MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half year of 2006, the Group achieved a satisfactory growth in revenue and profit over the same period last year. Despite stiff market competition which had affected the profitability of our steel cord segment, our copper and brass products segment performed strongly during the period, supported by solid economic growth in Hong Kong and Mainland China, and skyrocketing copper price.

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

Our steel cord segment recorded a moderate growth in revenue of 2% over the same period last year to HK$198,259,000 (2005: HK$194,353,000) and accounted for 61.5% (2005: 72.1%) of the Group's revenue for the period. Faced with pricing pressure on increasing competition in the steel cord industry, the profitability of this segment abated as compared to the same period last year. However, its operating performance was better than the preceding six months, as we had implemented cost control measures to reduce production costs and improved operating efficiency, principally through the increased usage of domestic raw materials, whose prices were relatively lower than their import counterparts.

As affected by the declined selling price, gross profit margin dropped from 24.1% in the same period last year to 20.3% for the period under review. Consequently, operating profit of this segment dropped by 17.3% to HK$35,417,000 (2005: HK$42,818,000 (restated)) for the period.

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

Our copper & brass products segment achieved a significant growth of 66.1% in revenue to HK$123,628,000 (2005: HK$74,452,000) and accounted for 38.3% of the Group's revenue for the period. Whilst sales volume increased moderately by 6.3% over the same period last year, the increase in revenue was primarily boosted by the significant rise in copper price during the period. In the first half year of 2006, 3-month copper price traded in the London Metals Exchange climbed from the level of US$4,400 per tonne at the end of 2005 to approximately US$7,431 per tonne at 30 June 2006, representing an increase of approximately 69% over the period.

Taking advantage of the rising copper price, especially during the second quarter of 2006, this segment accomplished substantial increase in gross profit during the period. Gross profit amounted to HK$28,580,000, a significant increase of 394% as compared to the same period last year, while gross profit margin was 23.1%, as compared to 7.8% for the same period last year. In addition, our timely inventory management and sales strategy further enhanced the operating profit of this segment which sharply increased by 681.1% to HK$25,894,000 (2005: HK$3,315,000 (restated)) for the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW

Contributed by the increase in revenue and the improvement in gross profit margin, the Group's profit for the period reached to HK$44,707,000, representing an increase of 23.8% over the same period last year.

Revenue

Revenue amounted to HK$322,593,000 for the period, representing an increase of 19.7% over the same period last year. The breakdown of revenue by business segments is as follows:

	Six months ended 30 June				
	2006 *HK$'000*	**% of total revenue**	2005 *HK$'000*	% of total revenue	**% change**
Steel cord	**198,259**	**61.5**	194,353	72.1	**+2.0**
Copper & brass products	**123,628**	**38.3**	74,452	27.6	**+66.1**
Others	**706**	**0.2**	726	0.3	**–2.8**
Total	**322,593**	**100.0**	269,531	100.0	**+19.7**

Gross profit

Gross profit rose by 31.1% to HK$69,299,000 for the period. Further to the growth of 19.7% in revenue, the higher gross profit also contributed by the improvement in gross profit margin from 19.6% in the same period last year to 21.5% for the period, the breakdown is as follows:

	Six months ended 30 June				
	2006 *HK$'000*	**Gross profit margin (%)**	2005 *HK$'000*	Gross profit margin (%)	**% change**
Steel cord	**40,282**	**20.3**	46,772	24.1	**–13.9**
Copper & brass products	**28,580**	**23.1**	5,786	7.8	**+394.0**
Others	**437**	**61.9**	321	44.2	**+36.1**
Total	**69,299**	**21.5**	52,879	19.6	**+31.1**

Other income

The Group's other income for the period amounted to HK$2,962,000, an increase of 1043.6% over the same period last year. Other income for the period mainly comprised net exchange gain of HK$2,029,000, as a result of the stronger Renminbi ("RMB") and Hong Kong dollar ("HKD") against United States dollar ("USD") in the period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Administrative expenses

The Group's administrative expenses for the period amounted to HK$17,673,000, an increase of 18.5% over the same period last year, which was commensurate with the increase in revenue. Administrative expenses as a percentage of revenue remained similar to the same period last year at approximately 5.5%.

Segment results

Profit from the Group's business segments amounted to HK$61,373,000 for the period, an increase of 33.4% over the same period last year. The breakdown is as follows:

	Six months ended 30 June		
	2006	2005	
	HK$'000	*HK$'000* (restated)	**% change**
Steel cord	**35,417**	42,818	**–17.3**
Copper & brass products	**25,894**	3,315	**+681.1**
Others	**62**	(130)	**N/A**
Total	**61,373**	46,003	**+33.4**

Share of profits of a jointly controlled entity and an associate

The selling price of pre-stressed concrete strands declined in line with steel price since late 2005. Despite an increase in sales volume of 11.1% over the same period last year, revenue of Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") dropped by 15.5% to HK$195,195,000 for the period. As such, its profit for the period lowered by 24.7% to HK$18,028,000. The Group's share of the profit for the period of Shanghai Shenjia also dropped proportionally to HK$4,507,000.

Similar to Shanghai Shenjia, Xinhua Metal Products Co., Ltd. ("Xinhua Metal") was also affected by the drop in selling price of its pre-stressed concrete strands products during the period. However, through continued expansion in production capacity, its sales volume increased by 46.5% that helped generating a growth in revenue of 21.1% over the same period last year to HK$443,873,000 for the period. As such, its profit for the period increased by 43% to HK$18,400,000. The Group's share of the profit for the period of Xinhua Metal also increased proportionally to HK$3,082,000.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Finance costs

Finance costs increased by 49.5% over the same period last year to HK$9,021,000. The increase was primarily attributable to the continued interest rate hikes since the first half year of 2005 which had pushed HKD and USD interbank rates from circa 1% level to over 4% at the end of June 2006, which increased the overall interest cost of the Group.

Income tax expenses

The Group's income tax expenses amounted to HK$4,879,000 for the period, representing an increase of 52.5% over the same period last year, primarily because Jiaxing Eastern Steel Cord Co., Limited ("Jiaxing Eastern"), the company engaged in the manufacturing of steel cord, had completed its 50% income tax concession period in 2005 and was subject to full income tax rate starting 2006.

INTERIM DIVIDEND

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2006 (Six months ended 30 June 2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

POST BALANCE SHEET EVENT – XINHUA METAL SHARE REFORM PLAN

In March 2006, the non-freely transferable shareholders (the "Non-freely Transferable Shareholders") of Xinhua Metal, with its shares listed on the Shanghai Stock Exchange, proposed a share reform plan (the "Xinhua Metal Share Reform Plan") under the requirements of the relevant Government authorities of the People's Republic of China (the "PRC"). The Non-freely Transferable Shareholders, including an indirect wholly owned subsidiary of the Company, had proposed to transfer 3 non-freely transferable shares of Xinhua Metal to each holder of freely transferable shares of Xinhua Metal for every 10 freely transferable shares held by such holders, for conversion of the non-freely transferable shares of Xinhua Metal into shares freely transferable on the Shanghai Stock Exchange. However, the Xinhua Metal Share Reform Plan had not obtained the approval from the relevant shareholders of Xinhua Metal on 11 April 2006. On 28 August 2006, all the Non-freely Transferable Shareholders have to be in line with the share segregation reforms of the other "A" share companies listed in the PRC by revising to propose to transfer an aggregate of 18,532,800 non-freely transferable shares of Xinhua Metal to the holders of the freely transferable shares of Xinhua Metal on the basis of 3.3 shares (the "Amended Share Reform Plan") rather than 3 shares for every 10 freely transferable shares held by such holders. The Amended Share Reform Plan had been approved by the relevant shareholders of Xinhua Metal by casting on the internet during the three trading days from 8 to 12 September 2006 and at a physical general meeting held on 12 September 2006. The application for the trading on the Shanghai Stock Exchange of those freely transferable shares of Xinhua Metal converted from non-freely transferable shares will be applied subject to the relevant law and regulations of the PRC accordingly.

Since the Amended Share Reform Plan was approved, the Company's interest in Xinhua Metal would be diluted from approximately 16.76% to 14.49%. Based on the carrying value of interest in Xinhua Metal as at 30 June 2006, the dilution will result in a deemed loss of approximately HK$6,500,000. Details of the Amended Share Reform Plan were stated in the announcement dated 30 August 2006 and the circular dated 20 September 2006 to the Company's shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY AND FINANCIAL RESOURCES

The Group has bank balances and cash (including pledged bank deposits) of HK$62,084,000 at 30 June 2006, an increase of 53.8% as compared to HK$40,378,000 at 31 December 2005. During the period, the Group utilized HK$67,392,000 of net cash in its operating activities and generated HK$5,777,000 of net cash from its investing activities.

As at 30 June 2006, the Group's total bank borrowings amounted to HK$253,929,000, increased by HK$10,916,000 as compared to HK$243,013,000 as at 31 December 2005. Other than HK$58,489,000 fixed-rate borrowings that carry interest ranging from 2.64% to 5.4% per annum, the remaining bank borrowings are floating-rate borrowings. The nature and maturity profile of the Group's bank borrowings at 30 June 2006 were as follows:

	30 June 2006 ***HK$'000***
Due within one year or on demand	
– Trust receipt loans	**79,332**
– Bank advances for discounted bills	**19,632**
– Short term loans and current portion of medium term loan	**141,580**
Subtotal	**240,544**
Due in the second year	
– Medium term loans	**13,385**
Total	**253,929**

Furthermore, the Group received a loan of HK$30,000,000 from a wholly owned subsidiary (which is engaged in financial services) of Shougang Holding (Hong Kong) Limited ("Shougang HK"), the substantial shareholder of the Company during the period. The loan is for a period of two years and bears interest at a fixed rate of 5.825% per annum (which is similar to the rate offered by the bankers of the Company), and is partly used to finance the Group's business expansion projects.

Taking into consideration the loan from Shougang HK, gearing ratio (total interest bearing borrowings less cash and bank balances/shareholders' equity) of the Group at 30 June 2006 was 29.8% (31 December 2005: 29.2%). While the Group's current ratio was 1.60 times at 30 June 2006, as compared to 1.54 times at 31 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

The Group's sources of revenue are principally denominated in RMB and HKD, while purchases and payments are primarily in RMB, HKD and USD. On the other hand, the currency mix of bank borrowings of the Group at 30 June 2006 were as follows:

	30 June 2006	31 December 2005
	%	%
HKD	**42.8**	38.2
USD	**34.2**	61.8
RMB	**23.0**	–
Total	**100.0**	100.0

The Group shifted a certain part of its USD borrowings to RMB and HKD borrowings during the period as USD borrowing rate became higher than RMB and HKD borrowing rates after a sustained period of interest rate hikes by the Federal Reserve of the United States of America. We believe these adjustments could reduce our interest costs and further minimize our exposure to currency risks as our major sources of income are in RMB and HKD.

Regarding interest rate risks, out of the HK$195,440,000 variable rate bank borrowings at 30 June 2006, HK$100,000,000 had been hedged by two structured interest rate swap contracts, covering 51.2% of variable rate bank borrowings at 30 June 2006.

Notwithstanding, we would keep monitoring the currency composition of our bank borrowings and take appropriate action to minimize our exchange and interest rate risks when needed.

MANAGEMENT DISCUSSION AND 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 the second half of 2007 is under way. Total costs of the expansion was adjusted to be approximately HK$250,000,000 to HK$300,000,000 (excluding working capital requirement) and would be financed by the Group's internal resources and external financing.

Processing and trading of copper and brass products

The additional production plant in the PRC principally for domestic sales of copper and brass products in the Mainland is under construction and is expected to start operation in the fourth quarter of 2006. Total capital expenditure for the development was approximately HK$4,000,000 and would be financed by internal resources of the Group.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 30 June 2006, the Group had a total of 697 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 period amounted to HK$1,102,000. 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 Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

In addition, the Company had adopted a share option scheme (the "Scheme"). Under the Scheme, the board of directors (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 Rule"), 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 AND ANALYSIS (continued)

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2006, 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$36,469,000;

2. Prepaid lease payments amounting to HK$7,268,000;

3. Plant and machinery with net book value of HK$130,281,000;

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 30 June 2006 amounted to approximately HK$11,050,000.

BUSINESS OUTLOOK

Looking forward in the second half year of 2006, it is expected that the environment of steel cord industry in the PRC will remain competitive, but we will endeavor to strengthen the profitability of Jiaxing Eastern through relentless cost control measures and the improvement of operational efficiency, the strengthening of strategic cooperations with market participants and the development of new products and overseas markets.

For our copper and brass products segment, as opposed to an upward trend in the first half year of 2006, international copper price has been moving within the range between US$6,000 to US$8,000 since it reached its peak of approximately US$8,800 in May 2006. We expect that copper price will continue to fluctuate in a smaller range in the second half year and as such, we will not anticipate the first half year's exceptional performance to recur in the second half year of 2006, but we are confident to maintain at a reasonable and satisfactory profit level.

Overall speaking, the operating environment of the Group's businesses will be more challenging in the second half of year 2006, but we will strive to generate acceptable growth in profit to our shareholders.