

iSteelAsia.com Ltd :
IT APPEARS TO HAVE LITTLE TO NO CHANCE OF SUCCESS

It has debts of about \$HK18.46 million.

It has no intention of paying a dividend in the foreseeable future.

It is estimating a loss of not more than \$HK7 million for the Financial Year, ended March 31, 2000.

It owns nothing but a newly developed (and still untried) website.

Its Adjusted Net Tangible Asset Value Per Share is 9.26 percent of the Issue Price, at most.

And the publicly listed company, which is guaranteed to make the news in the not-too-distant future, is iSteelAsia.com Ltd.

iSteelAsia.com Ltd, in fact, made the headlines on the first day of its listing on The GEM, The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd.

That was last Thursday when, in a time frame of just 4 hours, its share price fell from the Placing Price of \$HK1.08 per share to 79 cents per share.

Then, when the stock market opened last Tuesday, following the Easter Holidays, the share price fell further, to the 70-cent level.

That represents a fall from grace, so to speak, of about 35.19 percent in a matter of just 8 hours of share trading.

It is clear that the investing public of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) does not appreciate this Company's business plan -- in spite of it being a so-called hi-tech company.

And it is almost a certainty that, in the absence of artificial help from vested interests, the share price will fall much further because, according to TARGET's calculations, the share price should be closer to pennies than to the \$HK1 level.

iSteelAsia.com Ltd recently launched its 100-million New Share Placement on The GEM at \$HK1.08 per share, raising a total of \$HK88.40 million, net.

The Company estimated that \$HK19.60 million of the Gross Proceeds from this cash-raising exercise would be absorbed in respect of costs in sending this Company to The GEM.

The Underwriters, BNP Prime Peregrine Securities Ltd, ABN AMRO Rothschild Ltd, Asia Financial (Securities) Ltd, Credit Lyonnais Securities (Asia) Ltd, Kleinwort Benson Ltd and Salomon Brothers International Ltd, each took 4 percent of the Gross Proceeds of the shares that they, individually placed, plus, of course, BNP Prime Peregrine Capital obtained an undisclosed figure, being the financial advisory fee and a documentation fee in relation to this Placings.

Nice going when you can get it.

The \$HK88.40 million Net Proceeds are intended to be used as follows:

1. \$HK31 million *'to acquire interests in value-added information and service provider(s)';*

2. \$HK15.50 million 'to engage outside consultants and/or finance internal activities to conduct market research to formulate, revamp and refine its business strategy';
3. \$HK26.40 million 'to conduct marketing and promotional activities to build a strong brand name for iSteelAsia.com'; and,
4. \$HK15.50 million 'to acquire content for the Group's websites'.

iSteelAsia.com Ltd is a company, which is engaged in 'the provision of trading and other value-added services for participants in the supply chain of the steel industry.' (Page One of the Prospectus)

This Company is linked to Van Shung Chong Holdings Ltd, a related company that is listed on the Main Board of The Stock Exchange of Hongkong Ltd.

Van Shung Chong founded this Company.

Van Shung Chong, today, owns 19.15 percent of the Enlarged Issued and Fully Paid-Up Share Capital of iSteelAsia.com Ltd.

According to the Prospectus of iSteelAsia.com Ltd, Van Shung Chong was the principal mover of iSteelAsia.com Ltd, going back to 1994 when it launched the idea of having a separate corporate group to engage, solely, in steel trading.

In December 1999, just 3 months ago, iSteelAsia.com Ltd launched its website, iSteelAsia.com -- and that was sufficient reason, it appears, to launch a shot at The GEM in order to raise more funds so that the general public could shoulder some of the inherent dangers in such a risky venture.

Aside from Van Shung Chong, other existing shareholders include the Li Ka Shing Foundation Ltd (4.96 percent), and iMerchants Group Ltd (14.11 percent) (already listed on The GEM).

The Financials

Strange as it may seem, while the Company headed for a record Financial Year, in terms of Turnover, it is, also, estimating the largest loss in the past 3 Financial Years.

The following is the trading record of the Company since March 31, 1998:

	Year Ended March 31		
	1998	1999	Nine Months to December 31, 1999
	(All Figures are denominated in \$HK'000)		
Turnover	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	Nil	Nil	(2,245)
Administrative Expenses	(1,934)	(2,982)	(8,888)
Profit from Operations	2,449	3,299	1,267
Interest Income	11	Nil	63
Profit before Taxation	2,460	3,299	1,267
Taxation	(248)	(276)	(1,019)
Profit Attributable to Shareholders	2,212	3,023	311

It is only too obvious from scanning the above table that administrative expenses, clearly the result of the Company's determination to launch a GEM listing, cost the Company dearly, about 198 percent more than the administrative costs, incurred in the 1999 Financial Year, in fact.

For the Financial Year, ended March 31, 2000, 'The Directors estimate that, in the absence of unforeseen circumstances ... 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.' (Page 107)

From the above table, it is, also, clear that the cost of sales is equal to between a high of 94 percent (in 1998) to a low of 87 percent (for the 9 months to December 31, 1999).

The high cost of obtaining sales is before calculating distribution and selling costs, administrative expenses, and a host of other charges, which are credited to the account of the Profit and Loss Account.

As it is, from 1998 to the Financial Year, just ended, no realistic emoluments have been paid to any Director, other than an unrealistic pittance.

Page 125 of the Prospectus claims that staff costs for 1998 amounted to \$HK674,000, falling to \$HK619,000 for the 1999 Year, and, for the first 9 months of the 2000 Financial Year, ended March 31, 2000, the staff costs rose to \$HK2,908,000.

Page 93 of the Prospectus states that, as at April 7, 2000, iSteelAsia.com Ltd had 48 full-time employees:

Business Development16 staff members	
Corporate Support and Finance	13 staff members
Technology	6 staff members
Sales and Marketing	4 staff members
Customer Service	5 staff members
Steel Trading	4 staff members
TOTAL	48 staff members

These 48 staff members are engaged in:

The Hongkong Special Administrative Region	37 staff members
The People's Republic of China	5 staff members
Europe	1 staff member
India	1 staff member
Korea	1 staff member
Singapore	1 staff member
The United States of America	2 staff members
TOTAL	48 staff members

It will, no doubt, come as no shock to TARGET readers to learn that most of the senior management staff have been with iSteelAsia.com Ltd for less than 2 months. This is clearly indicated on Pages 90 through Pages 92 of the Company's Prospectus.

As for the Gross Assets of iSteelAsia.com Ltd, as at December 31, 1999, Page 130 of the Prospectus states that there are \$HK29,000 in Fixed Assets (computers and equipment), \$HK3,882,000 in what is termed as '*Website development costs*', inventories of \$HK5,838,000 (steel rebars and rolled steel flat products for trading purposes, in the Books at Cost, not '*Lower of Cost and Net Realisable Value*' as one would have expected, Accounts Receivable of \$HK23,002,000 and cash and bank balances of \$HK19,000.

Against the figure of \$HK28,859,000, being the Total Current Assets, Current Liabilities amounted to \$HK27,029,000 ... [CLICK TO ORDER FULL ARTICLE](#)

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