WellNet Holdings Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 24)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2003

FINANCIAL RESULTS

The Directors of WellNet Holdings Limited (the "Company") hereby announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2003, together with the comparative figures for 2002, as follows:–

	Notes	2003 HK$'000	As restated 2002 HK$'000
Turnover	2	**3,889,099**	3,745,821
Cost of sales		**(3,822,752)**	(3,527,055)
Gross profit		**66,347**	218,766
Other revenue		**7,313**	6,678
Selling and distribution expenses		**(52,702)**	(39,760)
General and administrative expenses		**(69,954)**	(73,866)
Loss on investments, net		**(21,410)**	(8,043)
Operating (loss)/profit	2&3	**(70,406)**	103,775
Finance costs	4	**(33,454)**	(22,763)
Share of profits less losses of associates		**998**	2,195
(Loss)/Profit before taxation		**(102,862)**	83,207
Taxation	5	**7,771**	(4,831)
(Loss)/Profit after taxation		**(95,091)**	78,376
Minority interests		**5,381**	(1,525)
(Loss)/Profit attributable to shareholders		**(89,710)**	76,851
Dividends	6	**–**	42,157
(Loss)/Earnings per share	7		
– basic		**HK (8.51) cents**	HK 7.74 cents
– diluted		**N/A**	HK 7.58 cents

Notes:–

(1) **Accounting policies**

The accounting policies used in the preparation of the accounts are consistent with those used in the annual accounts for the year ended 31 December 2002, except for the adoption of the revised SSAP No. 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2003.

On adoption of the revised SSAP No. 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP No. 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. Opening retained earnings at 1 January 2002 and 2003 have been reduced by HK$515,000 and HK$1,847,000 respectively as a result of such change in accounting policy. In addition, this change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by HK$2,478,000 and HK$36,615,000 respectively. The profit and amount charged to equity for the year ended 31 December 2002 has been reduced by HK$1,332,000 and increased by HK$4,147,000 respectively.

(2) **Segment information**

(a) Analysis by business segments is as follows:

	2003 External sales HK$'000	2003 Internal segment sales HK$'000	2002 External sales HK$'000	2002 Internal segment sales HK$'000
Turnover				
– Steel trading, warehousing and distribution	**3,486,966**	**603,789**	3,426,376	76,188
– Steel manufacturing and processing	**354,433**	**–**	249,170	6,669
– Property development	**15,435**	**–**	29,248	–
– Property investment	**11,969**	**280**	11,566	–
– Others	**20,296**	**1,429**	29,461	3,097
	3,889,099	**605,498**	3,745,821	85,954
Inter-segment elimination	**–**	**(605,498)**	–	(85,954)
	3,889,099	**–**	3,745,821	–

	2003 HK$'000	2002 HK$'000
Operating (loss)/profit		
– Steel trading, warehousing and distribution	**(21,805)**	94,453
– Steel manufacturing and processing	**11,428**	32,350
– Property development	**3,009**	6,274
– Property investment	**5,881**	10,119
– Others	**(2,435)**	2,866
– Unallocated expenses	**(66,484)**	(42,287)
	(70,406)	103,775

(b) Analysis by geographical segments is as follows:

	2003 HK$'000	2002 HK$'000
Turnover		
– Mainland China	**3,465,537**	3,367,863
– Hong Kong	**90,397**	76,546
– Asia (other than Mainland China and Hong Kong)	**262,343**	270,124
– Others	**70,822**	31,288
	3,889,099	3,745,821
Operating (loss)/profit		
– Mainland China	**(13,564)**	131,482
– Hong Kong	**8,841**	10,107
– Asia (other than Mainland China and Hong Kong)	**631**	4,285
– Others	**170**	188
– Unallocated expenses	**(66,484)**	(42,287)
	(70,406)	103,775

(3) **Operating (loss)/profit**

Operating (loss)/profit is stated after charging and crediting the following:–

	2003 HK$'000	2002 HK$'000
After charging:		
Depreciation of property, plant and equipment	**13,196**	12,283
Amortisation of intangible assets	**–**	1,471
Loss on disposal of investments	**7**	545
Net unrealised loss on other investments	**–**	691
Net loss on disposal of property, plant and equipment	**870**	1,278
Loss on disposal of investment properties	**1.817**	–
Provision for impairment loss of investments	**20,419**	6,807
After crediting:		
Net unrealised gain on other investments	**833**	–
Gain on disposal of investment properties	**–**	117
Gain on deemed disposal of a subsidiary	**–**	505

(4) **Finance costs**

	2003 HK$'000	2002 HK$'000
Interest on borrowings	**32,049**	22,659
Amortisation of deferred borrowing costs	**1,405**	104
	33,454	22,763

(5) **Taxation**

The Company is exempted from taxation in Bermuda until 2016. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the Hong Kong Government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/04. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax ranging from 15% to 33% (2002: 15% to 33%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2003 HK$'000	As restated 2002 HK$'000
Current taxation		
– Hong Kong profits tax	**–**	954
– Overseas taxation		
– Mainland China	**–**	2,905
– Others	**–**	71
	–	3,930
Under/(over) provision in prior years		
– Hong Kong profits tax	**401**	(1,254)
– Mainland China taxation	**(3,055)**	(801)
	(2,654)	(2,055)
	(2,654)	1,875
Deferred taxation relating to the origination and reversal of temporary differences	**(6,112)**	2,323
Deferred taxation resulting from increase in tax rate	**(79)**	–
	(8,845)	4,198
Share of taxation attributable to associates	**1,074**	633
	(7,771)	4,831

(6) **Dividends**

	2003 HK$'000	2002 HK$'000
Final, proposed, of Nil (2002: HK 4 cents) per ordinary share	**–**	42,157

(7) **(Loss)/Earnings per share**

The calculation of basic (loss)/earnings per share is based on the consolidated loss attributable to shareholders of approximately HK$89,710,000 (2002: a profit of HK$76,851,000 as restated) and the weighted average number of 1,054,579,281 shares (2002: 992,805,972 shares) in issue during the year.

The diluted loss per share for the year ended 31 December 2003 is not presented because the exercise of the employee share options granted by the Company would have anti-dilutive effect on the loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 December 2002 was based on the consolidated profit attributable to shareholders of approximately HK$76,851,000 as restated and the weighted average number of 992,805,972 shares in issue during the year plus the weighted average number of 21,633,886 shares deemed to be issued at no consideration if all outstanding options had been exercised.

A reconciliation of the weighted average number of shares used in calculating the basic earnings per share and the diluted earnings per share for the year ended 31 December 2002 was as follows:

	Number of shares
Weighted average number of shares used in calculating basic earnings per share	992,805,972
Adjustment for potential dilutive effect in respect of outstanding employee share options	21,633,886
Weighted average number of shares used in calculating diluted earnings per share	1,014,439,858

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2003 (2002: HK 4 cents per ordinary share).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

Changes in the external environment in 2003 had impacted adversely the overall activities of the Group, in particular the steel business.

The outbreak of the Severe Acute Respiratory Syndrome (SARS) and the US-Iraq war had seriously hampered cross-border business dealings and caused disruption to logistics and sales activities. An imbalance in supply and demand was experienced in basic steel raw materials and fuel worldwide whilst the price of various kinds of steel products were subjected to huge fluctuations, ranging from drastic fall in the second quarter to the upsurge in the fourth quarter, leading to extreme volatility in the market. Freight forwarding cost, especially sea freight, increased dramatically as a result of the persistently high oil prices and under capacity of non-containerised goods. Under these market uncertainties, operating cost increased for many of the operations in steel trading, warehousing, logistics services and downstream steel products processing, who were the main users of raw materials, and therefore the results were adversely affected.

In the year under review, turnover of the Group was HK$3.89 billion, an increase of 4% as compared with that of 2002. However, owing to the above-mentioned external factors, performance of the Group's steel operation was seriously affected. At the same time, provisions had to be made for certain investment items. Consequently, overall turnover of the Group was substantially below that of last year and a loss was recorded.

Steel Business

Steel business has been the core business of the Group for decades. The Group is making a full thrust in participating in the industry's supply chain from three fronts, namely international steel trading, warehousing and distribution, as well as manufacturing and processing.

In 2003, this sector of business encountered exceptionally harsh operating conditions, and despite enormous efforts of the Group, the result was disappointing.

As to international trading and warehousing and distribution businesses, the steel market in China in the first quarter suffered an excess production capacity which was a continuing effect caused by the global upsurge in steel prices in 2002. The subsequent temporary imposition of protective measures in restricting the import of steel by China created massive stockpile within a short period of time. The outbreak of SARS and the US-Iraq war grounded business activities to a virtual halt and precipitated excessive inventory further. Against a backdrop of weakened sentiments and inactive trading, the market underwent a turbulent time and prices crest-fell. Steel prices, in particular steel plates, suffered the greatest plunge. For instance, the price of hot-rolled plates fluctuated at a range of as huge as 45%. In order to safeguard the long-term cooperating relationship with major overseas steel suppliers, the Group abided by business integrity and executed all procurement agreements as far as possible. Every effort was made by the Group's sales force and every market connection was exploited to minimise the loss incurred in price differences in executing those agreements. These notwithstanding, the overall gross profit declined drastically. At the same time, certain import wholesalers, in face with the uncertain market, rescinded their orders and breached their agreements, consequently leading to missed opportunities of re-selling and loss for the Group to the detriment of the overall performance of the business for the year.

In respect of steel manufacturing and processing business, reduced cost and improved operating efficiency have been achieved in the Group's steel pipe processing plant in Dongguan after extensive investment in its expansion. Production capacity has increased by 40% and operating scale is gradually taking shape. Another newly established coil centre began production in March 2003. The advanced facilities of the production plant and the high quality of the end-products have been well received by customers. Despite the fact that the coil centre was still in its early days, turnover in 2003 exceeded the original expectation by 32%. The excellent start was achieved through two efforts. Externally, the Group leveraged on the strong market demand on high value-added steel plate processing and managed to secure the confidence and orders of customers. Internally, stringent control on cost and wastage was exercised. Nevertheless, these two plants had to bear the negative impacts caused by SARS and market volatility also. For the steel manufacturing business, during the SARS epidemic and the several months afterwards, orders were postponed or cancelled by downstream customers, leading to a sharp fall in sales and gross profit. When prices surged upwards by a wide margin in the following six months, downstream customers again were unable to shoulder the increased price in the short term as this was beyond their budget. In these circumstances, the Group, with a long term view, adjusted its sales strategy duly and absorbed some of the processing cost and transferred the benefits to customers as a means to tide over the difficult period together. Despite a decrease in the overall gross profit margin in 2003, turnover of the business remained at the same level as last year and a similar market share was maintained. The Group has thus sealed the long term cooperation with its quality end-user customers.

Property Development and Investment

Property development and investment business constitutes one of the core ongoing businesses of the Group.

The Group's development, Times Square in Yangzhou, Jiangsu, having a total gross floor of 68,800 square metres, has been in operation for more than one and a half years since opening of its first phase and at present, has been fully leased out. In addition to the 300 plus shops engaged in retail of clothing, jewellery, watches and cosmetics, other major tenants include restaurants, supermarkets, electrical appliances city, digital cinema complex, book city, piano shop, business leisure centre and KTV.

The small portion of floor space sold is managed through the same property management company with the same system as the other tenants. In this way, sale-and-leased back or leasing arrangements are all under a uniform operation, management and planning. This ensures the stable long term development of the mall and the ultimate enhancement of its asset value.

The Group's investment property in Mongkok, Hong Kong has been leased to a major well-known local retailer throughout. During the SARS epidemic, the Group offered certain relief measures to help the tenant through the difficult period. Following the gradual recovery of the economy in Hong Kong and the introduction of private individual travel by China, retail business is picking up again. The tenant also recorded satisfactory performance and has extended its lease with the Group.

The Group's management deeply regretted and was disappointed at the less than satisfactory performance for the year 2003 and for failing the support of the shareholders, the business associates and the management. However, the management firmly believes that the Group's strategy in participating and investing in the steel business is long-term. The unsatisfactory performance in 2003 is but temporary and the worst is over now. Through this experience, the Group has learned a very instructive lesson from the market and is in the process of implementing a range of internal adjustments and improvements. It is gratifying to note that in this very turbulent year, the Group had managed to consolidate its market share and reinforce its relationship with major suppliers, customers and banks on the strengths of its outstanding reputation and professional staff. All these have laid a solid foundation for the long term development of the operation and improvement of performance in future.

Outlook

The global economy is projected to recover further in 2004. The Group is set to benefit from this in driving forward its business and improving its overall profit performance.

For the steel business, contracted orders received by the Group's trading department at the end of 2003 for execution and delivery in the first quarter of 2004 has already reached HK$1 billion, attaining an obvious improvement in gross profit. As to the Group's two processing plants, orders for the first quarter were fairly substantial and production, sale and profit positions were more promising than anticipated.

The Group is fully convinced that global demand for steel will continue to hold steady and that the macro-economic conditions in China will remain robust. Though recently the Chinese Government has imposed control measures to stamp out the low-level, repetitive investment behaviour of certain sectors, including the steel industry, China has embarked onto the heavy industrial development phase and thereby fostered a cluster of high growth industries, such as residential property development, shipbuilding, automobile, oil pipelines, infrastructure construction, machinery and telecommunication equipment, which all consume massive volume of steel. The rapid development of these industries will accelerate a corresponding growth in steel consumption. This will generate a steady demand as well as extend the demand cycle. Shortage in raw materials and fuel resources necessary in steel production in the global context, such as iron ore lumps, coke, scrap will remain acute and basic relief seems not forthcoming. Shortage in electricity and transportation will also limit the development in full capacity and cost control for the steel industry in China. These fundamental factors will eventually prop up the price of steel at a high level for an extended period. At the same time, in the next few years, the strong and prolonged demand of new construction projects will necessitate the continual import of high-technology and value-added steel products, which domestic production lines are incapable to provide, to China in addition to raw materials.

In view of market demands, the Group will source raw materials such as iron ore lumps, pig iron, scrap, fluxes from North and South America, Russia, Ukraine, Japan, India, Australia and South Africa as well as build up long term stable supply relationship with major domestic steel mills. A special procurement and sales system integrating various resources will be instituted with the particular requirements of the automobile, IT and home appliances industries in mind and will focus on the marketing of specialised steel plates and sheets. At the same time, the Group reckons that the prospect of the steel processing industry in producing ancillary products for foreign enterprises investing in China is very promising, in particular processing of products related to galvanised steel sheets, stainless steel and silicon steel sheets. Building on the two existing processing plants in the Pearl River Delta, the Group will strive to develop this business sector more actively. The Group plans to establish a steel coil processing plant in the Yangtze River Delta in 2004 to target customers in the IT, home appliances and automobile industries. The management envisages that while exercising prudence in risk management, the Group's steel business will maintain a stronghold in the market in 2004 which will generate a better operating performance and profit return to the Group.

In respect of the property business, Times Square in Yangzhou, Jiangsu, is an excellent RMB asset with long term potential in value appreciation. In 2004, as the planned functions of the mall gradually take shape and the enrichment of business formats, combining shopping, leisure, catering, entertainment and tourism in one place becomes a reality, the mall attracts a customer flow of several tens thousands every day and has become the most trendy place for consumers. This has enabled a higher rental from new tenants and in renewal of existing leases. Benefited from the robust economic development of the Yangtze River Delta, coupled with the promising potential of increase in value of this prime asset and being under no financial pressure to sell, the Group had not carried out any major property sale activities in the last two years. The management firmly believes that the project is yielding returns gradually and it will be able to secure a long-term stable cash flow and satisfactory investment return.

Liquidity and Financial Resources

The Group continued to keep its working capital of high liquidity. As at 31 December 2003, the cash and bank balance of the Group was approximately HK$196,036,000 (2002: HK$314,335,000).

The Group's current ratio, as a ratio of current assets to current liabilities, and the gearing ratio, as a ratio of total liabilities to total assets, as at 31 December 2003 were 1.30 and 0.64 respectively (2002: 1.56 and 0.57 respectively).

As at 31 December 2003, the bank borrowings of the Group were approximately HK$779,126,000 (2002: HK$603,137,000). Excluding the short-term loans on trade finance amounted to approximately HK$446,578,000 (2002: HK$287,341,000), the maturity profile of other bank borrowings as at 31 December 2003 was as follows:

	2003	2002
	HK$ million	*HK$ million*
Within one year	**141**	82
In the second year	**114**	42
In the third to fifth year	**38**	139
After the fifth year	**39**	53
	332	316

All the Group's bank borrowings were denominated in Hong Kong Dollar, US Dollar and Renminbi, bearing interest at prevailing market rates. No material exchange risk is expected on the bank borrowings and no financial instruments have been used for hedging purposes during the year.

Contingent Liabilities

As at 31 December 2003, the Group had the following contingent liabilities: (i) guarantee for general banking facilities granted to an associate amounted to approximately HK$21,730,000 (2002: HK$21,730,000); (ii) Mainland China land appreciation tax amounted to approximately HK$17,820,000 (2002: HK$14,891,000); and (iii) guarantees given to bank for mortgage facilities granted to the buyers of the Group's properties amounted to approximately HK$29,689,000 (2002: HK$21,220,000).

Capital Commitments

As at 31 December 2003, the Group had no capital commitments (2002: capital commitments contracted but not provided for amounted to approximately HK$8,345,000).

Charge on Assets

As at 31 December 2003, the following assets were pledged: (i) certain leasehold land and buildings with a net book value of approximately HK$105,300,000 (2002: HK$108,028,000); (ii) certain motor vehicles and machinery of approximately HK$10,737,000 (2002: HK$8,396,000); (iii) certain investment properties with a net book value of approximately HK$362,980,000 (2002: HK$261,752,000); (iv) certain properties held for sale of approximately HK$27,220,000 (2002: HK$2,910,000); (v) certain inventories of approximately HK$21,822,000 (2002: HK$17,678,000) released under trust receipts bank loans; and (vi) certain bank deposits amounted to approximately HK$3,961,000 (2002: HK$40,503,000).

Staff

As at 31 December 2003, the Group employed 720 staff. Staff remuneration packages are structured and reviewed by reference to market terms and individual merits. The Group also provides other staff benefits which include year end double pay, contributory provident fund and medical insurance. Share options and discretionary bonus may also be granted to eligible staff based on individual and Group performance. Training programmes for staff are provided as and when required.

ANNUAL GENERAL MEETING

The 2004 Annual General Meeting of the Company will be held on 2 June 2004. Notice convening the meeting will be issued in due course.

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

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

AUDIT COMMITTEE

The Audit Committee has been established since 1999 with its principal duties include the review and supervision of the Company's financial reporting process and internal controls. The current members of the Audit Committee are Mr. CUI Shu Ming and Mr. SONG Yufang, both are the Independent Non-Executive Directors of the Company. The audited accounts as at and for the year ended 31 December 2003 have been reviewed by the Audit Committee.

The Audit Committee has met twice to discuss and review the Company's interim report and annual report during the year ended 31 December 2003, and provide advices and recommendations to the Board of Directors.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") throughout the year, except that the non-executive directors are not appointed for a specific term, as they have to retire by rotation at the annual general meeting of the Company when they are due for re-election pursuant to the Bye-laws of the Company.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed results containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules in force prior to 31 March 2004 will be published on the website of the Stock Exchange in due course.

On behalf of the Board
CHAN Shing
Chairman

Hong Kong, 21 April 2004