



Chairman's Statement

Dear Shareholders,

Business Performance

2005 was a difficult year for the Group as market competition accelerated and raw material prices remained at high level, which discernibly increased our cost of production during the year under review. The profit of our Group for the year under review amounted to HK\$62,228,000, representing a decrease of 58.1% when compared with the corresponding profit of HK\$148,524,000 (restated) for the year ended 31 December 2004. When we excluded the net one-off gain (from realization of negative goodwill and exchange loss on translation reserve) of HK\$63,263,000 arising from disposal of subsidiaries and jointly controlled entities (the non-core businesses) from which we had ceased the operation in previous years, the profit was HK\$85,261,000 for the year of 2004. As a result, the current year's profit would represent a drop of 27.0% over that of the year of 2004. During the year under review, gross profit margin was 16.2%, as compared to 26.3% for the previous year. On the other hand, the turnover of the Group rose by 38.6% to HK\$592,889,000 for the year ended 31 December 2005, ascribed to the enlargement of production capacity and increasing demand of our steel cord, the core business of our Group.

Looking Ahead

It is expected that 2006 will still be a challenging year for the Group since we have to face intensive competition in our operating environment and raw material prices remain at high level, in particular in our core business of the steel cord manufacturing industry. It is foreseeable that there are more competitors using their aggressive strategy to penetrate the market. In respect of copper segment, we also have to resist the fluctuation of the metal prices which will affect demand for copper products.

Nevertheless, we have initiated a series of action in response to these challenges, for instance, localization of raw material procurement to contain production costs, improving operating efficiency, developing new products and diversifying customer base to improve our profit margin. Moreover, we remain optimistic on the long-term growth prospect of our steel cord and copper consumption in the People's Republic of China in view of:

1. rapid growth in the economy of China and the continuous increasing demand for automobiles, the improvement in roads quality and expressway network will benefit further development of automobile industry;
2. the 2008 Olympics in Beijing and the 2010 World Expo in Shanghai will continue to imbue the development of the transportation and infrastructure industries;





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Looking Ahead (continued)

3. overall utilization of radial tyres was below 60% in 2005 and the radialisation rate of trucks and buses are only at 42%, which represents an enormous room for growth in the radial tyres' market in China; and
4. China is the largest copper consumption market in the world and is expected to insatiable appetite for the metal.

In consideration of the above positive factors, the expansion of production capacity of steel cord to 45,000 tonnes per annum and the construction of a new plant for copper segment catering for domestic PRC customers, both are under the way.

Further, we have seen a stabilization and a sign of falling back in raw material prices. The recent meeting of the National People's Congress has promulgated the Eleventh Five-year Plan. In which, the Central Government has approved the construction of a series of infrastructure projects including the Beijing-Shanghai High Speed Railway. The construction of which will create profused demand for pre-concrete steel wire, a principal product of our jointly controlled entity and associate.

We believe that through our persistent efforts, we can provide satisfactory return to our shareholders in the foreseeable future.

Dividends

To share our fruitful results with and create substantial value to our shareholders is our business main goal; however in consideration of the financial need for further expansion, the board of directors (the "Board") does not recommend the payment of final dividend for the financial year of 2005.

Acknowledgements

On behalf of the Board, we wish to thank all our customers, suppliers, bankers and shareholders for their continuous support. We would also like to thank our team of dedicated staff for their invaluable service and contribution throughout the year.

By Order of the Board

Cao Zhong
Chairman

Hong Kong
20 April 2006

