



# WellNet Holdings Limited

(incorporated in Bermuda with limited liability)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2002

### SUMMARY

- Turnover for the first half of the year was HK\$1.72 billion, an increase of 19% over the corresponding period last year
- Gross profit was HK\$126 million, an increase of 35% over the corresponding period last year
- Profit attributable to the shareholders was HK\$51.18 million, an increase of 239% over the corresponding period last year

### INTERIM RESULTS

The Directors of WellNet Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002, together with the comparative figures for the corresponding period last year, as follows:-

|  | Notes | Unaudited                     |               |
|--|-------|-------------------------------|---------------|
|  |       | Six months ended 30 June 2002 | 2001          |
|  |       | HK\$'000                      | HK\$'000      |
| <b>Turnover</b>  | 2     | <b>1,724,492</b>              | 1,449,047     |
| Cost of sales  |       | (1,598,481)                   | (1,355,823)   |
| Gross profit   |       | <b>126,011</b>                | 93,224        |
| Other revenue  |       | <b>4,614</b>                  | 1,816         |
| Selling and distribution expenses                          |       | (14,134)                      | (12,880)      |
| General and administrative expenses                        |       | (48,497)                      | (42,209)      |
| Exchange loss  |       | (3,940)                       | -             |
| Loss on investments, net                                   |       | (141)                         | (2,840)       |
| Profit from operations                                     | 2&3   | <b>63,913</b>                 | 37,111        |
| Interest income  |       | <b>671</b>                    | 2,261         |
| Finance costs  |       | (9,867)                       | (15,179)      |
| Share of profit (loss) of associates                       |       | <b>1,150</b>                  | (91)          |
| <b>Profit before taxation</b>                              |       | <b>55,867</b>                 | 24,102        |
| Taxation   |       |                               |               |
| Company and subsidiaries                                   | 4     | (2,098)                       | (2,282)       |
| Associates   |       | (367)                         | (56)          |
|  |       | (2,465)                       | (2,338)       |
| <b>Profit after taxation but before minority interests</b> |       | <b>53,402</b>                 | 21,764        |
| Minority interests   |       | (2,224)                       | (6,683)       |
| <b>Profit attributable to the shareholders</b>             |       | <b>51,178</b>                 | 15,081        |
| Earnings per share   | 5     |                               |               |
| - basic  |       | <b>5.42 HK Cents</b>          | 1.65 HK Cents |
| - diluted  |       | <b>5.29 HK Cents</b>          | 1.64 HK Cents |

Notes:-

#### 1. Accounting policies

The unaudited condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2001 except for the adoption of the following Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

|                   |  |
|-------------------|--|
| SSAP 1 (revised)  | : Presentation of financial statements |
| SSAP 11 (revised) | : Foreign currency translation         |
| SSAP 15 (revised) | : Cash flow statements                 |
| SSAP 25 (revised) | : Interim financial reporting          |
| SSAP 33           | : Discontinuing operations             |
| SSAP 34           | : Employee benefits                    |

The adoption of the above SSAP has no material effect on the prior year financial statements.

#### 2. Segment information

##### (a) Primary segment

The Group is organised into five major operating units: (i) metal trading; (ii) metal manufacturing; (iii) property development; (iv) property investment; and (v) metal trading portals. An analysis by business segment is as follows:

|                           | Unaudited                     |                        |                |                        |
|---------------------------|-------------------------------|------------------------|----------------|------------------------|
|                           | Six months ended 30 June 2002 |                        | 2001           |                        |
|                           | External sales                | Internal segment sales | External sales | Internal segment sales |
|                           | HK\$'000                      | HK\$'000               | HK\$'000       | HK\$'000               |
| Turnover                  |                               |                        |                |                        |
| - Metal trading           | <b>1,519,888</b>              | <b>20,444</b>          | 1,262,659      | -                      |
| - Metal manufacturing     | <b>113,417</b>                | -                      | 103,427        | -                      |
| - Property development    | <b>16,418</b>                 | -                      | 56,310         | -                      |
| - Property investment     | <b>4,483</b>                  | -                      | 4,962          | -                      |
| - Metal trading portals   | <b>69,420</b>                 | <b>3,098</b>           | 21,169         | 3,804                  |
| - Others                  | <b>866</b>                    | -                      | 520            | -                      |
|                           | <b>1,724,492</b>              | <b>23,542</b>          | 1,449,047      | 3,804                  |
| Inter-segment elimination | -                             | (23,542)               | -              | (3,804)                |
|                           | <b>1,724,492</b>              | -                      | 1,449,047      | -                      |

|                         | Unaudited                     |          |
|-------------------------|-------------------------------|----------|
|                         | Six months ended 30 June 2002 | 2001     |
|                         | HK\$'000                      | HK\$'000 |
| Profit from operations  |                               |          |
| - Metal trading         | <b>57,780</b>                 | 12,996   |
| - Metal manufacturing   | <b>15,190</b>                 | 7,245    |
| - Property development  | <b>7,295</b>                  | 24,259   |
| - Property investment   | <b>3,018</b>                  | 3,342    |
| - Metal trading portals | <b>3,547</b>                  | 8,057    |
| - Others                | <b>(303)</b>                  | (1,402)  |
| - Unallocated expenses  | <b>(22,614)</b>               | (17,386) |
|                         | <b>63,913</b>                 | 37,111   |

##### (b) Secondary segment

The Group has business operations in Mainland China, Hong Kong, Asia (other than Mainland China and Hong Kong), Europe and other regions. An analysis by geographical location is as follows:

|  | Unaudited                     |           |
|--|-------------------------------|-----------|
|  | Six months ended 30 June 2002 | 2001      |
|  | HK\$'000                      | HK\$'000  |
| Turnover   |                               |           |
| - Mainland China                                 | <b>1,562,090</b>              | 1,312,482 |
| - Hong Kong                                      | <b>67,549</b>                 | 23,268    |
| - Asia (other than Mainland China and Hong Kong) | <b>78,662</b>                 | 45,758    |
| - Europe   | <b>1,307</b>                  | 22,872    |
| - Others   | <b>14,884</b>                 | 44,667    |
|  | <b>1,724,492</b>              | 1,449,047 |
| Profit from operations                           |                               |           |
| - Mainland China                                 | <b>80,172</b>                 | 36,577    |
| - Hong Kong                                      | <b>5,221</b>                  | 5,519     |
| - Asia (other than Mainland China and Hong Kong) | <b>1,052</b>                  | 4,844     |
| - Europe   | <b>(462)</b>                  | 1,022     |
| - Others   | <b>544</b>                    | 6,535     |
| - Unallocated expenses                           | <b>(22,614)</b>               | (17,386)  |
|  | <b>63,913</b>                 | 37,111    |

#### 3. Profit from operations

|   | Unaudited                     |          |
|---|-------------------------------|----------|
|   | Six months ended 30 June 2002 | 2001     |
|   | HK\$'000                      | HK\$'000 |
| Profit from operations is stated after charging:  |                               |          |
| Depreciation of fixed assets                      | <b>6,705</b>                  | 6,983    |
| Amortisation of intangible assets                 | <b>1,168</b>                  | 1,424    |
| Loss on disposal of investments                   | -                             | 2,827    |
| Loss on disposal of property, plant and equipment | <b>896</b>                    | 1,087    |
|   | <b>8,769</b>                  | 12,321   |

#### 4. Taxation - Company and subsidiaries

|                               | Unaudited                     |          |
|-------------------------------|-------------------------------|----------|
|                               | Six months ended 30 June 2002 | 2001     |
|                               | HK\$'000                      | HK\$'000 |
| Current taxation              |                               |          |
| - Hong Kong profits tax       | <b>106</b>                    | 965      |
| - Overseas taxation           | <b>2,747</b>                  | 476      |
| - Mainland China              | <b>42</b>                     | 841      |
| - Others                      |                               |          |
|                               | <b>2,895</b>                  | 2,282    |
| Over-provision in prior years |                               |          |
| - Overseas taxation           | <b>(797)</b>                  | -        |
|                               | <b>2,098</b>                  | 2,282    |

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the six months period. A subsidiary of the Group is subject to Mainland China enterprise income tax at 33% (2001: 33%) on its taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the six months period at the rates prevailing in the respective jurisdictions.

Under the relevant tax rules in Mainland China, the Group is subject to Mainland China land appreciation tax. However, up to 30 June 2002, the Group had not been required by the local tax bureau to make any tax payments in respect of the land appreciation tax. Taking into account the common practice of the levy of land appreciation tax in various cities in Mainland China, the Directors consider it is unlikely that the Group will be required to make any payment in respect of Mainland China land appreciation tax.

**5. Earnings per share**

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of approximately HK\$51,178,000 (2001: HK\$15,081,000) and the weighted average number of 944,464,831 shares (2001: 913,443,310 shares) in issue during the period. The calculation of diluted earnings per share is based on the consolidated profit attributable to shareholders of approximately HK\$51,178,000 (2001: HK\$15,081,000) and the weighted average number of 968,031,670 shares (2001: 920,184,709 shares) in issue after adjusting for the effects of all dilutive potential shares.

A reconciliation of the weighted average number of shares used in calculating the basic earnings per share and the diluted earnings per share is as follows:

|   | Unaudited                |                    |
|---|--------------------------|--------------------|
|   | Six months ended 30 June |                    |
|   | 2002                     | 2001               |
|   | Number of shares         | Number of shares   |
| Weighted average number of shares used in calculating basic earnings per share            | 944,464,831              | 913,443,310        |
| Adjustment for potential dilutive effect in respect of outstanding employee share options | <u>23,566,839</u>        | <u>6,741,399</u>   |
| Weighted average number of shares used in calculating diluted earnings per share          | <u>968,031,670</u>       | <u>920,184,709</u> |

**6. Comparative figures**

Certain prior year comparative figures have been reclassified to conform to current period's presentation.

**DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

**REVIEW AND PROSPECTS****1. Metal Business**

There had been drastic changes in the global steel trading market in the first half year. Global demand for steel registered a revival increase. Prices at the major steel consumption markets of North America, the European Union and East Asia had emerged from the trough. This was especially so in China which saw a rapid increase in industrial production and investment in fixed assets. Driven by the construction, engineering and light industries, consumption demand for steel was extremely strong from the domestic market, leading to an upsurge in price. However, trade protectionism once again reared its head. Since the imposition of Clause 201 to levy additional tariffs on the importation of certain steel materials by the U.S.A. in March, the European Union, Korea, Canada and China followed suit in raising anti-dumping investigations or putting into force temporary protection for their local steel industry by implementing import restrictions. All these had changed the face of the usual international steel trading and had led to new complicated factors as well as a turbulent situation.

The metal trading department of the Group kept close track of market demands. Based on its comprehensive procurement capabilities of having multi-channels, multiple countries and diverse product mix, sales and distribution in the markets of East Asia, especially in China, had been expanded to bring in substantial growth in sales volume and gross profits. With the gradual recovery of the U.S. economy and the sustained economic development in China, it is envisaged that demands from the steel consumption markets would maintain a cyclical stable rising trend. The Group endeavours to steer clear of business risks, and yet at the same time will continue to upkeep its market competitiveness so as to realise a steady increase in profits.

The warehousing and distribution business of the Group had achieved good progress. China's accession to the WTO had provided the space for development for the Group to tap into the high value-added domestic market. In the first half of the year, the warehousing business had forged close alliance with dozens of import agents, wholesalers and processing plants in the eastern and northern regions of China, with sales and distribution of several hundred thousand tons of products by the Group had been realised and satisfactory results had been achieved. In addition to doing international metal trading business with China traded in US dollars, it is expected that the restrictions on foreign companies entering the import/export business in China and using Renminbi for settlement in domestic sales will be gradually lifted in the next few years. The warehousing and distribution business staged by the Group in China in the recent years is well-poised to capitalise on the development for expansion.

Furthermore, export orders at the Group's wholly owned steel pipes processing plant were satisfactory and there were growth in profits. Following the acquisition of the assets of an enterprise with the rights for domestic sales in Renminbi in Dongguan and the reorganisation of it to become the Group's wholly-owned enterprise at the beginning of the year, the Group had made further investments in the expansion of production plants, implementation of additional production lines and enlargement of production and sales volumes on its already well managed operations. These measures were aimed at further reduction of cost, fulfillment of market demands by allocation of products for overseas and domestic sales and the formation of an operation scale. As such, the foundation for long-term development of this business is firmly established.

**2. Property Development and investment**

The first phase of the Yangzhou Times Square commenced business in April this year. The rate of leased out space in the first phase exceeded 95%. Interior fitting out works and leasing of the second phase of the development are well under way to be ready for opening within this year. To meet the general consumption level, an appropriate business mix will be arranged and grouped within the shopping centre according to its functions and layout. Following the full operation of the development and on the strength of meticulous planning and management, it is envisaged that the development would bring sales returns as well as provide a long-term stable rental income for the Group.

**3. WorldMetal.com**

In the period under review, WorldMetal.com continued to maximize the utilisation of its resources and exercise prudent control of operation costs. A stable and yet remarkable performance was attained on its solid foundation and successful business strategies.

The Internet metals trading platform, WorldMetal.com and its ancillary value-chain services in legal advisory, shipping, insurance, inspection and trade finance had established their business territory and built themselves as a distinguished brand to maintain a competitive advantage in the industry.

WorldMetal.com, while sustaining its focus on Internet trading and the ancillary value-chain services, will actively pursue new businesses with potentials for good operating results and space for development in order to bring investment returns for the shareholders.

**LIQUIDITY AND FINANCIAL RESOURCES**

The Group continues to be in a stable financial position with cash and bank balances of approximately HK\$208 million (31 December 2001: HK\$216 million) as at 30 June 2002. As at 30 June 2002, the Group's current ratio, as a ratio of current assets to current liabilities, was 1.47 (31 December 2001: 1.39) and the Group's gearing ratio, as a ratio of total liabilities to total assets, was 0.47 (31 December 2001: 0.49).

The bank borrowings of the Group as at 30 June 2002 were approximately HK\$419 million (31 December 2001: HK\$456 million), including long-term borrowings of approximately HK\$107 million (31 December 2001: HK\$113 million), which were denominated in Hong Kong Dollar, US Dollar and Renminbi, bearing interest at prevailing market rates. The short-term bank borrowings were mainly loans on trade finance and construction loans and the long-term bank borrowings were mainly mortgage loans.

**CONTINGENT LIABILITIES**

As at 30 June 2002, the Group had the following contingent liabilities: (i) guarantee for general banking facilities granted to an associate amounted to HK\$21,730,000; (ii) shipping guarantees amounted to HK\$2,615,000; (iii) Mainland China land appreciation tax amounted to HK\$13,168,000; and (iv) guarantees given to banks for mortgage facilities granted to the buyers of the Group's properties amounted to HK\$15,829,000.

**CHARGE ON ASSETS**

There has been no material change in the charge on the Group's assets since 31 December 2001.

**STAFF**

As at 30 June 2002, the Group employed 707 staff. Staff remuneration packages are normally reviewed annually. The Group also provides other staff benefits which include year end double pay, discretionary bonus, contributory provident fund and medical insurance. Training programmes for staff are provided as and when required.

**SHARE OPTION SCHEME**

At the Annual General Meeting of the Company held on 6 June 2002, shareholders of the Company approved the termination of the share option scheme adopted by the Company on 23 July 1999 and the adoption of a new share option scheme (the "New Scheme") in compliance with the amended Chapter 17 of the Listing Rules. A summary of the principal terms of the New Scheme is contained in the circular dated 29 April 2002 sent to the shareholders of the Company.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2002.

**ISSUE OF SHARES**

- (1) During the six months ended 30 June 2002, the Company issued a total of 2,976,000 new ordinary shares upon the exercise of share options by the optionholders.
- (2) Pursuant to the placing agreement dated 10 June 2002 entered into between Hang Sing Overseas Limited (the "Vendor"), a substantial shareholder of the Company, and the placing agent whereby 100,000,000 existing shares held by the Vendor were placed to not less than six independent placees at HK\$0.90 per placing share, and the subscription agreement dated 10 June 2002 entered into between the Vendor and the Company whereby the Vendor subscribed for 100,000,000 new shares of the Company at a subscription price of HK\$0.90 per subscription share, the Company issued and allotted a total of 100,000,000 new ordinary shares to the Vendor on 21 June 2002.

**AUDIT COMMITTEE**

The Audit Committee comprising two independent non-executive directors of the Company has been set up since January 1999. Its principal duties include the review and supervision of the Company's financial reporting process and internal controls. The unaudited interim financial statements for the six months ended 30 June 2002 have been reviewed by the Audit Committee.

**CODE OF BEST PRACTICE**

The Directors are not aware of any information which would reasonably indicate that the Company is not or was not for any part of the period under review in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive directors are not appointed for a specific term, but are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Bye-laws of the Company.

**DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE**

A detailed interim results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board  
**CHAN Shing**  
Chairman

Hong Kong, 5 August 2002