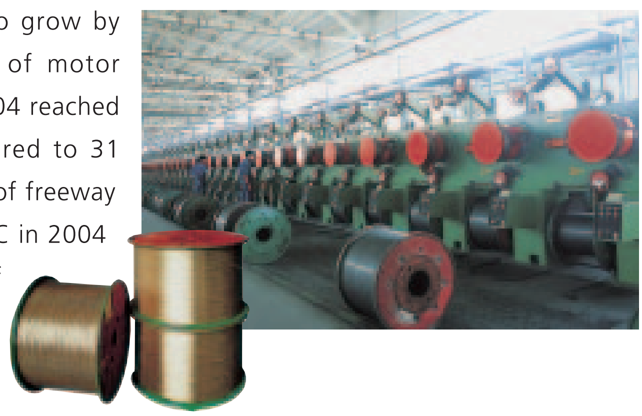
BUSINESS REVIEW

Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern"), our principal subsidiary engaged in the manufacturing of steel cord for radial tyres, had successfully completed its expansion plan in the second half year, which increased its production capacity from 13,000 tonnes to 30,000 tonnes per annum. Furthermore, demand for our products, including steel cord and copper and brass products increased amid growing economy both in the People's Republic of China (the "PRC") and overseas. As such, the Group had achieved a growth of 43.9% in turnover to HK$427,864,000 for the year ended 31 December 2004. However, increased competition in the steel cord industry and rising raw material prices had negatively affected the gross profit margin of this business. Nonetheless, the Group still delivered a double digit growth in net profit attributable to shareholders for the current year, ascribing to the fourth consecutive growth in profit since year 2000.

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

The implementation of austerity measures by the PRC Government during 2004 had caused the slowdown in the development of the automobile industry, notwithstanding, the production of motor vehicles in the current year still managed to grow by 14.2% to 5,074,000 units. Total number of motor vehicles for civilian use as at 31 December 2004 reached to 27,420,000 units, up by 15% as compared to 31 December 2003. Moreover, 4,476 kilometers of freeway were added to the freeway network in the PRC in 2004 (Source: National Bureau of Statistics of China), these spurred the continuous grow in demand for radial tyres and hence, steel cord.



Jiaxing Eastern's production of steel cord gradually increased during the second half year since its expansion plan to 30,000 tonnes per annum was completed in June 2004. Turnover increased to HK$266,262,000, up by 21.9% over the previous year. However, faced with pricing pressure from increased competition and rising material and energy costs, especially during the second half year, gross profit remained the same level as previous year at HK$95,041,000. Gross profit margin dropped from 43.5% in the previous year to 35.7% in the current year.

Operating profit decreased by 10.3% to HK$82,650,000 in the current year. However, operating profit for the previous year included recovery of bad and doubtful debts of HK$5,754,000, when adjusted for these recovery of bad and doubtful debts, operating profit for the current year would drop by 4.4% over the previous year.

BUSINESS REVIEW (continued)

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

This business segment started to bring fruitful results to the Group for the year under review, justifying the management's decision to establish the production plant in Dongguan in 2002 which was aimed to enlarge the production capacity and to reduce costs. The growing worldwide economy and weaker United States Dollar had stimulated the demand for copper materials, and hence, mounting copper price in 2004. This segment was able to generate significant growth in profit contribution to the Group.

Turnover of this segment advanced by 105.5% to HK$159,674,000 for the current year, sales volume increased by 44.5% while another 61% growth was contributed by 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 US$3,025, equivalent to approximately HK$23,595 per tonne at end of 2004, represented a rise of 30% over the previous year. As we increased our inventory level at a relatively low price during late 2003, this segment fully enjoyed the benefit of rising copper price especially during the first half year of 2004. Hence, this segment achieved a 202.9% increase in gross profit to HK$16,580,000 for the current year, while gross profit margin increased from 7% in the previous year to 10.4% in the current year. In addition to the increase in sales volume and rising copper price, the higher gross profit margin was also contributed by reduced operating costs from greater economies of scale.

Operating profit of this segment reached to HK$10,196,000 for the current year, represented a remarkable increase of 184% as compared to HK$3,590,000 for the previous year.

FINANCIAL REVIEW

The Group recorded net profit attributable to shareholders of HK$148,114,000 for the current year, an increase of 124.1% over previous year's net profit attributable to shareholders of HK$66,092,000. During the current year, the Group disposed several subsidiaries and jointly controlled entities to certain independent third parties and recorded net gain of HK$76,651,000 and net loss of HK$9,410,000 on the disposal respectively (further details set out under "Disposals of subsidiaries and jointly controlled entities" section herebelow), which included the realization of HK$82,041,000 of negative goodwill and HK$18,778,000 of exchange loss in translation reserve. When these negative goodwill and exchange loss, with net gain of HK$63,263,000 were excluded, net profit attributable to shareholders for the current year would be HK$84,851,000, increased by 28.4% over the previous year.

FINANCIAL REVIEW (continued)

Turnover

The Group recorded a growth in turnover of 43.9% to HK$427,864,000 in the current year. The breakdown of turnover by business segments is as follows:

	2004 HK$'000	% of total turnover	2003 HK$'000	% of total turnover	% change
Steel cord	**266,262**	**62.2**	218,463	73.5	**+21.9**
Copper & brass products	**159,674**	**37.3**	77,715	26.1	**+105.5**
Others	**1,928**	**0.5**	1,093	0.4	**+76.4**
Total	**427,864**	**100.0**	297,271	100.0	**+43.9**

Gross profit

The Group's gross profit was up by 11.2% to HK$112,239,000. However, gross profit margin dropped from 33.9% in the previous year to 26.2% in the current year. The breakdown of gross profit by business segment is as follows:

	2004 HK$'000	Gross profit %	2003 HK$'000	Gross profit %	% change
Steel cord	**95,041**	**35.7**	95,033	43.5	**–**
Copper & brass products	**16,580**	**10.4**	5,474	7.0	**+202.9**
Others	**618**	**32.1**	397	36.3	**+55.7**
Total	**112,239**	**26.2**	100,904	33.9	**+11.2**

FINANCIAL REVIEW (continued)

Gross profit (continued)

Apart from the drop in gross profit margin of steel cord segment, as affected by depressed selling price and rising material costs mentioned in "Manufacturing of steel cord for radial tyres" section above, the increased share of turnover of copper and brass products segment, whose gross profit margin was relatively lower, also caused the drop in overall gross profit margin of the Group, as illustrated in the table below:

			2004			2003
	% of Group turnover	**Gross profit %**	**Weighted gross profit %**	% of Group turnover	Gross profit %	Weighted gross profit %
Steel cord	**62.2**	**35.7**	**22.2**	73.5	43.5	32.0
Copper & brass products	**37.3**	**10.4**	**3.9**	26.1	7.0	1.8
Others	**0.5**	**32.1**	**0.1**	0.4	36.3	0.1
Total	**100.0**		**26.2**	100.0		33.9

Administrative expenses

The current year's administrative expenses amounted to HK$29,660,000, an increase of 13.6% over the previous year. The rise in administrative expenses was largely because of the expansion of the Group's business that increased overall costs. However, administrative expenses as a percentage of turnover further dropped from 8.8% in the previous year to 6.9% in the current year.

Other operating expenses

Other operating expenses increased by 127.9% to HK$2,379,000 as compared to previous year as amortisation of goodwill amounted to HK$2,222,000 was accounted for in the current year while it was HK$556,000 in the previous year. Goodwill arising on the acquisition of approximately 28.24% interests in Jiaxing Eastern in 2003 was amortised for full year as compared to just three months in the previous year.

FINANCIAL REVIEW (continued)

Disposals of subsidiaries and jointly controlled entities

During the current year, the Company disposed of several non-core subsidiaries and jointly controlled entities to certain independent third parties with a view to further streamline the structure of the Group and to concentrate resources on the development of the Group's core businesses. Total consideration for the disposals amounted to HK$12,770,000, which were arrived at fair and reasonable terms.

Gain on disposal of subsidiaries

The Company sold the entire shareholdings in Meta Company Limited ("Meta"), an investment holding company, Bogay Investment Limited ("Bogay") which ceased business in 2000, and the 25% interest in Shanxi Shengjia Real Estate Developing Co., Ltd. ("Shanxi Shengjia") which was held through Bogay, on 10 November and 23 December 2004 respectively. The total consideration of these disposals was approximately HK$4,580,000 and as a result a loss of HK$4,194,000 was incurred. However, after realization of negative goodwill of HK$82,041,000, arising on acquisitions of Meta and Bogay and the exchange loss on translation of Shanxi Shengjia's net assets of HK$1,196,000 in the past, the disposals recorded a net gain of HK$76,651,000.

Loss on disposal of interest in a jointly controlled entity

Further to the above, the Company also disposed of the 25% interest in Shanghai Shenjia Ferroalloy Co., Ltd. ("Shanghai Shenjia Ferroalloy"), whose net book value had been fully written off in previous years as we had ceased to participate in the trading of ore and ferroalloy in 1999. The interest was disposed of at a consideration of approximately HK$8,190,000, and recorded a net loss of HK$9,410,000 after expenses and realization of exchange loss of HK$17,582,000 arising on the translation of Shanghai Shenjia Ferroalloy's net assets in previous years.

Profit from operations

Profit from operations dropped by 3.1% to HK$80,703,000 for the current year. When allowance for/recovery of bad and doubtful debts were excluded, profit from operations would increase by 11.1% over the previous year. The breakdown of profit from operations is as follows:

	2004 **HK$'000**	2003 HK$'000	**% change**
Steel cord	**82,650**	92,186	**-10.3**
Copper and brass products	**10,196**	3,590	**+184.0**
Corporate and others	**(10,079)**	(12,286)	**-18.0**
Unallocated corporate income and expenses, net	**(2,064)**	(212)	**+873.6**
Profit from operations	**80,703**	83,278	**-3.1**

FINANCIAL REVIEW (continued)

Finance costs

The Group's finance costs were HK$4,463,000 for the current year, up by 40.4% over the previous year. Increased finance costs were primarily because of increased bank borrowings during the year to finance Jiaxing Eastern's expansion plan. Total bank borrowings of the Group rose from HK$110,658,000 at 31 December 2003 to HK$279,653,000 at 31 December 2004.

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 slightly improved during the current year. Demand for these products remained strong as infrastructure developments in the PRC continued; furthermore, their selling prices were able to increase in line with rocketing raw material prices.

Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") recorded an increase in turnover of 26% to HK$465,648,000 for the current year. Its operating profit before tax for the current year increased by 14.3% to HK$31,809,000 while the Group's share of its operating profit before tax increased by the same margin to HK$7,952,000.

For Xinhua Metal Products Co., Ltd. ("Xinhua Metal"), its turnover increased by 40.1% to HK$709,844,000. Because of additional provision for bad and doubtful debts and provision for diminution in value of investments of HK$3,770,000 made during the year, its operating profit before tax dropped by 13.1% to HK$27,236,000 for the current year. In corollary, the Group's share of its operating profit before tax dropped by the same margin to HK$4,562,000.

Dividend

We declared and paid an interim dividend of HK2.0 cents per share with scrip option for the six months ended 30 June 2004.

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 current year, the Group had generated net cash inflow of HK$13,852,000 from its operating activities, far below that of HK$47,864,000 for previous year as additional cash was needed to finance increased inventories and trade receivables to support growing businesses, in particular since Jiaxing Eastern had completed its expansion plan during the second half year of 2004.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

Capital expenditure for the current year amounted to HK$154,080,000, mainly incurred on the expansion plan of Jiaxing Eastern. Additional bank borrowings of HK$127,206,000 were raised to partially finance the expansion plan and together with HK$41,789,000 increase in trust receipt loans, total bank borrowings (including obligations under finance leases), which are interest bearing at floating rates, reached to HK$279,653,000 at 31 December 2004. Out of the total bank borrowings of HK$279,653,000, HK$176,590,000 (including HK$79,148,000 of trust receipt loans) are repayable within one year, HK$94,321,000 are repayable in the second year and HK$8,742,000 are repayable in the third year.

As a result of the increased bank borrowings, gearing ratio (total bank borrowings less cash and bank balances/shareholders' equity) of the Group at 31 December 2004 was 37.7%, as compared to 13.2% at 31 December 2003. While the Group's current ratio dropped from 2.6 times at 31 December 2003 to 1.5 times at 31 December 2004. The higher gearing ratio and the lowered current ratio were in anticipation of our business expansion; however, we will remain cautious in our cashflow and liquidity management.

FOREIGN CURRENCY EXPOSURES

The Group's source of revenue is principally denominated in Renminbi ("RMB") and Hong Kong dollars ("HKD"), while we mainly borrow in HKD, RMB and United States dollars ("USD"). The currency mix of our bank borrowings at 31 December 2004 was approximately 31.5% denominated in HKD and 68.5% in USD, as compared to 57.6% in HKD and 42.4% in USD at 31 December 2003. 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 USD1.3625 in December 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 hedge against the Euro payments to be made in 2004. All hedging positions were closed in the current year with net gain of HK$4,572,000 recorded to reduce the cost of expansion plan of Jiaxing Eastern.

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Manufacturing of steel cord for radial tyres

In the year 2004, China recorded an economic growth of 9.5% over 2003; it is expected that China will continue to maintain a high single digit growth in Gross Domestic Products in the coming years ahead. Such persistent and robust economic growth driving rise in personal disposable income and increasing number of middle class, which will push up the demand for motor vehicles. On the other hand, more and more highways and expressways in the PRC are needed to cope with the demand associated with increasing business activities, fast growth in the number of motor vehicles and better living standard. China is planning to build a 85,000 kilometer expressway network in the coming 30 years. Given the above factors, it is foreseeable that demand for radial tyres as well as steel cord will continue to grow in the longer term, despite the negative impact brought by the implementation of austerity measures by the PRC Government. In view of the growing demand, the Group plans for a further expansion by introducing a new production line so as to increase the production capacity of Jiaxing Eastern from existing 30,000 tonnes to 45,000 tonnes per annum by 2007. Total costs of the expansion will be approximately HK$200,000,000 (excluding working capital requirement), to be financed by internal resources of the Group and bank loans.

Processing and trading of copper and brass products

According to the information from International Copper Association Limited of China, PRC has replaced the United States of America as the largest copper consumption market in the world, and we believe PRC's copper consumption will see continuous growth in the future. Hence, the Group is planning to establish an additional production plant in the PRC for domestic sales of copper and brass products, schedule to commence operations in the fourth quarter of 2005. Total investment will be approximately HK$4,000,000 which will be financed by internal resources of the Group.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME

At 31 December 2004, the Group had a total of 638 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 year amounted to HK$1,133,000. 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.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME (continued)

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 year, no share options were granted, while 4,924,000 share options had been exercised by the directors and employees of the Company.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 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$41,996,000;

2. Land use rights with net book value of HK$16,981,000;

3. Plant and machinery with net book value of HK$146,404,000;

4. 100% equity interests in Everwinner Investments Limited, Online Investments Limited 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 31 December 2004 amounted to approximately HK$10,721,000.

BUSINESS OUTLOOK

We expect the PRC's economy will sustain to achieve an encouraging growth in 2005, while the external economic growth will remain steady, despite hiking US interest rates and volatile oil prices. We are confident on the long-term prospect of the PRC economy, and we will continue to invest in our core businesses as mentioned in "**BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS**" section above.

However, we see the operating environment is still challenging in 2005. At present, there is no clear sign that raw material prices will fall back from their high levels since 2004 which had put pressure on our gross profit margin. Notwithstanding, the production capacity of steel cord had increased to 30,000 tonnes per annum since the second half of 2004 and we will enlarge the production capacity of copper and brass products business as well. We expect the Group will achieve larger economies of scale through these expansions of production capacities. On the other hand, we will keep on improving our operating efficiency and cost control, and diversify our customer base both domestically and abroad to mitigate the negative impact on our profit margin. We remain confident that we can deliver satisfactory return to our shareholders in 2005.