Management Discussion and Analysis

BUSINESS REVIEW

The market demand of our core product, steel cord for use in radial tyres continued to expand in 2005, coupled with our enlarged production capacity, the Group was able to achieve 38.6% growth in turnover as compared to the previous year. However, the skyrocketing raw material prices and increased market competition had dented the gross profit margin of Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern"), our principal subsidiary engaged in the manufacturing of steel cord. Besides, our copper processing and trading business was also affected by the soaring copper price which curbed the demand for copper products from our customers during the year under review.

On the other hand, the Group's jointly controlled entity and associate engaged in the business of manufacturing of pre-stressed concrete strands and wires had benefited from the rising steel price and achieved double-digit growth in profit for the current year.

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

The expansion of the automobile market and the transportation network in the People's Republic of China (the "PRC") persisted in 2005. Total production of motor vehicles amounted to approximately 5,700,000 units in the current year, up by 12.1% over the previous year. (Source: National Bureau of Statistics of China). On the other hand, approximately 6,700 kilometers of freeways were added to the freeway network of the PRC in 2005. These had driven the growing needs of radial tyres and hence, steel cord during the current year.

Our steel cord segment achieved a growth in turnover of 54.7% over the previous year to HK$411,865,000. However, faced with pricing pressures from increasing competition and escalating import raw material prices, gross profit dropped by 14.4% to HK$81,746,000. The management had considered various hedging methods to curb the impact of rising import 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 more orders with domestic suppliers in the PRC whose prices were relatively lower than their import counterparts in 2005. As a result of the rising raw material prices, the cost of major raw material for the manufacturing of steel cord increased by 46.7% over the previous 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 19.8%, as compared to 35.8% in the previous year.

The decreased gross profit had caused the profit of this segment dropping by 7.2% to HK$77,095,000 (2004: HK$83,060,000) for the current year.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

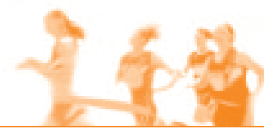
Processing and trading of copper and brass products ("Copper & brass products")

International copper price climbed significantly during the year ended 31 December 2005, 3-month copper price traded in the London Metals Exchange reached to approximately US$4,500 per tonne, rose by approximately 50% as compared to 31 December 2004. Such rampant rise in copper price suppressed the demand for copper products from our customers, which caused sales volume dropping by 11.3% to approximately 5,130 tonnes for the current year. However, attributable to the rising copper price, turnover of this segment slightly increased by 3.1% to HK$164,620,000.

Gross profit for the current year amounted to HK$12,471,000, lowered by 24.8% as compared to HK$16,580,000 for the previous year, while gross profit margin was 7.6%, as compared to 10.4% for the previous year. The exceptional performance in 2004 was attributable to the stockpiling of inventories at a relatively low price in 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 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, profit of this segment dropped by 40.7% to HK$6,044,000 (2004: HK$10,196,000) for the current year.

FINANCIAL REVIEW

Profit of the Group for the current year amounted to HK$62,228,000, a drop of 58.1% as compared to the previous year. However, previous year's profit of HK$148,524,000 (restated) included net gain of HK$63,263,000 (being the realization of HK$82,041,000 of negative goodwill and HK$18,778,000 of exchange loss in translation reserve) arising from the disposals of subsidiaries and interest in a jointly controlled entity. When such non-recurring gain was excluded, profit for the previous year would be HK$85,261,000, and the current year's profit would represent a decrease of 27.0% over the previous year.



Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Turnover

Turnover of the Group for the current year amounted to HK$592,889,000, representing an increase of 38.6% over the previous year. The breakdown of turnover by business segments is as follows:

	2005 HK$'000	**% of total turnover**	2004 HK$'000	% of total turnover	**% change**
Steel cord	**411,865**	**69.4**	266,262	62.2	**+54.7**
Copper & brass products	**164,620**	**27.8**	159,674	37.3	**+3.1**
Others	**16,404**	**2.8**	1,928	0.5	**+750.8**
Total	**592,889**	**100.0**	427,864	100.0	**+38.6**

Gross profit

The Group's gross profit lowered by 14.9% to HK$95,855,000, while gross profit margin dropped from 26.3% in the previous year to 16.2% in the current year, the breakdown is as follows:

	2005 HK$'000	**Gross profit %**	2004 HK$'000	Gross profit %	**% change**
Steel cord	**81,746**	**19.8**	95,451	35.8	**-14.4**
Copper & brass products	**12,471**	**7.6**	16,580	10.4	**-24.8**
Others	**1,638**	**10.0**	618	32.1	**+165.0**
Total	**95,855**	**16.2**	112,649	26.3	**-14.9**

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Other operating income

The Group's other operating income for the current year amounted to HK$8,328,000, an increase of 44.6% over the previous year. Current year's other operating income included a net exchange gain of HK$4,575,000, primarily as a result of the appreciation of Renminbi ("RMB") by 2% against United States Dollars ("USD") in July 2005.

Administrative expenses

The current year's administrative expenses amounted to HK$33,556,000, an increase of 13.1% 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 6.9% in the previous year to 5.7% in the current year.

Segment results

Attributable to the drop in gross profit, profit from the Group's business segments lowered by 17.3% to HK$68,796,000 for the current year. The breakdown is as follows:

	2005	2004	
	HK$'000	HK$'000	**% change**
Steel cord	**77,095**	83,060	**-7.2**
Copper & brass products	**6,044**	10,196	**-40.7**
Corporate and others	**(14,343)**	(10,079)	**+42.3**
	68,796	83,177	**-17.3**

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Finance costs

The Group's finance costs increased by 224.2% to HK$14,468,000 for the current year. The increase was principally attributable to (i) the interest rate hikes since the first half of 2005 which had pushed Hong Kong Dollar ("HKD") and USD interbank rates from circa 1% level to the level of 4% at the end of 2005, represented a rise of almost three times over the previous year; and (ii) increased short term bank borrowings to fulfill the cashflow needs from expanded production capacity and soaring raw material prices.

Share of results of jointly controlled entities and an associate

The Group's jointly controlled entity and associate engaged in the manufacturing of pre-stressed concrete strands and wires were able to take advantage of the rising steel price and achieved satisfactory growth in profit for the current year.

Turnover of Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") remained similar to that of the previous year, at HK$465,519,000. Contributed by the improvement in gross profit margin from rising selling price, its profit for the year rose by 35.0% to HK$36,532,000. As such, the Group's share of the profit for the year of Shanghai Shenjia also increased proportionally to HK$9,133,000.

Turnover of Xinhua Metal Products Co., Ltd. ("Xinhua Metal") increased by 10.7% to HK$785,576,000, while its profit for the year increased by 24.1% to HK$28,542,000. The Group's share of the profit for the year of Xinhua Metal also increased proportionally to HK$4,781,000.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

Bank balances and cash (including pledged bank deposits) of the Group as at 31 December 2005 amounted to HK$40,378,000, an increase of 8.4% as compared to HK$37,255,000 as at 31 December 2004. During the current year, the Group generated HK$51,640,000 of net cash inflow from its operating activities, and received dividend of HK$9,059,000 from its jointly controlled entity and associate.

The Group repaid net bank borrowings of HK$34,247,000 during the year, thereby reduced the bank borrowings from HK$279,653,000 as at 31 December 2004 to HK$243,013,000 as at 31 December 2005. The Group's bank borrowings include HK$105,150,000 fixed-rate borrowings which carry interest ranging from 1.71% to 5.90% per annum. The remaining bank loans are variable-rate borrowings. Their nature and maturity profile are as follows:

	HK$'000
Due within one year or on demand	
– Trust receipt loans	79,592
– Short term bank loan and current portion of medium term loan	120,823
Subtotal	200,415
Due in the second year	
– Non-current portion of medium term loan	42,598
Total	243,013

Because of the decreased bank borrowings, gearing ratio (total bank borrowings less bank balances and cash / shareholders' equity) of the Group dropped from 38.2% at 31 December 2004 to 29.2% at 31 December 2005. While the Group's current ratio at 31 December 2005 remained the level similar to the previous year at 1.54 times (31 December 2004: 1.55 times).

Management Discussion and Analysis

FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

The Group's source of revenue is principally denominated in RMB and HKD, while bank borrowings as at 31 December 2005 are in HKD and USD, with the composition of approximately 38.2% (31 December 2004: 31.5%) denominated in HKD and 61.8% (31 December 2004: 68.5%) denominated in USD.

When considering the currency composition of bank borrowings, we will take into account factors such as the interest rate differentials between RMB, HKD and USD, and the exchange rate movement between these currencies, with the view to save interest costs and shelter us from significant exchange rate fluctuations. For the current year, the Group adopted the strategy to borrow in HKD and USD as opposed to RMB because their interest rates remained lower than RMB and the stronger exchange rate of RMB against USD. This strategy brought positive impact to the Group's earnings following 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. As a result of the RMB appreciation, not only the amount of USD borrowings had been 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 currency composition of our bank borrowings and will take appropriate action to minimize our exchange and interest rate 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 31 December 2005, approximately 41.2% of total bank borrowings had been hedged.

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 the second half of 2007 is under way. Total costs of the expansion is adjusted to be approximately HK$250,000,000 – HK$300,000,000 (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

As mentioned in our 2004 annual report, we will incur capital expenditure of approximately HK$4,000,000 to establish an additional production plant in the PRC for domestic sales of copper and brass products in the PRC. The development is in progress but the commencement of operation is postponed to be in the fourth quarter of 2006 due to the profuse volatility of copper prices. The capital expenditure will be financed by internal resources of the Group.

Management Discussion and Analysis

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 31 December 2005, the Group had a total of 695 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition. 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$1,652,000. 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. On the other hand, the emoluments of the directors of the Company are decided by the Remuneration Committee of the Company, having regard to individual performance, the Company's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

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 current year.

Management Discussion and Analysis

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2005, 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$45,066,000;

2. Prepaid lease payments amounting to HK$8,084,000;

3. Plant and machinery with net book value of HK$136,956,000;

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

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

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 2005 amounted to approximately HK$10,935,000.

BUSINESS OUTLOOK

The PRC has overtaken the United Kingdom as the fourth biggest economy in 2005, its economy grew by 9.9% in 2005 and we expect such strong growth to persist in the coming future. Furthermore, one of the tasks of the Eleventh Five-year Plan (Year 2006 – 2010) as promulgated by the Central Government is to enlarge domestic demand as a way to counterbalance the inclination of economic growth to foreign trade and fixed assets investments, and to maintain a stable and yet speedy growing economy.

We believe such policy will bring positive impact to the Group's businesses in the longer term, and we are committed to expand the production capacity of our steel cord and copper businesses, as mentioned in "**BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS**" section above, to tap the growing demand of these products in the PRC.

Management Discussion and Analysis

BUSINESS OUTLOOK (continued)

Looking forward in 2006, certain raw material prices have dropped from their peak levels since the end of 2005. This should help to alleviate the pressure on our costs and hence, can improve our gross profit margin. However, the competition on steel cord industry remains intense and pricing pressure will persist. Notwithstanding, we will strive to enhance our profit margin by way of cost control and improvement of operating efficiency. Furthermore, we will continue to invest in our product and technological developments and broaden our customer base both domestic and abroad. In conclusion, owing to the aforesaid factors, we are confident to improve our profitability and deliver satisfactory return to our shareholders in 2006.