03780	3rd April, 2000
<i>iSteelAsia.com</i>	South Korea	35	41-2000-8795	28th March, 2000
<i>iSteelAsia.com</i>	South Korea	36	41-2000-8795	28th March, 2000
<i>iSteelAsia.com</i>	South Korea	38	41-2000-8795	28th March, 2000
<i>iSteelAsia.com</i>	Thailand	35	416109	4th April, 2000
<i>iSteelAsia.com</i>	Thailand	36	416110	4th April, 2000
<i>iSteelAsia.com</i>	Thailand	38	416111	4th April, 2000
<i>iSteelAsia.com</i>	Singapore	35	T00/05171H	30th March, 2000
<i>iSteelAsia.com</i>	Singapore	36	T00/05172F	30th March, 2000
<i>iSteelAsia.com</i>	Singapore	38	T00/05173D	30th March, 2000
<i>iSteelAsia.com</i>	U.S.A.	35	(not yet available)	30th March, 2000
<i>iSteelAsia.com</i>	U.S.A.	36	(not yet available)	30th March, 2000
<i>iSteelAsia.com</i>	U.S.A.	38	(not yet available)	30th March, 2000
<i>iSteelAsia.com</i>	Community Trade Mark Office	35	(not yet available)	3rd April, 2000
<i>iSteelAsia.com</i>	Community Trade Mark Office	36	(not yet available)	3rd April, 2000
<i>iSteelAsia.com</i>	Community Trade Mark Office	38	(not yet available)	3rd April, 2000
<i>iSteelAsia.com</i>	Taiwan	35	89017681	31st March, 2000
<i>iSteelAsia.com</i>	Taiwan	36	89017682	31st March, 2000
<i>iSteelAsia.com</i>	Taiwan	38	89017683	31st March, 2000
亞洲鋼鐵電子交易所	Hong Kong	35	6406/2000	25th March, 2000

Trade Mark	Place of Application	Class	Application Number	Application Date (applications pending)
亞洲鋼鐵電子交易所	Hong Kong	36	6407/2000	25th March, 2000
亞洲鋼鐵電子交易所	Hong Kong	38	6408/2000	25th March, 2000
亞洲鋼鐵電子交易所	PRC	35	2000039781	30th March, 2000
亞洲鋼鐵電子交易所	PRC	36	2000039782	30th March, 2000
亞洲鋼鐵電子交易所	PRC	38	2000039783	30th March, 2000
亞洲鋼鐵電子交易所	Taiwan	35	89017684	31st March, 2000
亞洲鋼鐵電子交易所	Taiwan	36	89017685	31st March, 2000
亞洲鋼鐵電子交易所	Taiwan	38	89017686	31st March, 2000
亞洲鋼鐵電子交易所	Singapore	35	T00/05174B	30th March, 2000
亞洲鋼鐵電子交易所	Singapore	36	T00/05175J	30th March, 2000
亞洲鋼鐵電子交易所	Singapore	38	T00/05176I	30th March, 2000
亞鋼網／亞鋼網	Hong Kong	35	7068/2000	31st March, 2000
亞鋼網／亞鋼網	Hong Kong	36	7069/2000	31st March, 2000
亞鋼網／亞鋼網	Hong Kong	38	7070/2000	31st March, 2000
亞鋼網	PRC	35	2000039775	30th March, 2000
亞鋼網	PRC	36	2000039776	30th March, 2000
亞鋼網	PRC	38	2000039777	30th March, 2000
亞鋼網／亞鋼網	Singapore	35	(not yet available)	3rd April, 2000
亞鋼網／亞鋼網	Singapore	36	(not yet available)	3rd April, 2000
亞鋼網／亞鋼網	Singapore	38	(not yet available)	3rd April, 2000
亞鋼網	Taiwan	35	89018167	5th April, 2000
亞鋼網	Taiwan	36	89018168	5th April, 2000
亞鋼網	Taiwan	38	89018169	5th April, 2000

The Group has registered the following domain names or has entered into transfer agreements pursuant to which the following domain names shall be transferred to it:

Domain Names	Date of Registration/Transfer
iSteelAsia.com	In the process of transfer from iMerchants
iSteel.org	In the process of transfer from iMerchants
eSteelAsia.com	In the process of transfer from iMerchants
亞洲鋼鐵電子交易所.公司	This domain name was transferred to the Group on 11th April, 2000
亞洲鋼鐵電子交易所.網絡	This domain name was transferred to the Group on 11th April, 2000
亞洲鋼鐵電子交易所.組織	This domain name was transferred to the Group on 11th April, 2000
亞鋼網.公司	5th April, 2000
亞鋼網.網絡	5th April, 2000
亞鋼網.組織	5th April, 2000

## C. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

### 1. Directors

(a) *Interest of Directors in the share capital of the Company and its associated corporations*

Immediately following completion of the Pre-Placing, the Placing and the Capitalisation Issue and assuming that the Over-allotment Option and the BNP Prime Peregrine Option are not exercised, the interests of the Directors and chief executive in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

(i) Shares in the Company

Name	Personal Interest	Family Interest	Corporate Interest	Other Interest
Andrew Cho Fai Yao (Notes 1, 2 and 6)	—	—	788,992,944	—
Moses Kwok Tai Tsang (Note 3)	—	—	51,200,000	—
Miriam Che Li Yao (Notes 1 and 6)	—	—	686,592,944	—
Philip King Huen Ma (Note 5)	—	—	188,068	—

*Notes:*

1. Immediately following the Pre-Placing, the Placing, the Capitalisation Issue and the Distribution and assuming that the Over-allotment Option and the BNP Prime Peregrine Option are not exercised, Huge Top will own 162,832,944 Shares (Note 4), Van Shung Chong (B.V.I.) Limited will own 278,000,000 Shares and TN Development will own 245,760,000 Shares.

Andrew Cho Fai Yao directly and indirectly owns more than one-third of the issued share capital of Huge Top. The board of directors of Huge Top comprises Andrew Cho Fai Yao and Miriam Che Li Yao.

Huge Top owns approximately 57.09% of the issued share capital of VSC as at the Latest Practicable Date. Andrew Cho Fai Yao and Miriam Che Li Yao are both directors of VSC. Van Shung Chong (B.V.I.) Limited is a wholly-owned subsidiary of VSC. The board of directors of Van Shung Chong (B.V.I.) Limited comprises Andrew Cho Fai Yao and Miriam Che Li Yao.

Van Shung Chong (B.V.I.) Limited owns 54% of the issued share capital of TN Development. Andrew Cho Fai Yao owns 10% of the issued share capital of TN Development. The board of directors of TN Development comprises Andrew Cho Fai Yao and Miriam Che Li Yao.

2. Immediately following the Pre-Placing, the Placing and the Capitalisation Issue, Right Action Offshore Inc. will own 102,400,000 Shares. Andrew Cho Fai Yao owns the entire issued share capital of Right Action Offshore Inc. and is also the sole director of that company.
3. Immediately following the Pre-Placing, the Placing and the Capitalisation Issue, Oboe Development Trading Limited will own 51,200,000 Shares. MKT Holdings (Cayman Islands) LLC owns the entire issued share capital of Oboe Development Trading Limited, of which Moses Kwok Tai Tsang is the sole director. Moses Kwok Tai Tsang owns the entire issued share capital of MKT Holdings (Cayman Islands) LLC, of which he and his wife are the directors.
4. As at the Latest Practicable Date, there were 340,881,846 VSC Shares in issue. On the assumption that all the VSC Warrants and all the VSC Exercisable Options are not exercised on or before 12th April, 2000 and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution on the basis of 1,673 Shares for every 2,000 VSC Shares, Huge Top will be entitled to 162,832,944 Shares under the Distribution.
5. As at the Latest Practicable Date, Philip King Huen Ma indirectly owns the entire issued share capital of S & S Management Co. Ltd., which owns 204,000 VSC Shares and 20,800 VSC Warrants. As at the Latest Practicable Date, there were 340,881,846 VSC Shares in issue. On the assumption that the above 20,800 VSC Warrants held indirectly by Philip King Huen Ma are exercised, all the other VSC Warrants are not exercised and all the VSC Exercisable Options are not exercised on or before 12th April, 2000 and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution, S & S Management Co. Ltd. will be entitled to 188,068 Shares under the Distribution.
6. As at the Latest Practicable Date, Ms. Miriam Che Li Yao was interested in 2,000,000 VSC Exercisable Options. On the assumption that none of the VSC Warrants and none of the VSC Exercisable Options are exercised on or before 12th April, 2000, other than the 39,124,800 VSC Warrants held by Huge Top, the 6,900,000 VSC Exercisable Options held by Mr. Andrew Cho Fai Yao and the 2,000,000 VSC Exercisable Options held by Ms. Miriam Che Li Yao, and 285,200,000 Shares are distributed to the shareholders of VSC under the Distribution on the basis of 1,466 Shares for every 2,000 VSC Shares, Huge Top, Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao will be entitled to 171,416,864 Shares, 5,060,032 Shares and 1,466,676 Shares under the Distribution.

- (ii) Employee Options to purchase Shares in the Company from TN Development

Name	Shares to be acquired under the Employee Options
Drina C. Yue ( <i>Note 1</i> )	30,720,000
Daniel Takuen Shih ( <i>Note 1</i> )	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 Development, at an exercise price per Share of 5% of the Issue Price, under separate Share Option Agreements both dated 13th April, 2000. Each 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 each option may be exercised up to one-third of such Shares.
  - (b) During the period starting from 13th April, 2002 to 12th April, 2003 each option may (to the extent not exercised in accordance with (a) above) be exercised up to two-thirds of such Shares.
  - (c) During the period starting from 13th April, 2003 to 12th April, 2004 each option may (to the extent not exercised in accordance with (a) and (b) above) be exercised in full.
  - (d) Ms. Drina C. Yue and Mr. Daniel Takuen Shih, the two Directors who are entitled to Employee Options, are not connected with the remaining Directors, chief executive, substantial shareholders or management shareholders of the Company nor are they associates (as defined under the GEM Listing Rules) of any of them.

- (b) *Particulars of service contracts*

The Directors have entered into service agreements with the Group. Particulars of these agreements, except as indicated, are in all material respects identical and are set out below:

Mr. Andrew Cho Fai Yao, Ms. Drina C. Yue and Ms. Miriam Che Li Yao, being the executive directors of the Company, have entered into service agreements with the Group commencing from 1st April, 2000 in the case of Mr. Yao, 1st March, 2000 in the case of Ms. Yue and 1st April, 2000 in the case of Ms. 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. Each of them is entitled to a basic monthly salary (subject to review effective 1st April each year). In addition, they are also entitled to a discretionary bonus, the upper limit of which is not capped, payable at the discretion of the Board and other benefits or allowances,



if applicable. None of them is entitled to vote on any resolution of the board of Directors relating to the basic monthly salary, the bonus and other benefits and allowances payable to him/her.

The current aggregate annual remuneration (including basic monthly salary, guaranteed bonus and other allowances, if applicable) of the executive Directors are as follows:

Andrew Cho Fai Yao	HK\$3,120,000
Drina C. Yue	US\$246,250 plus HK\$420,000
Miriam Che Li Yao	HK\$1,040,000

In addition, Ms. Drina C. Yue is entitled to a one-off signing on bonus and other allowances of US\$115,000 and RMB360,000.

Save as disclosed, none of the Directors has entered or has proposed to enter into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

The Company's policies concerning the remuneration of the executive Directors are:

- (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility and the time devoted to the Group;
- (ii) non-cash benefits are provided to the Directors under the remuneration package; and
- (iii) subject to the requirements of the GEM Listing Rules, the executive Directors may be granted, at the discretion of the independent non-executive Directors, share options under the Share Option Scheme as part of their remuneration package.

(c) *Directors' remuneration*

An aggregate of approximately HK\$1,388,000 was paid to the Directors as emoluments for the year ended 31st March, 2000. Further information in respect of the Directors' emoluments is set out in Appendix I to this prospectus.

Under the arrangements currently in force, the aggregate amount of emoluments of the Directors for the year ending 31st March, 2001 is estimated to be approximately HK\$6,883,000.

## 2. Experts

- (a) Each of John Charles Ross Collis and Anthony Devon Whaley, who are the Company's Bermuda resident representative and deputy resident representative respectively, is a partner of Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, which firm will receive normal professional fees in

connection with the incorporation of the Company and the Placing. Ira Stuart Outerbridge III, the joint secretary of the Company, who will resign as secretary of the Company immediately after the listing of the Shares on the Stock Exchange, is an employee of Codan Services Limited, a company affiliated with Conyers Dill & Pearman.

- (b) BNP Prime Peregrine Securities has been granted the BNP Prime Peregrine Option under the Underwriting Agreement to be allotted up to 2,500,000 Shares in lieu of the payment of all or part of the underwriting and management fee.
- (c) None of BNP Prime Peregrine Capital, Arthur Andersen & Co, Conyers Dill & Pearman and Chesterton Petty Limited:
  - (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

### **3. Agency fees or commissions received**

None of the Directors or the experts named in the paragraph headed "Consents of Experts" in this Appendix had received any agency fee or commission from the Group within the two years immediately preceding the date of this prospectus.

### **4. Related party transactions**

The Group entered into related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note h under the section headed "Results" of the accountants' report set out in Appendix I to this prospectus, the paragraph headed "Summary of material contracts" in this Appendix, the paragraphs headed "Continuing connected transactions" under the section headed "Waivers from compliance with GEM Listing Rules and Companies Ordinance" and the section headed "Relationship with the VSC Group and the iM Group" of this prospectus.

### **5. Disclaimers**

Save as disclosed herein:

- (a) none of the Directors or chief executive has for the purposes of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange once such securities are listed on the Stock Exchange;

- (b) none of the Directors nor any of the persons whose names are listed in the sub-paragraph headed "Consent of Experts" under the section headed "Other Information" in this Appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors nor any of the persons whose names are listed in the paragraph headed "Consents of Experts" under the section headed "Other Information" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;
- (d) none of the persons whose names are listed in the paragraph headed "Consents of Experts" under the section headed "Other information" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (e) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Placing or related transaction as mentioned in this prospectus;
- (f) none of the Directors, their respective associates (as defined in the GEM Listing Rules) or shareholders of the Company who are interested in 5% or more of the issued share capital of the Company, so far as is known to the Directors, have any interests in the five largest customers of the Group.

## D. SHARE OPTION SCHEME

### 1. Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a resolution passed by the shareholders of the Company on 13th April, 2000:

(a) *Who may join*

The board of Directors ("Board") may offer to grant to any full-time employee including any executive director of any company in the Group ("Employees") as the Board may in its absolute discretion select options to subscribe for such number of Shares as the Board may determine at a price calculated in accordance with sub-paragraph (d) below.

(b) *Grant of Option*

Any grant of options must not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of

the GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results, no options should be granted until such information has been announced pursuant to the requirements of the GEM Listing Rules.

(c) *Grant of Options to connected persons*

(i) The Directors shall not offer the grant of an option to a connected person (as such term is defined in the GEM Listing Rules) of the Company unless the offer of the grant has been approved by the independent non-executive Directors.

(ii) Where it is proposed that an offer of the grant of options is to be made to a connected person (as such term is defined in the GEM Listing Rules) of the Company who is also a substantial shareholder (as such term is defined in the GEM Listing Rules) of the Company or any of his associates (as such term is defined in the GEM Listing Rules) and such grant would result in the Shares the subject matter of all options granted (including options exercised and outstanding) and proposed to be granted to such person under the Share Option Scheme and any other share option schemes of the Company in the 12 month period up to and including the proposed date of offer of grant of the option:

- (1) representing in aggregate more than 0.1% of the total issued share capital of the Company then in issue; and
- (2) having a value, based on the closing price of the Shares at the proposed date of offer of the grant, in excess of HK\$5 million,

such offer of the grant of options must be approved by the shareholders of the Company in general meeting with all the connected persons (as defined in the GEM Listing Rules) of the Company abstaining from voting (unless the connected person(s) intend to vote against the proposed grant).

(d) *Payment on acceptance of option offer*

HK\$1.00 is payable by the Employee to the Company on acceptance of the option offer.

(e) *Price of Shares*

The subscription price for Shares in relation to options to be granted under the Share Option Scheme will be a price determined by the Board and notified to each relevant Employee and will be the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day, (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of the Shares.

(f) *Maximum number of Shares*

The total number of Shares subject to the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the issued share capital of the Company from time to time excluding (i) Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i) during a specified period of 10 consecutive years. Upon completion of the Pre-Placing, the Placing and the Capitalisation Issue and taking no account of Shares which may be issued pursuant to the Over-allotment Option or the BNP Prime Peregrine Option, the total number of Shares subject to the Share Option Scheme will be 145,200,000, representing 10% of the issued share capital of the Company at that time.

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

(g) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (the "Option Period") to be notified by the Board to each grantee. The Option Period shall not be less than three years and not more than ten years from the date upon which the option is accepted in accordance with the Share Option Scheme but subject to the provisions for early termination contained therein.

(h) *Rights are personal to grantee*

An option may not be sold, transferred, assigned, charged, mortgaged or encumbered and is personal to the grantee, nor shall any interest be created in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle the Company to cancel any outstanding option or part thereof granted to such grantee.

(i) *Rights on ceasing employment*

If the grantee of an option ceases to be an Employee for any reason other than death, misconduct or certain other grounds specified in the Share Option Scheme, the grantee may exercise the option up to the grantee's entitlement at the date of cessation (to the extent not already exercised) within the period of three months following the date of such cessation, which date shall be the last actual working day with the relevant company in the Group, whether salary is paid in lieu of notice or not, failing which the option will lapse.

(j) *Rights on death*

If the grantee of an option dies before exercising the option in full and none of certain events which would be grounds for termination of his or her employment as specified in the Share Option Scheme occurs, his or her personal representative(s) may exercise the option in full (to the extent not already exercised) within a period of 12 months from the date of death or such longer period as the Board may determine, failing which the option will lapse.

(k) *Effects of alterations to capital*

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable, such corresponding alterations (if any) certified in writing by the auditors for the time being of the Company or an independent financial adviser as fair and reasonable (except in the case of a capitalisation issue where no such certification shall be required) will be made in the Shares to which the option relates, the aggregate number of Shares subject to outstanding options and/or the subscription price provided that any such alterations shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible (but shall not be greater than) as it was before such event, no such alteration shall be made so that a Share would be issued at less than its nominal value or which would give a grantee a different proportion of the issued share capital of the Company as that to which he or she was previously entitled and no alteration shall be made if any alteration in the capital structure of the Company is the result of an issue of Shares as consideration in a transaction.

(l) *Rights on take-over*

If a general offer (including any take-over) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) with the terms of the offer having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the grantee (or his or her legal personal representative(s)) may exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(m) *Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees on the same date as it dispatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his or her legal personal representative(s)) shall be entitled to exercise all or any of his or her options in whole or in part at any time prior to 12 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement is not approved by the Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to

the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

(n) *Lapse of Option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of the periods referred to in sub-paragraph (i), (j) or (l) respectively;
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (m);
- (iv) the date on which the grantee of an option ceases to be an Employee by reason of the termination of his or her employment on grounds specified in the Share Option Scheme including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence involving his or her integrity or honesty;
- (v) the date of the commencement of the winding-up of the Company; or
- (vi) the date on which the grantee sells, transfers, assigns, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option in breach of the Share Option Scheme.

(o) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will be subject to the Company's bye-laws for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends and other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the date of allotment.

Unless the context otherwise requires, references to "Shares" in the Share Option Scheme include references to shares in the Company of HK\$0.10 each or of such other nominal amount as shall result from a sub-division or a consolidation of such shares from time to time.

(p) *Cancellation of Options granted*

Any cancellation of options granted but not exercised must be approved by shareholders of the Company (and also by shareholders of any holding company which is listed on GEM or the main board of the Stock Exchange, if applicable) in general meeting, with grantees and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(q) *Period of Share Option Scheme*

The Share Option Scheme will remain valid for a period of 10 years commencing on 13th April, 2000 after which period no further options will be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto.

(r) *Alteration to Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the scheme relating to matters contained in rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees or prospective grantees except with the prior approval of the shareholders of the Company in general meeting, with grantees, prospective grantees and their associates abstaining from voting. No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Company's shareholders under the Company's bye-laws for the time being for a variation of the rights attached to the Shares.

Any alteration to the terms and conditions of the Share Option Scheme, which are of a material nature, must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(s) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on the GEM Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme. Application will be made to the GEM Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the granting of the options under the Share Option Scheme and the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.



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## **E. OTHER INFORMATION**

### **1. Estate duty and tax indemnity**

Each of VSC, Huge Top, Andrew Cho Fai Yao, Yao Lin Shiu Mei, Liang Ho, Hang Chong Sophia, Moses Kwok Tai Tsang and TN Development (the “Indemnifiers”) have, pursuant to a deed of indemnity referred to in the sub-section headed “Summary of Material Contracts” under the section headed “Further Information about the Business” in this Appendix, given indemnities in favour of the Company (for itself and its subsidiaries) in connection with, among others matters, (a) any liability for Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the Placing becomes unconditional; and (b) any taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which the Placing becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Bermuda or the British Virgin Islands, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

The Indemnifiers will however not be liable under the deed of indemnity for taxation where, inter alia, (a) provision has been made for such taxation in the audited combined accounts of the Company or the audited accounts of any member of the Group for the two years ended 31st March, 1999 and the nine months ended 31st December, 1999; (b) the taxation arises or is incurred as a result of a retrospective change in law and/or tax rates coming into force after the date on which the Placing becomes unconditional; (c) the taxation or liability would not have arisen but for any act or omission of or transaction entered into by any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the ordinary course of business on or before the date on which the Placing becomes unconditional.

### **2. Litigation**

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

### **3. Sponsor**

BNP Prime Peregrine Capital has made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein.

**4. Minimum subscription**

There is no minimum subscription which must be raised by the Placing in order to provide the sums required to be provided in respect of the matters referred to in section 28 of the Companies Act.

**5. Preliminary expenses**

The preliminary expenses of the Company are estimated to be approximately US\$10,000 and are payable by the Company.

**6. Promoter**

The promoter of the Company is VSC which was incorporated on 12th January, 1994 under the laws of Bermuda. Particulars of the promoter are set out below.

***Issued share capital of VSC as at the Latest Practicable Date***

HK\$34,088,184.60 divided into 340,881,846 shares of par value HK\$0.10 each which are fully paid or credited as fully paid.

***Directors******Executive Directors:***

Mr. Yao Shu Sheng, Honorary Chairman  
Mr. Andrew Cho Fai Yao, Chairman  
Mr. Dong Yuen Jih  
Ms. Miriam Che Li Yao  
Mr. Dominic Kwok Ming Ma  
Mr. Johnson Sai Hou Ho

***Non-executive Directors:***

Dr. Chow Yei Ching  
Dr. Shao You Bao  
Mr. Kenneth Woo Shou Ting  
Mr. Moses Kwok Tai Tsang

***Principal bankers***

The Hongkong and Shanghai Banking Corporation Limited  
Shanghai Commercial Bank Limited  
Banque Nationale de Paris  
The Bank of Tokyo-Mitsubishi, Limited  
Hang Seng Bank Limited  
Liu Chong Hing Bank Limited  
ABN-AMRO Bank  
The Fuji Bank, Limited  
The Bank of East Asia, Limited  
KBC Bank N.V.

***Auditors***

Arthur Andersen & Co

Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter in connection with the Placing or the related transactions described in this prospectus.

#### 7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
BNP Prime Peregrine Capital	Registered investment adviser
Arthur Andersen & Co	Certified public accountants
Conyers Dill & Pearman	Bermuda Barristers & Attorneys
Chesterton Petty Limited	Property valuer

#### 8. Consents of experts

Each of BNP Prime Peregrine Capital, Arthur Andersen & Co, Conyers Dill & Pearman and Chesterton Petty Limited has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

#### 9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of section 44A and 44B of the Companies Ordinance insofar as applicable.

#### 10. Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years preceding the date of this prospectus,
    - (aa) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
    - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries;
  - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
  - (iii) no founders management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued.

- 
- (b) Subject to the provisions of the Companies Act, the register of members of the Company will be maintained in Bermuda by Butterfield Corporate Services Limited and a branch register of members of the Company will be maintained in Hong Kong by Central Registration Hong Kong Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's share registrar in Hong Kong and may not be lodged in Bermuda.
  - (c) No company within the Group is presently listed on any stock exchange or traded on any trading system.
  - (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

## APPENDIX VI

## DESCRIPTION OF SERVICES

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

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

### ONLINE PROCUREMENT

*Online Procurement* allows buyers and sellers to post products, submit quotations and negotiate deals at a single stop.

#### Procurement Procedures:

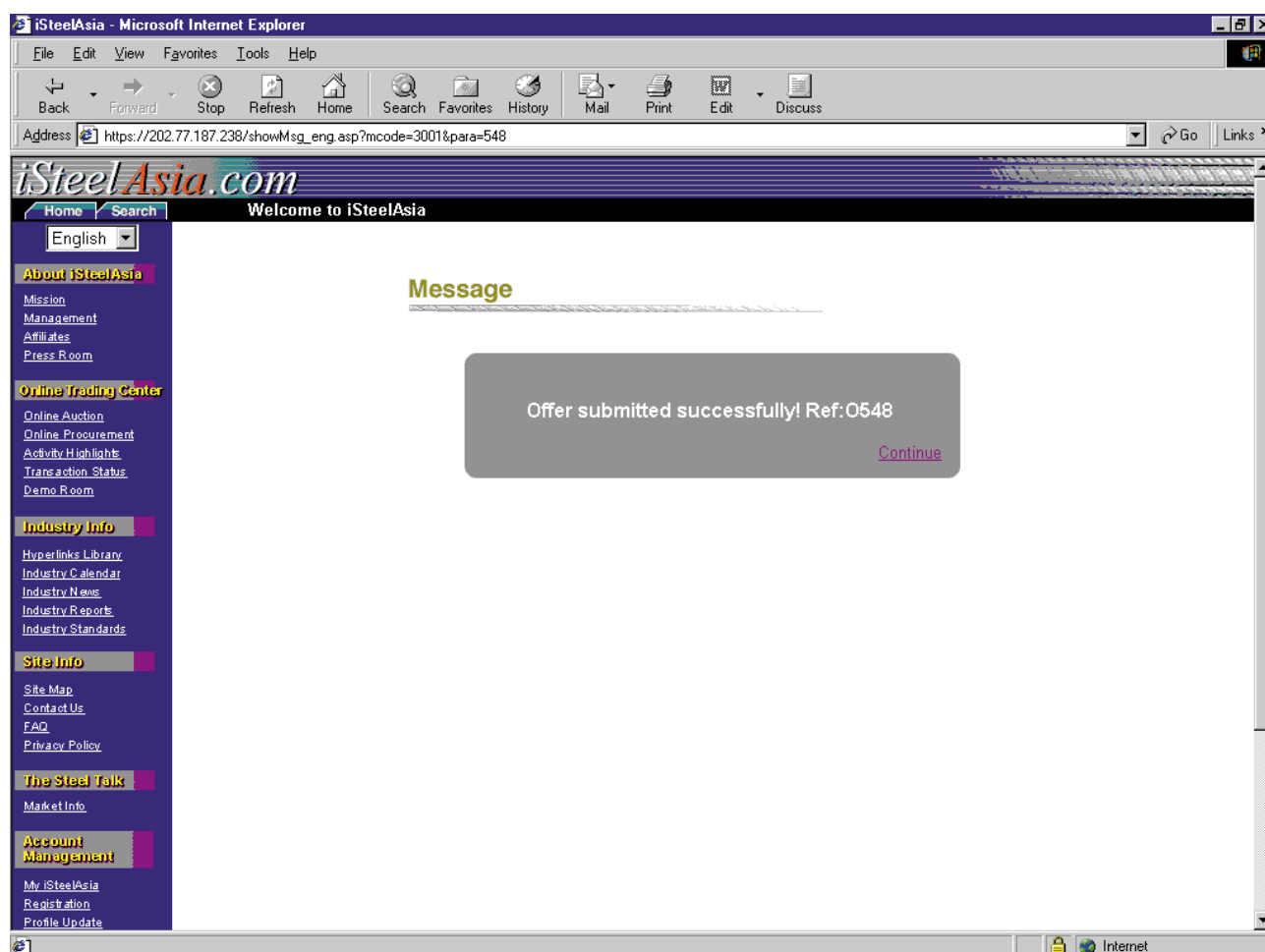
##### Step 1 — Posting a Request (The Buyer Side)

The screenshot shows a web browser window titled "https://202.77.187.238/tenderpost\_eng.asp - Microsoft Internet Explorer". The address bar shows the URL "https://202.77.187.238/tenderpost\_eng.asp". The browser's menu bar includes File, Edit, View, Favorites, Tools, and Help. The toolbar contains buttons for Back, Forward, Stop, Refresh, Home, Search, Favorites, History, Mail, Print, Edit, and Discuss. The main content area displays the iSteelAsia.com website. The header includes the iSteelAsia.com logo and a "Welcome to iSteelAsia" message. A navigation menu on the left lists various sections: Home, Search, English, About iSteelAsia, Mission, Management, Affiliates, Press Room, Online Trading Center, Online Auction, Online Procurement, Activity Highlights, Transaction Status, Demo Room, Industry Info, Hyperlinks Library, Industry Calendar, Industry News, Industry Reports, Industry Standards, Site Info, Site Map, Contact Us, FAQ, Privacy Policy, The Steel Talk, Market Info, Account Management, My iSteelAsia, and Registration. The main content area is titled "Online Trading Center" and "Online Procurement". It instructs users to "Fill in the application form with the following information." and shows the "Current Time (HK): 29/3/2000 21:48:11". A "load template" button is available. The "Tender Posting Form" is displayed, showing fields for Member ID (TRAINING1), Tender ID (ISA28336), Select Product Category (Please choose the product category), Product Description (Please choose the product description), Standard, Quality, Size, Mill Origin, and Quantity (Metric Tons).

- Login with *Company ID*, *User ID* and *Password*.
- Fill in the application form by specifying *Product Category*, *Product Description*, *Close Bid Date*, etc.
- Add terms and conditions utilising company templates or the *Terms and Conditions* text field.
- Restrict sellers' access to the posting by including, but not limited to, required *Company Location*, *Company Type* and *Product Category*.
- Submit the posting and obtain a reference number.

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

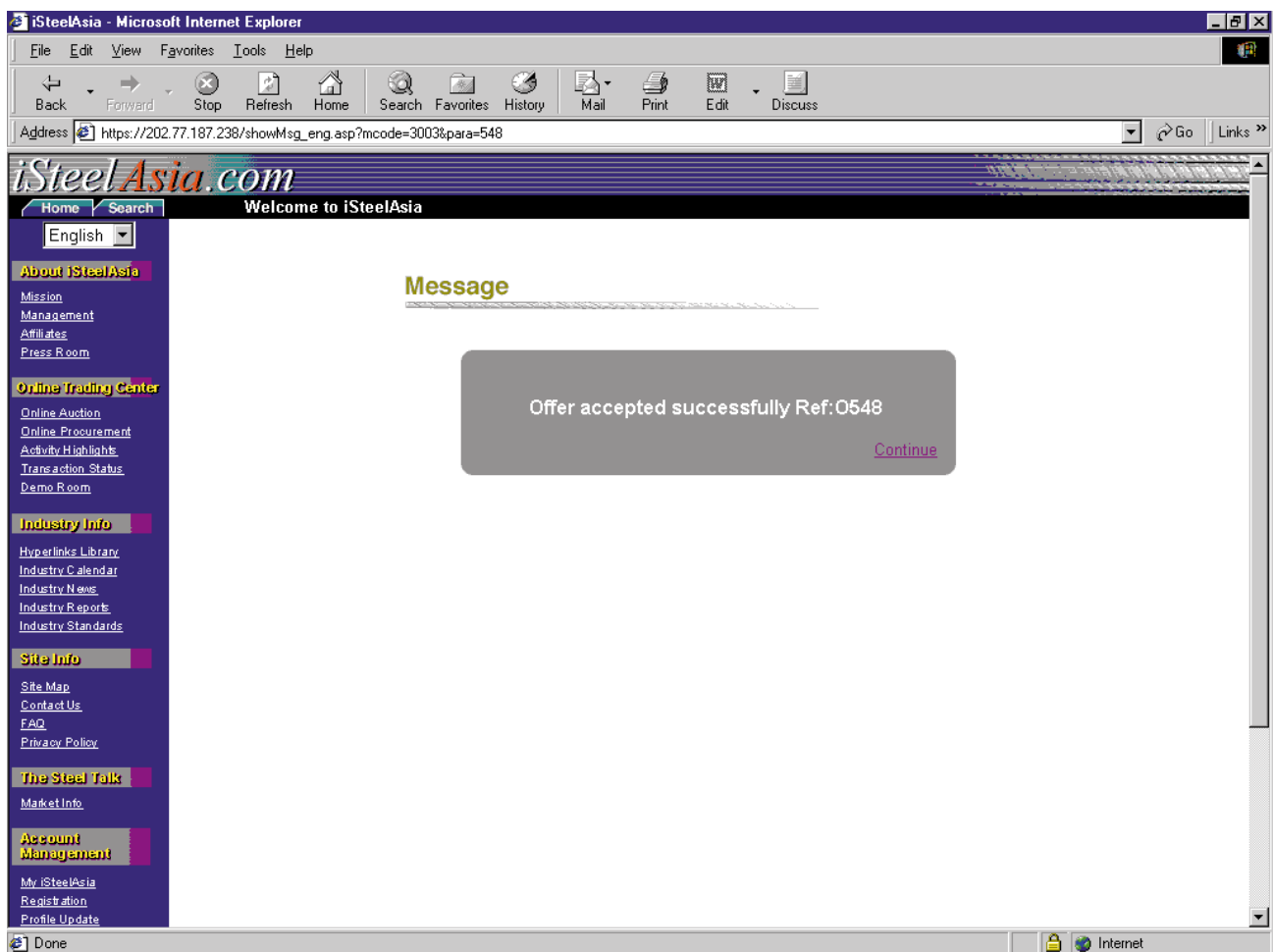
#### Step 2 — Offering a Quote (The Seller Side)



- Login with *Company ID*, *User ID* and *Password*.

- Click to see the details of the invited request.
- Offer a quote by submitting the price, quantity, validation period and other relevant information.
- Specify any discrepancy between the offer and the request.
- Add, edit or delete terms and conditions utilising company templates or the *Terms and Conditions* text field.

### Step 3 — Negotiating and Closing the Deal



- All quotes will be immediately directed to the buyer's response list.
- The buyer can then choose to accept, negotiate or reject those quotes.
- Declined sellers will receive e-mail notification.
- Seller's information will be disclosed if its quote is accepted. It is also obliged to pay a commission to iSteelAsia.

## ONLINE AUCTION

The screenshot shows the iSteelAsia.com website in a Microsoft Internet Explorer browser window. The address bar displays `https://202.77.187.238/auctionpost_eng.asp`. The website has a purple header with the iSteelAsia.com logo and a navigation menu on the left. The main content area is titled "Online Trading Center" and "Online Auction". It includes a "Load Template" button and a "Current Time (HK):" field. Below this is the "Online Auction Posting Form" which contains the following fields:

- Trader ID: ISA28336
- Member ID: TRAINING1
- \*Product Category: Please choose the product category (dropdown menu)
- \*Product Description: Please choose the product description (dropdown menu)
- \*Standard: [text input field]
- \*Quality: [text input field]
- \*Size: [text input field]
- \*Mill Origin: [text input field]
- \*Quantity (Metric Tons): [text input field]
- \*Shipment: 29 Mar 2000 to 29 Mar 2000 (date pickers)

*Online Auction* entails a self-posting mechanism. It caters for sellers who wish to sell their steel products online.

*Step 1 — Self-Posting (The Seller Side)*

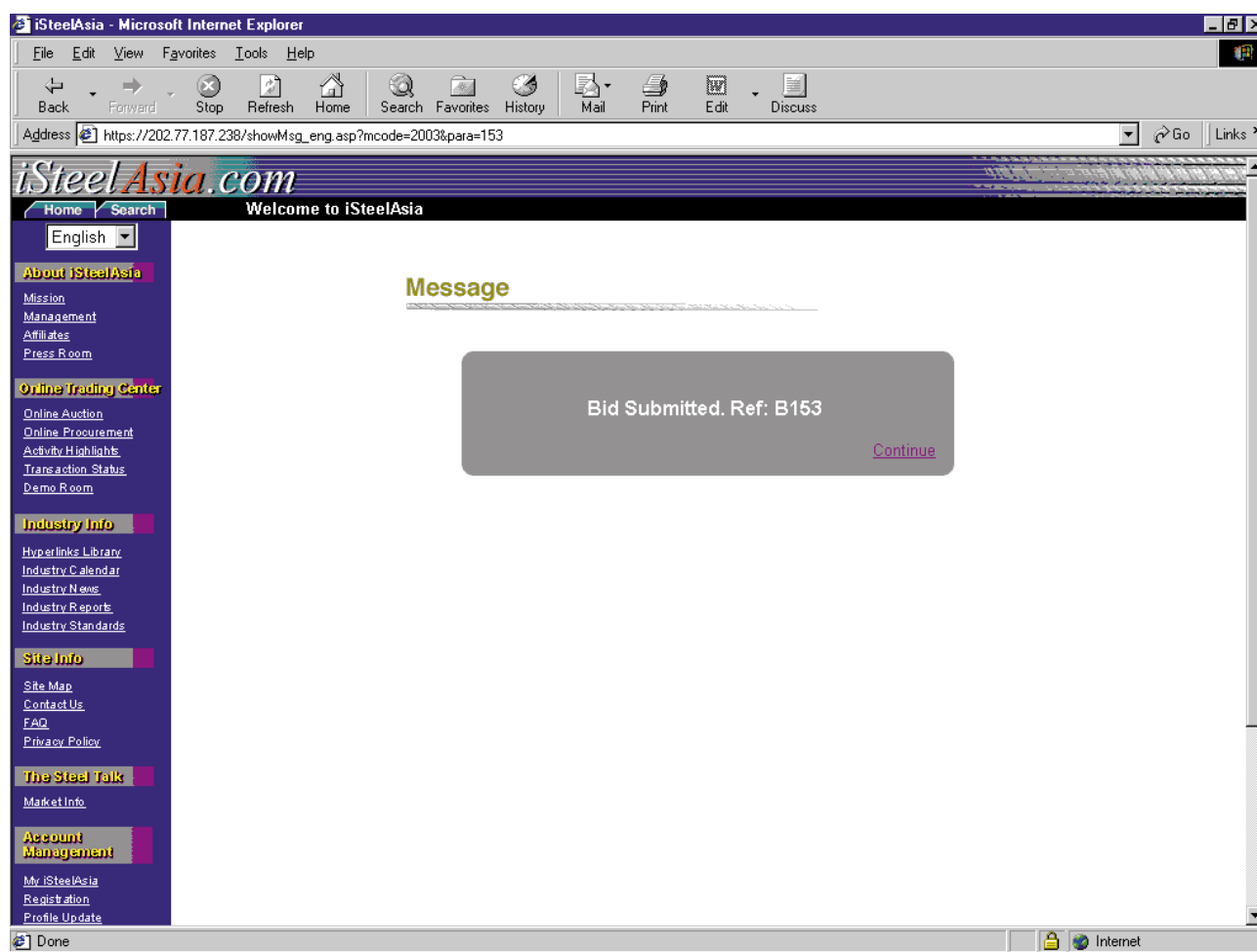
- Post products for auction through the *Online Posting Form* and the *Buyer Restriction Form*.
- Mandatory fields in the *Online Posting Form* include, but are not limited to, *Product Category*, *Product Description*, *Terms and Conditions*, *Auction Type*, *Duration*, and *Currency*.
- Add terms and conditions utilising:
  1. standard terms and conditions provided by iSteelAsia, or
  2. tailored company templates or
  3. *Terms and Conditions* text field.



- In the *Buyer Restriction Form*, specify buyers's company location and type if desired. Multiple selection is permitted.

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

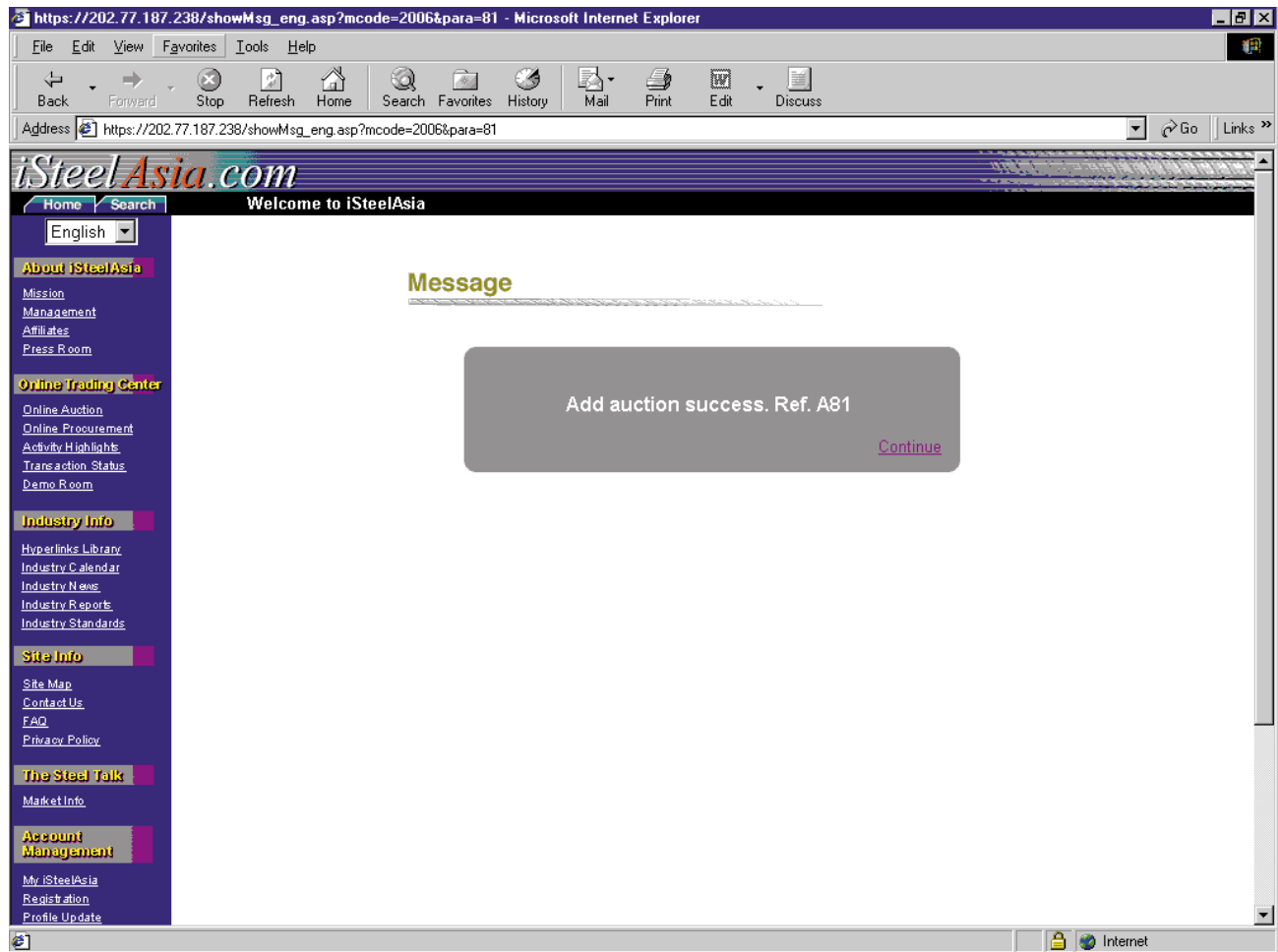
#### Step 2 — Bidding (The Buyer Side)



- Qualified buyers are permitted to bid. Details of the posting can be viewed in the *Bidding List* and the *Auction Particulars Page*.
- *Bid Price* and *Quantity* are to be specified in each bid.
- Add, amend or delete terms and conditions in the *Bidder Remarks* field. Discrepancies between the offer and the bid should also be stated here.

- Relevant documents can be attached in the bid.

### Step 3 — Decision



- Winning bids are not necessarily the highest bids. The seller reserves the right to make his own selection.
- Declined bidders will receive e-mail notification.
- Bidder's information will be disclosed if its bid is accepted. The seller is then obliged to pay a commission to iSteelAsia.

## INDUSTRY INFO

**Hyperlinks Library** is categorised into sections, including *Steel Mills*, *Steel Associations & Institutes and Publications*. *Industry Calendar* records industry-related events.

**Industry News**, currently supported by Reuters, provides the latest industry-related news.

**Industry Reports** has been designed to facilitate links to reference information while *Industry Standards* summarises production standards in various regions.

## THE STEEL TALK

*The Steel Talk* encompasses market information to facilitate and enhance communication among industry participants.

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

### Posting Procedures

- Post information utilising the *Content* text field.
- Submit the posting.