MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATIONS

Group results

Our core businesses had satisfactory performance during the six months ended 30 June 2004. During the period under review, the Group accomplished an increase in net profit attributable to shareholders of 57.3% over the same period last year to HK$44,412,000.

Turnover of the Group amounted to HK$192,003,000 for the period, representing a growth of 39.8% over the same period last year. Turnover of steel cord segment increased by 5.5% while copper and brass products segment achieved an increase of 158.8% over the same period last year.

Gross profit increased by 23.8% to HK$60,942,000 for the period while gross profit margin dropped from 35.9% in the same period last year to 31.7% in the current period. As the gross profit margin of copper and brass products segment was relatively lower than the steel cord segment, hence the increased share of turnover by this segment caused the drop in overall gross profit margin of the Group. Details are illustrated below:

	2004			2003		
	% of turnover	**Gross profit %**	**Weighted gross profit %**	% of turnover	Gross profit %	Weighted gross profit %
Steel cord	**58.5**	**43.6**	**25.5**	77.5	44.4	34.4
Copper & brass products	**41.3**	**14.6**	**6.1**	22.3	5.8	1.3
Others	**0.2**	**32.3**	**0.1**	0.2	97.1	0.2
Total	**100.0**		**31.7**	100.0		35.9

Administrative expenses slightly rose by 1% to HK$13,525,000 in the period under review. The increase was much smaller than the 39.8% growth in turnover, reflecting our continuous control on operating costs. As such, administrative expenses as a percentage of turnover dropped from 9.7% in the same period last year to 7% in the period under review.

Group results (continued)

The Group's finance costs amounted to HK$1,544,000 for the period under review, an increase of 91.3% over the same period last year, as the Group had raised additional bank borrowings since the fourth quarter of 2003 to finance the acquisition of approximately 28.24% equity interest in Online Investments Limited ("Online"), the investment holding company of Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern") and the expansion plan of Jiaxing Eastern. The Group's total bank borrowings (including obligations under finance leases) at 30 June 2004 amounted to HK$262,386,000, as compared to HK$21,291,000 at 30 June 2003.

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

The annual production capacity of Jiaxing Eastern remained at the 13,000 tonne level before the completion of the expansion plan to enlarge its annual production capacity to 30,000 tonnes in June 2004. During the period under review, Jiaxing Eastern was running at full production capacity and this segment had achieved turnover of HK$112,377,000 for the period, an increase of 5.5% over the same period last year.

This segment's gross profit increased by 3.8% to HK$49,034,000. Rising steel and energy prices did not have material impact on this segment during the current period as we had implemented measures to switch the purchases of core material, wire rods, to other relatively low cost suppliers in South Korea and the People's Republic of China (the "PRC"). Hence, gross profit margin dropped by a mere 0.8% to 43.6% in the period under review.

Operating profit of this segment only increased by 0.6% to HK$44,947,000. The increase was less than the 3.8% growth in gross profit as the operating profit for the same period last year included a specific bad debts recovery of HK$2,823,000. Operating profit for the period under review would have increased by 7.4% when these non-recurring bad debts recovery were excluded.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

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

Our Dongguan plant started to bring fruitful results to the Group's copper & brass products segment during the first half year of 2004, while the plant in Hong Kong also recorded increased sales, largely because of the continued improvement in global economy which brought rising demand for copper materials. Besides, huge rise in international copper price since late 2003 had also provided significant profit contribution to this segment during the period under review.

Turnover sharply increased by 158.8% to HK$79,242,000 for the period under review. Sales volume increased by 81% while another 77.8% was attributable to the rise in copper price. LME 3-month copper price climbed from US$2,327, equivalent to approximately HK$18,151 per tonne at the beginning of 2004 to the highest level (since 1994) of US$3,029, equivalent to approximately HK$23,626 per tonne on 2 April 2004, then fell back to US$2,617, equivalent to approximately HK$20,413 per tonne at 30 June 2004, still 12.5% higher than the level at the start of 2004. As we increased our inventory level at a relatively low price during late 2003, we fully enjoyed the benefit of rising copper price during the period under review. Boosted by the increase in sales volume and copper price, gross profit sharply increased by 555.3% to HK$11,560,000 for the period under review. Gross profit margin was 14.6%, an increase of 8.8 percentage points as compared to 5.8% for the same period last year.

Attributable to the huge rise in gross profit, operating profit of this segment reached to HK$8,332,000 for the current period, representing a significant turnaround as compared to an operating loss of HK$145,000 for the same period last year.

Jointly controlled entity's and associate's business

Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") recorded a turnover of HK$224,278,000 during the period under review, representing an increase of 45.3% over the same period last year. However, due to depressed gross profit margin, its profit before tax dropped by 10.3% to HK$10,909,000. As such, the Group's share of the profit before tax of Shanghai Shenjia also dropped by the same margin to HK$2,727,000.

Turnover of Xinhua Metal Products Co., Ltd. ("Xinhua Metal") increased by 32.7% to HK$314,908,000, however, because of lowered gross profit margin and increased provisions for bad and doubtful debts during the period, its profit before tax dropped by 41.4% to HK$10,038,000. The Group's share of the profit before tax of Xinhua Metal also dropped by the same margin to HK$1,681,000.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

LIQUIDITY AND FINANCIAL RESOURCES

During the first half year of 2004, the Group had incurred capital expenditure of HK$125,000,000, mainly for the expansion plan of Jiaxing Eastern. Additional bank borrowings were raised during the period and as a result total bank borrowings (including obligations under finance leases), which bear interest at floating interest rate, reached to HK$262,386,000 at 30 June 2004. Thus the Group's gearing ratio (total bank borrowings less cash/shareholders' equity) increased from 13.2% at 31 December 2003 to 36.1% at 30 June 2004, still a manageable level. On the other hand, the Group's current ratio (current assets/current liabilities) dropped from 2.64 times at 31 December 2003 to 1.85 times at 30 June 2004. The increased gearing ratio and lowered current ratio were in anticipation of our business expansion plans, however, we will remain cautious in our cashflow and liquidity management.

FOREIGN CURRENCY EXPOSURES

The Group's source of income is principally denominated in Renminbi ("RMB") and Hong Kong dollars ("HKD"), while bank borrowings are mainly in HKD, RMB and United States dollars ("USD"). The currency mix of our bank borrowings at 30 June 2004 was approximately 39.6% denominated in HKD and 60.4% in USD, as opposed to 57.6% in HKD and 42.4% in USD at 31 December 2003. As there were no changes in the benchmark interest rate for these three currencies over the first half year, we continued to deploy the tactics to take advantage of the relatively cheaper interest rates of HKD and USD borrowings. 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 to 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 due in 2004. The average exchange rate for the Euro13,922,000 of foreign exchange exposure, after taking into account payments already made and the outstanding forward contracts, is approximately USD1.1651, approximately 4.4% lower than the exchange rate of USD1.2187 as at the preceding business day of the date of the interim report.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Jiaxing Eastern's plan to enlarge its production capacity to 30,000 tonnes of steel cord per annum was completed in June 2004 and will be operational in stages in the second half of the year. Total capital expenditure is estimated to be approximately HK$232,400,000, and an accumulated expenditure of HK$181,000,000 was spent up to 30 June 2004.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME

At 30 June 2004, the Group had a total of 578 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 current period amounted to HK$550,000. 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. During the current period, no share options were granted, while 3,478,000 share options have been exercised by the directors and employees of the Company.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2004, 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$40,024,000;

2. Land use rights amounting to HK$16,595,000;

3. Plant and machinery with an aggregate net book value of HK$87,029,000;

4. 100% equity interests in Everwinner Investments Limited, Online and Jiaxing Eastern; and

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

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 30 June 2004 amounted to approximately HK$10,721,000.

BUSINESS OUTLOOK

Although we have accomplished an encouraging results during the first half year of 2004, we anticipate that the operating environment will be more challenging in the second half year. We are uncertain as to the development of the Central Government's macro-economic measures, while we will be facing more pressure on increasing costs from rising wire rod, copper/brass and electricity prices. On the other hand, the demand for copper products might be weakened by sustainability of global economic growth in the second half year which is clouded by mounting oil price. At this moment, these economic uncertainties do not have substantial impact on our performance, but we will continue to explore more ways to control our operating costs and improve our operating efficiency to maintain our profit margin. Simultaneously, we will strike for maintaining our market share by further increasing our production capacity in the steel cord segment in order to remain as one of the market leaders in the PRC. With the gradual enlarging in steel cord production capacity, we will endeavor to attain satisfactory results for the second half year.