[illegible]

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

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

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

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

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

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

[illegible] [illegible]

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

| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
|---|---|---|---|---|
| iSteelAsia Holdings Limited | British Virgin Islands | US$10,000 | 100% | Investment holding |
| iSteelAsia (Hong Kong) Limited | Hong Kong | HK$2 | 100% | Operation of an e-commerce vertical portal business for online steel trading |
| iSteelAsia Limited | British Virgin Islands | US$10 | 100% | Operation of an e-commerce vertical portal business for online steel trading |
| MetalAsia Holdings Limited | British Virgin Islands | US$2,000 | 100% | Investment holding |
| MetalAsia (Hong Kong) Limited | Hong Kong | HK$4 | 100% | Trading of steel and provision of procurement service |

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

[illegible] [illegible]

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

[illegible] [illegible]

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

[illegible] [illegible]

[illegible] [illegible]

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

[illegible] [illegible]

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.

[illegible] [illegible]

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

[illegible] [illegible]

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

[illegible] [illegible]

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

[illegible] [illegible]

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

[illegible]

[illegible]

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

[illegible]

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

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

[illegible]

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.

[illegible]

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.

[illegible] [illegible]

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

| | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| [illegible] | | |
| Van Shung Chong (B.V.I.) Limited | [illegible] | 17,312 |
| Van Shung Chong Hong Limited* | [illegible] | (2,244) |
| | [illegible] | 15,068 |
| Less: Current portion | [illegible] | (15,068) |
| Non-current portion | [illegible] | — |

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

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

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

[illegible] [illegible]

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

| [illegible] | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| [illegible] | | |
| Van Shung Chong Hong Limited (i) | | |
| — Purchases made by the Group | [illegible] | 106,732 |
| — Commission from procurement services earned by the Group | [illegible] | 999 |
| — Administrative fees paid by the Group | [illegible] | 360 |
| — Rental expenses paid by the Group | [illegible] | 268 |
| Dongguan Van Shung Chong Steel Products Co., Ltd. (i) | | |
| — Commission from online steel trading services earned by the Group | [illegible] | — |
| iMerchants Limited (ii) | | |
| — Website development costs paid by the Group | [illegible] | — |
| — Website maintenance costs paid by the Group | [illegible] | — |
| — Research and development expenses paid by the Group | [illegible] | — |
| [illegible] | | |
| Van Shung Chong Hong Limited (i) | | |
| — Research and development expenses paid by the Group | [illegible] | — |
| — Advertising and promotion expenses paid by the Group | [illegible] | — |
| — Purchase of machinery and equipment by the Group | [illegible] | — |
| CFY Enterprises Limited (i) | | |
| — Recruitment fees paid by the Group | [illegible] | — |

*Notes:*

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

(ii) iMerchants Limited is a subsidiary of iMerchants Group Limited, a beneficial shareholder of the Company.

[illegible] [illegible]

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

[illegible] [illegible]

Turnover and revenue comprised:

| | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| Sales of merchandise | [illegible] | 114,652 |
| Commission from procurement services | [illegible] | 999 |
| Commission from online steel trading services | [illegible] | — |
| Total turnover | [illegible] | 115,651 |
| Interest income from overdue accounts receivable | [illegible] | — |
| Total revenue | [illegible] | 115,651 |

[illegible] [illegible]

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

| | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| [illegible] | | |
| Staff costs (including directors' emoluments) | [illegible] | 745 |
| Less: Amount included in research and development expenses | [illegible] | — |
| | [illegible] | 745 |
| Provision for bad and doubtful debts | [illegible] | — |
| Operating lease rental in respect of rented premises paid to | | |
| — a related company (Note 4.d) | [illegible] | 268 |
| — others | [illegible] | — |
| Advertising and promotion expenses paid to | | |
| — a related company (Note 4.d) | [illegible] | — |
| — others | [illegible] | — |
| Depreciation of machinery and equipment | [illegible] | 8 |
| Amortisation expenses | [illegible] | — |
| Net exchange loss | [illegible] | 529 |
| Auditors' remuneration | [illegible] | 80 |
| [illegible] | | |
| Interest income from overdue accounts receivable | [illegible] | — |
| Net exchange gain | [illegible] | — |

[illegible] [illegible]

a. Details of directors' emoluments were:

| | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| Fees for executive directors | [illegible] | — |
| Fees for non-executive directors | [illegible] | — |
| Other emoluments for executive directors | | |
| — Basic salaries and allowances | [illegible] | 65 |
| — Sign-on bonus | [illegible] | — |
| — Bonuses* | [illegible] | 60 |
| Other emoluments for non-executive directors | [illegible] | — |
| | [illegible] | 125 |

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

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

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

| | [illegible] | 1999 |
|---|---|---|
| Executive directors | | |
| — Nil to $1,000,000 | [illegible] | 1 |

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

[illegible] [illegible]

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

| | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| Basic salaries and allowances | [illegible] | 750 |
| Sign-on bonuses | [illegible] | — |
| Bonuses | [illegible] | 60 |
| Contributions to pension scheme | [illegible] | 25 |
| | [illegible] | 835 |

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

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

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

[illegible] [illegible]

Taxation charges consist of:

| | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| Current taxation: | | |
| Hong Kong profits tax | [illegible] | 276 |

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

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

[illegible] [illegible]

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

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

[illegible] [illegible]

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

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

[illegible] [illegible]

Movements of machinery and equipment were:

| | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| [illegible] | | |
| Beginning of year | [illegible] | 40 |
| Additions | [illegible] | 1 |
| Transfer from a related company (Note 4.d) | [illegible] | — |
| End of year | [illegible] | 41 |
| [illegible] | | |
| Beginning of year | [illegible] | 5 |
| Provision for the year | [illegible] | 8 |
| End of year | [illegible] | 13 |
| [illegible] | | |
| End of year | [illegible] | 28 |
| Beginning of year | [illegible] | 35 |

### [illegible] [illegible]

Website development costs consist of:

| | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| Cost | [illegible] | — |
| Less: Accumulated amortisation | [illegible] | — |
| | [illegible] | — |

### [illegible] [illegible]

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

### [illegible] [illegible]

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

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

### [illegible] [illegible]

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

## [illegible]

Analysis of cash and cash equivalents:

| | [illegible] | 1999 |
|---|---|---|
| | [illegible] | $'000 |
| Cash and bank deposits | [illegible] | 20 |
| Short-term bank borrowings | [illegible] | — |
| | [illegible] | 20 |

## [illegible]

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

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

## [illegible]

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

### [illegible]

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

### [illegible]

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

— the authorised share capital of the Company was increased from $100,000 to $400,000,000, by the creation of an additional 3,999,000,000 shares of $0.10 each to rank pari passu with the existing shares in all respects; and

— the Company allotted and issued 1,300,000 new shares of $0.10 each credited as fully paid and credited as fully paid at par of $0.10 each the 1,000,000 shares issued nil paid on 21st February, 2000 as consideration and in exchange for the acquisition by the Company of the entire issued share capital of MetalAsia Holdings Limited and iSteelAsia Holdings Limited;

[illegible]

[illegible]

(ii) On 18th April, 2000, the option granted to BNP Prime Peregrine Securities Limited, the Company's underwriter for the placement of 100,000,000 share (Note 18.b (iv)) was exercised and as a result 2,500,000 shares of $0.10 each were issued at $1.08 per share to BNP Prime Peregrine Securities Limited in lieu of the underwriting commission and management fee payable to that company.

(iii) On 19th April, 2000, pursuant to a placing agreement dated 29th March, 2000, 72,000,000 shares of $0.10 each were issued at $0.80 per share to Li Ka Shing Foundation Limited, resulting in cash proceeds of $57,600,000;

(iv) On 19th April, 2000, 100,000,000 shares of $0.10 each were issued at $1.08 per share through a placement, resulting in net cash proceeds of approximately $79,259,000; and

(v) Immediately after the aforementioned private placement (Note 18.b (iv)), share premium of $127,770,000 was capitalised for the issuance of 1,277,700,000 shares of $0.10 each on a pro-rata basis to the Company's shareholders immediately before the placement.

[illegible]

On 13th April, 2000, the Company approved a share option scheme under which its Board of Directors may, at its discretion, invite any employees of the Company or any of its subsidiaries, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing prices of the Company's shares on the trade day immediately preceding the date of offer of the options, and (iii) the average of the quoted closing price of the Company's shares on the five trading days immediately preceding the date of offer of the options. The scheme became effective upon the listing of the Company's shares on 20th April, 2000. No options have been granted up to the date of approving these financial statements.

[illegible]

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