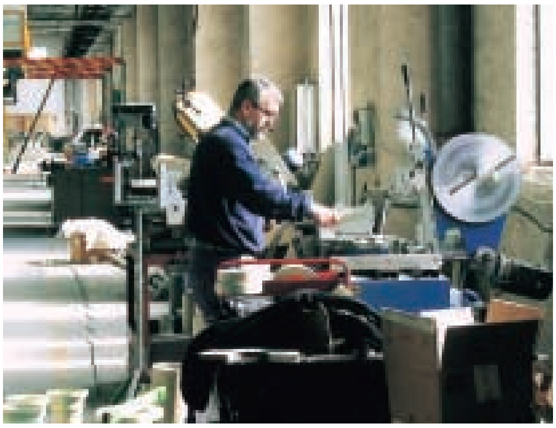
Management Discussion and Analysis

BUSINESS REVIEW



Broadly speaking, the overall trading environment in 2003 was still positive to the Group. The outbreak of SARS epidemic and the Middle East conflicts during the first half of 2003 had not had a material impact on the economic development of the People's Republic of China (the "PRC") which sustained a high gross domestic product growth of 9.1% in 2003. This provided a favorable operating environment for our businesses, and we were pleased to report the third consecutive growth in profit since year 2000.

Manufacturing of steel cord for radial tyres ("Steel cord")

The persistent strong economic growth in the PRC had accelerated the development of the domestic motor vehicles industry and construction of freeway network. According to the information of China Rubber Industrial Association, total production and sales of motor vehicles in 2003 were approximately 4,440,000 units and 4,391,000 units, an increase of 36.8% and 35.2% over 2002 respectively, another year of robust growth after an increase of 38.5% and 36.7% in 2002 as compared to 2001. On the other hand, approximately 4,639 kilometers of freeway were added to the freeway network during 2003 (Source: National Bureau of Statistics of China). These, along with increased radialization of tyres, brought forth the extended demand for radial tyres and steel cord, the crucial components for manufacture of radial tyres.

The increasing demand for steel cord spurred the revenue growth of Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern"), our wholly owned subsidiary engaged in steel cord manufacturing. During the year, turnover increased by 22.9% to HK$218,463,000 as compared to HK$177,705,000 for the previous year. Gross profit rose by 35.5% to HK$95,033,000, gross profit margin advanced from 39.5% in the previous year to 43.5% in the current year, as average production cost dropped further from enlarged production and as a result of economies of scale.

Although gross profit was up by 35.5%, Jiaxing Eastern's operating profit only increased by 23.3% to HK$92,186,000, as the specific bad debts recovery for the year dropped by 58.9% to HK$5,754,000 as compared to HK$14,004,000 in the previous year. Operating profit would have increased by 42.2% when these non-recurring bad debts recovery were excluded.

Processing and trading of copper and brass products ("Copper & brass products")

Our copper & brass products segment experienced a volatile year in 2003. Overseas merchandisers postponed their purchases in Hong Kong and the PRC during the SARS outbreak in the first half, demand for our copper products was weakened and negatively affected the operating results of this segment. However, we envisioned that the economy would recuperate and therefore, we increased our inventory at a relatively low price level. Simultaneously, we hastened the pace in shifting our processing from our facility in Hong Kong to Dongguan with an objective to lower our costs. With these measures and as the economy recovered rapidly in the second half of the year, this segment was able to rebound and achieved profitable results for the whole year.

BUSINESS REVIEW (continued)

Processing and trading of copper and brass products ("Copper & brass products") (continued)

The production plant established in Dongguan, the PRC in August 2002 started to provide positive contribution during the year under review. With a broadened customer base, this business segment recorded an increase of 37.1% in turnover to HK$77,715,000. Gross profit increased by 11.1% to HK$5,474,000 while its gross profit margin dropped from 8.7% in previous year to 7%. The Dongguan production plant operated at below average production capacity in its inception of operations had led to higher average unit cost and hence lowered gross profit margin.

Operating profit of this segment increased by 278.7% to HK$3,590,000. Besides the increased profit contribution from sales growth, the exceptional sharp rise in operating profit was also attributable to a surplus on the revaluation of its office, workshop and warehouse of HK$1,851,000, as opposed to a deficit of HK$218,000 in the previous year, due to a general rebound in the Hong Kong property market since the third quarter of 2003. When excluding such surplus/deficit on revaluation, there was still a significant increase of 49.1% in operating profit over the previous year.

FINANCIAL REVIEW

The Group recorded a net profit attributable to shareholders of HK$66,092,000 for the year, an increase of 55.6% as compared to HK$42,481,000 (as stated for adjustment of deferred tax as per note 2 to the financial statements) for the previous year. Basic earnings per share was up from HK5.55 cents to HK7.50 cents for the year under review.

Turnover

Turnover of the Group amounted to HK$297,271,000 for the year under review, an increase of 26.6% as compared to HK$234,891,000 for the previous year. A summary of the breakdown by business activities is as follows:

	2003 HK$'000	**% of total turnover**	2002 HK$'000	% of total turnover	**% change**
Steel cord	**218,463**	**73.5**	177,705	75.7	**+22.9**
Copper & brass products	**77,715**	**26.1**	56,692	24.1	**+37.1**
Others	**1,093**	**0.4**	494	0.2	**+121.3**
Total	**297,271**	**100.0**	234,891	100.0	**+26.6**

FINANCIAL REVIEW (continued)

Gross profit

Gross profit rose from HK$75,568,000 in the previous year to HK$100,904,000 for the year under review, represented an increase of 33.5%. Such growth exceeded those of 26.6% increase in turnover as gross profit margin increased from 32.2% to 33.9%, primarily attributable to the steel cord business. The breakdown of gross profit by business activities is summarised as follows:

	2003 HK$'000	**Gross profit %**	2002 HK$'000	Gross profit %	**% change**
Steel cord	**95,033**	**43.5**	70,148	39.5	**+35.5**
Copper & brass products	**5,474**	**7.0**	4,929	8.7	**+11.1**
Others	**397**	**36.3**	491	99.4	**-19.1**
Total	**100,904**	**33.9**	75,568	32.2	**+33.5**

Administrative expenses

We did not loosen our cost control measures despite significant growth in turnover. Administrative expenses dropped by 6.8% to HK$26,115,000 for the year. The expenses for 2002 included a lump sum provision for employee long service payment and unpaid annual leave of HK$1,607,000 in accordance with the newly enacted Hong Kong Statement of Standard Accounting Practice ("SSAP") no. 34 "Employee benefits". Administrative expenses as a percentage of turnover dropped discernibly from 11.9% in 2002 to 8.8% in 2003.

Other operating expenses

Other operating expenses dropped by 87% to HK$1,044,000 for the year, as compared to HK$8,002,000 for the previous year. Benefited from the general rise in the property price in Hong Kong and mainland China, there was a surplus on the revaluation of land and buildings and investment properties of HK$2,225,000 for the year (included in "Other operating income"), as opposed to a deficit of HK$1,126,000 for the previous year. Furthermore, previous year's other operating expenses included an exceptional loss on write off of interest in a jointly controlled entity of HK$6,495,000.

FINANCIAL REVIEW (continued)

Profit from operations

Profit from operations increased by 52.7% from HK$54,526,000 in previous year to HK$83,278,000 for the year under review. The Group had recovered specific bad and doubtful debts for both years, when these non-recurring income were excluded, profit from operations would have increased by 93.3%. The breakdown of profit from operations is as follows:

	2003 HK$'000	2002 HK$'000	**% change**
Steel cord	**92,186**	74,771	**+23.3**
Copper & brass products	**3,590**	948	**+278.7**
Corporate & others	**(12,286)**	(14,900)	**-17.5**
Unallocated income and expenses, net	**(212)**	(6,293)	**-96.6**
Total	**83,278**	54,526	**+52.7**

Finance costs

The Group's finance costs increased by 57% to HK$3,178,000 for the year, as the Group's bank borrowings increased from HK$24,169,000 at 31 December 2002 to HK$110,658,000 at 31 December 2003. The increase was primarily used to finance the Group's acquisition of approximately 28.24% equity interests in Online Investments Limited ("Online"), an investment holding company of Jiaxing Eastern, and Jiaxing Eastern's expansion plan.

Share of results of jointly controlled entities and an associate

The operating environment of the pre-stressed concrete strands and wires industry in the PRC remained severe during the year under review. Intense price competition and rising material costs since the second half of the year caused palpable drop in the gross profit margin of our jointly controlled entity and associate engaged in this business, namely Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") and Xinhua Metal Products Co., Ltd. ("Xinhua Metal"). Notwithstanding, Shanghai Shenjia and Xinhua Metal are able to withstand this severe situation through expansion of production capacity and enlarged sales of other higher value added products.

FINANCIAL REVIEW

(continued)

Share of results of jointly controlled entities and an associate (continued)

Shanghai Shenjia recorded an increase in turnover of 23.1% to HK$369,437,000. However, its profit before tax dropped slightly by 0.8% to HK$27,825,000. As such, the Group's share of the profit before tax of Shanghai Shenjia also dropped by 0.8% to HK$6,956,000.

Turnover of Xinhua Metal increased by 35.3% to HK$506,644,000, along with the reversal of bad debts provisions of approximately HK$6,085,000 during the year, its profit before tax increased by 7.5% to HK$31,349,000. The Group's share of the profit before tax of Xinhua Metal also increased by 7.5% to HK$5,251,000.

Income tax expenses

Tax charge for the year amounted to HK$8,468,000, a sharp increase of 537.7% over the previous year. Jiaxing Eastern had utilized its income tax exemptions and would be subject to income tax at half of normal rate beginning from 2003, which brought the income tax charge of the Group from HK$7,000 in the previous year to HK$6,397,000 in the year under review. Moreover, Shanghai Shenjia had also utilized its special tax concessions period and started to pay PRC income tax at 15% from 2003 onwards. As such, the Group's share of income tax of this jointly controlled entity increased by 38.6% to HK$1,214,000.

In addition to the above, the first time adoption of SSAP 12 (Revised) "Income Taxes" increased the deferred tax charge of the Group by HK$149,000 for the year, as compared to deferred tax credit of HK$310,000 for the previous year, which has been accounted for as a prior year adjustment in accordance with the requirements of SSAP 12 (Revised).

ACQUISITION MATTERS

In view of the outstanding performance of Jiaxing Eastern and the future prospect of the radial tyres industry in the PRC, the Group entered into sale and purchase agreements with the minority shareholders of Online on 21 August 2003 for the acquisitions of the remaining 28.24% interest of Online at a consideration of HK$160,000,000 (the "Acquisition"). The Acquisition was completed in October 2003 and Jiaxing Eastern became a wholly owned subsidiary of the Group. The directors believe that the Acquisition will enable the Group to fully enjoy the growth of Jiaxing Eastern which is earnings enhancing for the Group.

The Acquisition was financed by the net proceeds from issue of new shares, bank loans and internal resources of the Group.

CAPITAL AND RESERVES

Share premium reduction

The reduction of share premium of HK$149,099,000 to offset against accumulated losses was approved by the shareholders of the Company in January 2003 and confirmed by the Court of First Instance in April 2003 (the "Share Premium Reduction"). The Share Premium Reduction paved the way for us to share the fruitful results of the Group with our shareholders by way of dividend distribution.

Fund raising exercises

During the year, the Company issued 250,476,000 new shares in aggregate to Shougang Holding (Hong Kong) Limited and several independent third parties at prices ranging from HK$0.315 to HK$0.680 per share, raising net proceeds of HK$96,538,000 for the Group. In addition, 3,732,000 new shares were issued to employees of the Group through exercise of share options granted to them under the Company's share option scheme.

As a result of the above shares issues, the issued share capital of the Company increased from HK$76,537,000 at 31 December 2002 to HK$101,958,000 at 31 December 2003, and the net asset value of the Group increased from HK$443,489,000 to HK$593,870,000, an increase of 33.9% as compared to the previous year.

Dividend

We declared and paid an interim dividend of HK1.5 cents per share for the six months ended 30 June 2003.

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly financed its operations by cash generated from its business activities and ongoing banking facilities provided by its principal bankers. During the year under review, the Group had generated a net cash inflow of approximately HK$47,864,000 from its operating activities while it had utilized HK$190,026,000 for its investment activities, including approximately HK$54,576,000 and HK$148,604,000 of capital expenditure for its business expansion projects and the Acquisition respectively.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

Bank borrowings, which are interest bearing at floating interest rates, were increased by HK$86,489,000 during the year. Apart from trust receipt loans for normal operations, the additional bank loans were used to finance the Acquisition and the expansion project of Jiaxing Eastern, hence total bank borrowings (including obligations under finance lease) reached to HK$110,658,000 at 31 December 2003. As a result of the increased bank borrowings, the Group was changed from net cash at 31 December 2002 to net bank borrowings of HK$78,666,000 at 31 December 2003, and the gearing ratio (net bank borrowings/shareholders' equity) of the Group was 13.2% at 31 December 2003. Besides, the current ratio (current assets/current liabilities) also dropped from 4 times to 2.6 times at 31 December 2003. Despite increased gearing ratio and lowered current ratio, we believe that the Group's debt level and liquidity remained healthily and manageable.

FOREIGN CURRENCY EXPOSURES

The Group's bank borrowings are mainly denominated in Hong Kong Dollars ("HKD"), United States Dollars ("USD") and Renminbi ("RMB"). Its currency mix at 31 December 2003 was approximately 57.6% denominated in HKD and 42.4% in USD, as opposed to 9.7% in HKD, 23.4% in RMB and 66.9% in USD at 31 December 2002. The material change in currency mix reflected our tactics to take advantage of the relatively cheaper interest rates of HKD and USD borrowings and weaker USD against HKD and RMB. Although the Group did not have USD income, insofar as the exchange rate peg between HKD and USD is maintained, we believe the Group will not be exposed to any significant risk from exchange rate fluctuations amongst HKD, USD and RMB.

Apart from the above, the Group had signed several contracts totaling Euro13,922,000 for the acquisitions of plant and machineries in respect of the expansion plan of Jiaxing Eastern in 2003. In view of the significant fluctuations in the exchange rate of Euro, which had once climbed to its record peak level of Euro1 against approximately USD1.2924 in February 2004, and in order to limit the exposure of adverse fluctuations of Euro exchange rate to the cost of the expansion plan, the Group had executed several forward contracts to substantially hedge against the Euro payments to be made in 2004. The average exchange rate for the Euro13,922,000 exposure, after taking into account payments already made and the outstanding forward contracts, was approximately USD1.1683, approximately 2.6% lower than the closing exchange rate of USD1.1993 as at 16 April 2004, being the earliest business date preceding the date of this annual report.

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Jiaxing Eastern's plan to enlarge its production capacity to 30,000 tonnes of steel cord per annum is expected to complete in June 2004. Total capital expenditure is estimated to be approximately HK$232,400,000, in which approximately HK$51,900,000 was incurred in 2003 and approximately HK$180,500,000 will be incurred in 2004. The current estimated amount is far below the original budget of HK$300,000,000 – HK$350,000,000 as we were able to source certain plant and machineries of the new production line at lower costs. Funding of such capital expenditure had been provided for through internal resources of the Group and bank borrowings.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME

At 31 December 2003, the Group had a total of 528 (31 December 2002: 449) employees located in Hong Kong and the PRC. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to the consolidated income statement for the year under review amounted to HK$875,000. The Group had also provided training programme or course for the mainland staff at all levels from different departments so as to further enhance their technical skills in production operation.

In addition, the Group had adopted a share option scheme on 7 June 2002 (the "Scheme"). Under the Scheme, the board of directors of the Company (the "Board") shall, subject to and in accordance with the provisions of the Scheme and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), grant share options to any eligible participant to subscribe for shares in the capital of the Company for the purpose of providing incentives or rewards to him/her for contribution to the Group. The Scheme will remain in force for a period of ten years from the date of its adoption.

In 2003, the Company granted certain eligible participants including the directors of the Company under the Scheme totaling of 187,872,000 share options to subscribe for shares in the capital of the Company and 3,732,000 share options had been exercised by the employees of the Company for the subscription of shares of the Company during the year under review.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2003, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold land and buildings and investment properties with an aggregate net book value of HK$16,801,000;

2. 100% equity interests in Everwinner Investments Limited, Online and Jiaxing Eastern; and

3. Bank deposits amounting to HK$4,000,000.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES (continued)

Further, the Group had also executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These corporate guarantees are provided in proportion to the Group's interest in the jointly controlled entity and are renewable on an annual basis. The amount of guarantees granted as at 31 December 2003 amounted to approximately HK$10,721,000.

BUSINESS OUTLOOK

In addition to the expansion plan as mentioned in the "BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS" section above, we are actively considering further expansion in the steel cord and copper processing areas with a view to fulfilling our goal as an auto parts and components supplier in the PRC.

We believe that the 2008 Olympics in Beijing and the 2010 World Expo in Shanghai (the "Events") will inevitably imbue large growth spurt in the transportation and infrastructure industries, hence, we expect the PRC will continue to maintain its high economic growth in the coming years.

Nevertheless, 2004 is a challenging year for our Group. On the one hand, we are sanguine that the sustained growth of the domestic PRC economy and the Events should further improve the demand for both our steel cord manufacturing and copper and brass processing businesses. On the other, we are aware of the crescendo in controlling investments by the Central Government of the PRC in, amongst others, the automobile industry. While rising steel and metal prices are of concern to us, we have implemented appropriate measures by switching to lower cost wire rod (raw material of steel cord) suppliers in Asia and the PRC. We will continue to be pro-active in managing our businesses with a strong grip on our overall cost structure. In addition, we will continue to employ international expert in steel cord manufacturing process to further improve the quality of our products with a view to consolidating our venerable market position. Further resources will be embarked in research and development in new products for the steel cord segment to meet the increasing sophisticated needs of our customers in the PRC. We will not be complacent to what we have done over the last three years. We will constantly look for growth and investment opportunities that are consistent with our skills and resources to create synergy to our steel cord and metal products businesses. More importantly, we will continue to focus on ways to strengthen our core businesses in terms of costs, service and quality with the ultimate objective in maximizing and returning the value of the Group to our shareholders.