MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATIONS

Group results

For the six months ended 30 June 2005, the Group's turnover increased by 40.4% over the same period last year, as turnover of our core business of steel cord manufacturing recorded a growth of 72.9%, ascribed to the enlargement of production capacity and increasing demand. However, escalating raw material prices and intense market competition had dented our gross profit margin. Net profit attributable to shareholders dropped by 19.1% to HK$36,116,000 for the period under review.

Turnover of the Group amounted to HK$269,531,000 for the period under review, representing a growth of 40.4% over the same period last year. However, gross profit dropped by 13.5% to HK$52,879,000 for the period. Gross profit margin was 19.6%, as compared to 31.8% for the same period last year.

Administrative expenses rose by 10.3% to HK$14,920,000 for the period under review. However, turnover increased by 40.4% over the same period last year, administrative expenses as a percentage of turnover dropped from 7% in the same period last year to 5.5% for the period under review.

The Group's finance cost was HK$6,034,000, increased by 290.8% over the same period last year. The increase was principally attributable to (i) the interest rate hikes since the first half of 2004 which had pushed Hong Kong Dollar and United States Dollar interbank rates from circa 1% level to the current level of over 3%; and (ii) increased trust receipt loans to fulfill the needs from expanded production capacity and soaring raw material prices, the amount of trust receipt loans at 30 June 2005 was HK$91,536,000, an increase of 82.1% over HK$50,261,000 at 30 June 2004.

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

Our steel cord segment recorded a growth in turnover of 72.9% over the same period last year to HK$194,353,000, as Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern") had enlarged its production capacity from 13,000 tonnes to 30,000 tonnes per annum in June 2004 to meet increasing demand of steel cord. However, confronted with pricing pressures from increasing competition and escalating raw material prices, its gross profit dropped by 5% to HK$46,772,000. The management had considered various hedging methods to curb the impact of rising raw material costs. However, there did not appear to have an instrument which possessed sufficient correlation and acceptable risks available in the market. As such, the management reverted to placing longer term orders with suppliers given the continual rise of raw material prices in the first half of 2005. The cost of major raw material for the manufacture of steel cord increased by approximately 65.1% over the same period last year, whereas the selling prices of steel cord was lowered as new entrants adopted aggressive strategy to penetrate the market. These factors caused the gross profit margin dropped to 24.1%, as compared to 43.8% in the same period last year.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

Manufacturing of steel cord for radial tyres ("Steel cord") (continued)
As a result of the decreased gross profit, operating profit of this segment lowered by 8.6% to HK$41,254,000 (2004: HK$45,153,000 (restated)) for the period under review.

Processing and trading of copper and brass products ("Copper & brass products")
Turnover of this segment dropped by 6% to HK$74,452,000 for the period under review, while sales volume was approximately 2,404 tonnes, about 18.2% lower than the same period last year.

3-month copper price traded in London Metal Exchange rose from US$2,327 per tonne at the beginning of 2004 to US$3,380 per tonne on 30 June 2005, representing an increase of 45.3%. Such soaring copper price curbed the demand for copper products from our customers during the period.

In respect of the gross profit and gross profit margin of this segment in the first half of 2005, the former was HK$5,785,000 (2004: HK$11,560,000) and the latter was 7.8% (2004: 14.6%). The exceptional performance in 2004 was attributable to the stockpiling of inventories at a relatively low price during late 2003. We believed that it was a one-off phenomenon and hence adopted a conservative approach in ordering our copper inventory. The increase in copper prices was not ephemeral in the first half of 2005. The conservative approach had somewhat sheltered us from the fluctuation of copper prices but it also rendered us a lower and yet a sustainable gross profit margin. Because of the lowered gross profit, operating profit of this segment dropped by 69.2% to HK$2,564,000 (2004: HK$8,332,000) for the period under review.

Jointly controlled entity's and associate's business
The Group's jointly controlled entity and associate engaged in the manufacturing of pre-stressed concrete strands and wires were able to benefit from the rising steel prices and enjoyed significant growth in profit in the first half year of 2005.

Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") recorded turnover of HK$230,907,000 for the period, a moderate growth of 3% over the same period last year. Combined with the improvement in gross profit margin, its profit after tax significantly increased by 160.5% to HK$23,957,000. As such, the Group's share of the profit after tax of Shanghai Shenjia also increased proportionally to HK$5,989,000.

Turnover of Xinhua Metal Products Co., Ltd. ("Xinhua Metal") increased by 16.4% to HK$366,416,000, while its profit after tax increased by 58.4% to HK$12,871,000. The Group's share of the profit after tax of Xinhua Metal also increased proportionally to HK$2,156,000.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

INTERIM DIVIDEND

In view of the cash needs for future expansion plan, the directors do not recommend the payment of interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: HK2.0 cents with scrip option).

LIQUIDITY AND FINANCIAL RESOURCES

During the first half year of 2005, the Group generated net cash inflow of HK$20,000,000 from its operating activities, incurred capital expenditure of HK$6,017,000 and repaid net bank borrowings of HK$10,023,000. Total bank borrowings (including obligations under finance leases), which bear interest at floating interest rate, reduced to HK$269,078,000 at 30 June 2005 (31 December 2004: HK$279,653,000). Out of the total bank borrowings of HK$269,078,000, HK$176,589,000 are repayable within one year, HK$78,369,000 are repayable in the second year and HK$14,120,000 are repayable in the third year.

As a result of the lowered bank borrowings, the gearing ratio (total bank borrowings less bank balances and cash/shareholders' equity) of the Group slightly dropped from 38.2% (restated) at 31 December 2004 to 34.3% at 30 June 2005. On the other hand, the Group's current ratio (current assets/current liabilities) improved from 1.54 times (restated) at 31 December 2004 to 1.6 times at 30 June 2005.

FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

The Group's source of revenue is principally denominated in Renminbi ("RMB") and Hong Kong dollars ("HKD"), while bank borrowings are mainly in HKD and United States dollars ("USD"). The currency mix of our bank borrowings at 30 June 2005 was approximately 34.3% (31 December 2004: 31.5%) denominated in HKD and 65.7% (31 December 2004: 68.5%) in USD. Despite the recent hikes in interest rates in the United States and Hong Kong, their interest rates were still lower than that of RMB, therefore we remained the tactics to take advantage of the relatively cheaper interest rates of HKD and USD borrowings.

The appreciation of RMB arising from the People's Bank of China's announcement on 21 July 2005 to move the exchange rate regime of RMB into a managed floating exchange rate regime has positive impact to the Group. Not only the amount of USD borrowings will be reduced when converted into RMB, the Group can also benefit from reduced interest expenses and import raw material costs. Notwithstanding, we will keep monitoring the exchange rate movement of RMB and will take appropriate action to minimize our exchange risk when needed.

In consideration of the upturning interest rate cycle, the Group had executed structured interest rate swaps to hedge against part of the floating rate exposure. As at 30 June 2005, approximately 64.9% of our long term bank debt and 22.3% of total bank borrowings have been hedged.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Manufacturing of steel cord for radial tyres

The plan to expand the production capacity of Jiaxing Eastern from existing 30,000 tonnes to 45,000 tonnes per annum by 2007 is under way. Total costs of the expansion is estimated to be approximately HK$200,000,000 (excluding working capital requirement) and will be financed by the Group's internal resources and bank loans.

Processing and trading of copper and brass products

The establishment of an additional production plant in the People's Republic of China (the "PRC") as mentioned in our 2004 annual report will go ahead as planned, however, the commencement of operation of the new plant will be revised to the second quarter of 2006.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME

At 30 June 2005, the Group had a total of 684 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 period under review amounted to HK$777,000. 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 (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. No share options were granted or exercised during the period.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2005, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold properties and investment properties with an aggregate net book value of HK$41,098,000;

2. Prepaid lease payments amounting to HK$8,148,000;

3. Plant and machineries with net book value of HK$138,699,000;

4. Bills receivable amounting to HK$14,585,000;

5. 100% equity interests in Everwinner Investments Limited, Online Investments Limited and Jiaxing Eastern; and

6. 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 2005 amounted to approximately HK$10,721,000.

BUSINESS OUTLOOK

It is expected that the demand for steel cord will maintain its momentum to grow in the second half of 2005 due to the strong fundamentals of the PRC's economy and increased personal wealth. However, second half year will still be a difficult period for the Group as market competition begins to accelerate and raw material prices remain at high level, albeit the cost of our import raw materials have a slight drop in the third quarter. All in all, we will continue to focus on the improvement of operating efficiency, new product development, and diversification of customer base both domestically and abroad to improve our profit margin.

Although the Group's profitability is affected by rising raw material price in the short term, we remain optimistic on the long-term growth prospect of the steel cord and copper consumption in the PRC. We will continue to expand our core businesses of manufacturing of steel cord and processing and trading of copper and brass products so as to provide our shareholders with satisfactory returns in the longer term.