WellNet Holdings Limited

(incorporated in Bermuda with limited liability)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2003

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 2003, together with the restated comparative figures for the corresponding period last year, as follows:–

	Notes	Unaudited Six months ended 30 June 2003 HK$'000	2002 HK$'000 (As restated)
Turnover	2	**2,347,080**	1,683,309
Cost of sales		**(2,268,706)**	(1,557,298)
Gross profit		**78,374**	126,011
Other revenue		**3,958**	5,285
Selling and distribution expenses		**(21,244)**	(14,134)
General and administrative expenses		**(25,478)**	(52,437)
Gain (Loss) on investments, net		**725**	(141)
Profit from operations	2 & 3	**36,335**	64,584
Finance costs	4	**(15,575)**	(9,867)
Share of profits less losses of associates		**(2,012)**	1,150
Profit before taxation		**18,748**	55,867
Taxation	5	**(153)**	(2,046)
Profit after taxation		**18,595**	53,821
Minority interests		**2,086**	(2,224)
Profit attributable to shareholders		**20,681**	51,597
Earnings per share	6		
– basic		**1.96 HK Cents**	5.46 HK Cents
– diluted		**1.94 HK Cents**	5.33 HK Cents

Notes:–

1. **Accounting policies**

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

The accounting policies used in the preparation of the condensed interim 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. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets and of investments, provisions for pensions and other post retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. 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.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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$5,420,000 and HK$4,184,000 respectively and investment property revaluation reserve at 1 January 2002 and 2003 have been reduced by HK$25,453,000 and HK$21,306,000 respectively which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by HK$2,929,000 and HK$37,786,000 respectively. The profit for the six months ended 30 June 2002 has been increased by HK$419,000.

2. **Segment information**

(a) *Primary segment*

The Group is organised into four major operating units: (i) steel trading, warehousing and distribution; (ii) steel manufacturing and processing; (iii) property development; and (iv) property investment. An analysis by business segment is as follows:

	Unaudited Six months ended 30 June 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	**2,207,614**	**22,875**	1,519,888	20,444
– Steel manufacturing and processing	**126,067**	**–**	113,417	–
– Property development	**7,127**	**–**	16,418	–
– Property investment	**6,210**	**–**	4,483	–
– Others	**62**	**–**	29,103	3,097
	2,347,080	**22,875**	1,683,309	23,541
Inter-segment elimination	**–**	**(22,875)**	–	(23,541)
	2,347,080	**–**	1,683,309	–

	Unaudited Six months ended 30 June 2003 HK$'000	2002 HK$'000
Profit from operations		
– Steel trading, warehousing and distribution	**40,666**	57,809
– Steel manufacturing and processing	**6,255**	15,306
– Property development	**(993)**	7,295
– Property investment	**3,330**	3,038
– Others	**(568)**	3,361
– Unallocated expenses	**(12,355)**	(22,225)
	36,335	64,584

(b) *Secondary segment*

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

	Unaudited Six months ended 30 June 2003 HK$'000	2002 HK$'000
Turnover		
– Mainland China	**2,074,362**	1,520,907
– Hong Kong	**37,305**	67,549
– Asia (other than Mainland China and Hong Kong)	**214,931**	78,662
– Others	**20,482**	16,191
	2,347,080	1,683,309
Profit from operations		
– Mainland China	**38,311**	80,433
– Hong Kong	**5,204**	5,240
– Asia (other than Mainland China and Hong Kong)	**4,725**	1,053
– Others	**450**	83
– Unallocated expenses	**(12,355)**	(22,225)
	36,335	64,584

3. **Profit from operations**

	Unaudited Six months ended 30 June 2003 HK$'000	2002 HK$'000
Profit from operations is stated after charging and crediting the following:		
Depreciation of fixed assets	**(6,225)**	(6,705)
Amortisation of intangible assets	**–**	(1,168)
Loss on disposal of fixed assets	**(228)**	(896)
Gain on disposal of investment properties	**228**	117
Gain on disposal of investments	**307**	–

4. **Finance costs**

	Unaudited Six months ended 30 June 2003 HK$'000	2002 HK$'000
Interest on borrowings	**14,899**	9,867
Amortisation of deferred borrowing costs	**676**	–
	15,575	9,867

5. **Taxation**

	Unaudited Six months ended 30 June 2003 HK$'000	2002 HK$'000
Current taxation		
– Hong Kong profits tax	**21**	106
– Overseas taxation	**326**	2,789
Over provision in prior years	**(1,310)**	(797)
Deferred taxation	**(42)**	(419)
	(1,005)	1,679
Share of taxation attributable to associates	**1,158**	367
	153	2,046

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 six months period. 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 six months period at the rates prevailing in the respective jurisdictions.

Under the relevant tax rules in Mainland China, a subsidiary of the Group is subject to Mainland China land appreciation tax ("LAT"). However, up to 30 June 2003, the Group had not been required by the local tax bureau to make any tax payments in respect of the LAT. Taking into account the common practice of the levy of LAT 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 LAT, and accordingly, no provision on any LAT was made in the accounts.

6. **Earnings per share**

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of approximately HK$20,681,000 (2002: HK$51,597,000) and the weighted average number of 1,054,031,166 (2002: 944,464,831) 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$20,681,000 (2002: HK$51,597,000) and the weighted average number of 1,054,031,166 (2002: 944,464,831) shares in issue during the period plus the weighted average number of 9,826,952 (2002: 23,566,839) 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 is as follows:

	Unaudited	
	Six months ended 30 June	
	2003	2002
	Number of shares	Number of shares
Weighted average number of shares used in calculating basic earnings per share	**1,054,031,166**	944,464,831
Adjustment for potential dilutive effect in respect of outstanding employee share options	**9,826,952**	23,566,839
Weighted average number of shares used in calculating diluted earnings per share	**1,063,858,118**	968,031,670

7. **Comparative figures**

Other than the restatement of figures for the adoption of the revised SSAP No. 12 as detailed in note 1 above, certain prior year comparative figures have been reclassified to conform with current period's presentation.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

REVIEW OF OPERATION AND PROSPECTS

In the period under review, the global steel market went through a period of readjustment. The outbreak of the Severe Acute Respiratory Syndrome ("SARS") epidemic across the world had hit hard on China also. As a result, the steel and property businesses of the Group were affected, causing a less satisfactory profit return for the period when compared with the same period last year.

Steel Business

Global steel price maintained its upward spiral last year. China, the world's largest steel consumption market, suffered an excess in reserve as a result of over-import and production. This eventually led to a relatively significant readjustment in the market in the first half of the year. Furthermore, cross-border business negotiation and logistics and sales activities were hampered by the SARS outbreak. The Group's international steel trading as well as warehousing and distribution businesses were subject to pressure and consequently, performance of these business sectors in the period under review was not as satisfactory as that for the same period last year. However, following the gradual easing of the overall industry reserve position, steel prices had stabilised and steel consumers were back to the market. Driven by the various promising factors, China's demand for steel would remain to be keen. It is therefore envisaged that the Group's steel business will have improvement in the second half of the year.

As for our steel manufacturing and processing business, the completion of the expansion of the steel pipe processing plant in Dongguan has enabled a lower production cost on the one hand and increased the production capacity by 40% on the other. Further growth in output level would pave its way to be benefited from economies of scale. To cater for market demands for cutting and slitting in high value-added steel sheets, the Group launched a newly invested coil centre officially in March this year. Operation has been satisfactory. In the period under review, the pipe centre experienced a drop in client orders owing to price volatility and the outbreak of SARS. However, business volume at present had resumed to the level before the outbreak. The coil centre's order sales has been improving through months, while costs on the reverse. It is anticipated that this business activity will constitute another revenue generating sector for the Group in future.

Property Development and Investment

Our Times Square in Yangzhou, Jiangsu Province, was given an acid test during the outbreak of SARS. As part of the country's policy in controlling the spread of the disease, certain popular areas in the mall such as cinemas and children fun-land had to be closed for a period of time. Fortunately, with SARS fading out and as a result of stringent cleaning measures and active promotional efforts, consumer confidence was quickly restored and consumers' spending at the shopping mall had picked up fully. Since the opening of the first phase in last April, continual efforts were directed at ensuring an all rounded and multi-sector mix of tenants for the shopping mall as well as strengthening the operation management. Since this September, the shopping mall has been in full operation. At the beginning of the year, a number of major tenants were introduced to the shopping mall, including electrical appliance city, digital cinema and chain-operated restaurants. For the second half of the year, other major tenants such as business leisure centres, supermarkets, jewelery, accessories and watches specialty counters will move in. This will further enrich the business diversity of the shopping mall. Meanwhile, as a result of the SARS epidemic, the store selling exercise was far from active in the first half year, but it will be revitalized in the second half, as planned. In tandem with the steady economic growth of Yangzhou, this will generate long-term return on investment and stable cash flow for the Group.

The Group's investment property in Mongkok, Hong Kong has been leased to tenants in the retail sector. For a time during the attack of SARS in Hong Kong, relief measures were required for these tenants. The recent introduction of "individual travel" by China to allow individual visitors to come to Hong Kong would substantially benefit the local retail sector. It is therefore envisaged that the investment property would continue to bring in stable and satisfactory rental income for the Group.

Prospects

Notwithstanding the effect of consolidation of the steel market and the sudden blow dealt by SARS epidemic, the Group's core steel business emerged from the ordeal with an enhanced ability for crisis management. Looking forward to the second half of the year, China will continue with a robust fiscal policy in promoting domestic demands while maintaining sustained rapid growth in fixed asset investment. Major initiatives, including the development of the West region, water diversion from the south provinces to the north, energy transportation from the western region to East China and the 2008 Beijing Olympic Games, will drive up demand for steel from major steel consumption industries, headed by the automobile, construction and machinery manufacturing sectors. Leveraging on the Group's experience in integrating vertically the upper, middle and lower streams, with operation in the three levels of activities of international steel trading, warehousing and logistic services as well as manufacturing and processing, the Group will be able to participate fully in the supply chain of the steel business and to capitalise on its competitive advantage further. It is therefore envisaged that the steel business will turn around in performance for the second half of the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and bank balances of approximately HK$143,729,000 (31 December 2002: HK$314,335,000) as at 30 June 2003.

As at 30 June 2003, the Group's current ratio, as a ratio of current assets to current liabilities, was 1.51 (31 December 2002: 1.56) and the Group's gearing ratio, as a ratio of total liabilities to total assets, was 0.57 (31 December 2002: 0.57).

As at 30 June 2003, the bank borrowings of the Group was approximately HK$493,306,000 (31 December 2002: HK$603,137,000). The maturity profile of the Group's bank borrowings, excluding the short-term loans on trade finance amounted to HK$172,716,000 (31 December 2002: HK$287,341,000), as at 30 June 2003 was as follows:

	30 June 2003	31 December 2002
	HK$' million	*HK$' million*
Within one year	**103**	82
In the second year	**45**	42
In the third to fifth year	**119**	139
After the fifth year	**54**	53
	321	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 period.

CONTINGENT LIABILITIES

There has been no material change in the Group's contingent liabilities since 31 December 2002.

CHARGE ON ASSETS

As at 30 June 2003, the following assets were pledged: (i) certain leasehold land and buildings with a net book value of approximately HK$106,135,000; (ii) certain motor vehicles and machinery of approximately HK$8,825,000; (iii) certain investment properties with a net book value of approximately HK$321,099,000; (iv) certain properties held for sale of approximately HK$21,387,000; (v) certain inventories of approximately HK$59,640,000 released under trust receipts bank loans; and (vi) bank deposits amounted to approximately HK$3,692,000.

STAFF

As at 30 June 2003, the Group employed 683 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.

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 2003.

ISSUE OF SHARES

During the six months ended 30 June 2003, the Company issued a total of 1,200,000 new ordinary shares upon the exercise of share options by the optionholders.

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 unaudited interim accounts for the six months ended 30 June 2003 have been reviewed by the Audit Committee.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 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, 25 September 2003