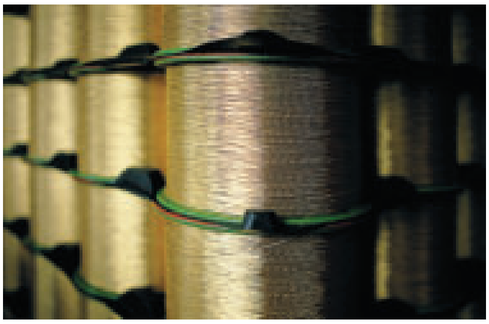
Management Discussion and Analysis

BUSINESS REVIEW

In 2006, the Group's business of manufacturing of steel cord for radial tyres recorded a lower profit as compared to the previous year, as it was negatively affected by market competition in the industry. While our processing and trading of copper and brass products business and the Group's jointly controlled entity and associate performed strongly during the year under review, which led the Group to generate an increase in profit for the year by 22.2% to approximately HK$76,031,000.

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



For the year under review, Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern") recorded a growth in sales volume of 3.4% over the previous year to 29,818 tonnes, equivalent to 99.4% of its production capacity of 30,000 tonnes per annum. Revenue lowered by 4.4% over the previous year to HK$393,726,000 (2005: HK$411,865,000) as market competition remained intense and the selling prices of steel cords are still under pressure. Such drop in revenue caused the gross profit to decrease to HK$79,669,000, 2.5% lower than the previous year. However, gross profit margin slightly improved by 0.4% to 20.2% (2005: 19.8%) for the year under review, as we endeavored to increase our usage of domestic raw materials and improve operating efficiency to combat against the pressure on selling price.

As a result of the reduced gross profit and the increase in other operating costs, operating profit of this segment dropped by 15.5% to HK$65,668,000 (2005: HK$77,743,000 (restated)) for the year under review.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

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

Our copper & brass products segment had a very exceptional performance for the year under review. International copper price soared during the year, 3-month copper price traded in the London Metals Exchange climbed from US$4,400 per tonne level at the end of 2005 to the peak of US$8,590 per tonne in May 2006, and gradually returned to US$6,330 per tonne at the end of 2006, still rose by 43.9% over the year. As such, the revenue of this segment increased significantly by 72.3% over the previous year to HK$283,695,000 (2005: HK$164,620,000).

Having anticipated and taken the advantage of the soaring copper price, especially during the first half of the year, this segment achieved significant increase in gross profit during the year. Gross profit sharply increased by 261.7% over the previous year to HK$45,113,000 (2005: HK$12,471,000), while gross profit margin rose from 7.6% in the previous year to 15.9% for the year under review. Therefore, operating profit of this segment increased tremendously by 419.5% to HK$39,823,000 (2005: HK$7,665,000 (restated)).

Management Discussion and Analysis

FINANCIAL REVIEW

For the year under review, the Group's profit for the year amounted to HK$76,031,000, represented an increase of 22.2% over the previous year. When the one-off dilution loss on share reform of an associate of HK$6,858,000 was excluded, profit for the year would have reached to HK$82,889,000, that was higher by 33.2% over the previous year.

Revenue

Revenue of the Group increased by 14.5% over the previous year to HK$678,923,000. The breakdown of revenue by business segments is as follows:

	2006 HK$'000	**% of total revenue**	2005 HK$'000	% of total revenue	**% change**
Steel cord	**393,726**	**58.0**	411,865	69.4	**-4.4**
Copper & brass products	**283,695**	**41.8**	164,620	27.8	**+72.3**
Others	**1,502**	**0.2**	16,404	2.8	**-90.8**
Total	**678,923**	**100.0**	592,889	100.0	**+14.5**

Gross profit

The Group's gross profit reached to HK$125,654,000, an increase of 31.1% over the previous year. The higher gross profit was contributed by the 14.5% growth in revenue and the improvement in gross profit margin from 16.2% to 18.5%. The breakdown of gross profit by business segments is as follows:

	2006 HK$'000	**Gross profit margin**	2005 HK$'000	Gross profit margin	**% change**
Steel cord	**79,669**	**20.2%**	81,746	19.8%	**-2.5**
Copper & brass products	**45,113**	**15.9%**	12,471	7.6%	**+261.7**
Others	**872**	**58.1%**	1,638	10.0%	**-46.8**
Total	**125,654**	**18.5%**	95,855	16.2%	**+31.1**

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Other operating income

Other operating income increased by 10.3% over the previous year to HK$9,185,000. Net foreign exchange gain, which was principally coming from the appreciation of Renminbi ("RMB"), was lowered by 18.9% over the previous year, as the Group had reduced bank borrowings denominated in United States dollar ("USD") during the year, in view of its higher interest rate than those of Hong Kong dollar ("HKD") and RMB after a sustained period of interest rate uplift by the Federal Reserve of the United States. However, the drop in net foreign exchange gain was remedied by the increase in bank interest income, that amounted to HK$2,018,000 for the year under review, and up by 633.8% over the previous year.

Administrative expenses

Administrative expenses of the Group amounted to HK$38,374,000, increased by 14.4% over the previous year. The increase was commensurate with the growth in revenue. Hence, administrative expenses as a percentage of revenue remained the same as the previous year at 5.7%.

Dilution loss on share reform of an associate

During the year, the Group's associate, Xinhua Metal Products Co., Ltd. ("Xinhua Metal"), with its shares listed on the Shanghai Stock Exchange, proposed a share reform plan under the requirements of the relevant Government authorities of the People's Republic of China (the "PRC"), in which the non-freely transferable shareholders of Xinhua Metal would transfer 3 shares for every 10 freely transferable shares held by such holders (the "Share Reform Plan"), and subsequently revised upward to every 3.3 shares for every 10 freely transferable shares held by such holders (the "Amended Share Reform Plan") after the Share Reform Plan was rejected by the "A" shareholders of Xinhua Metal.

The Amended Share Reform Plan had been approved by the "A" shareholders of Xinhua Metal and the relevant Government authorities in late 2006 respectively. As a result of the implementation of the Amended Share Reform Plan, the Group's interest in Xinhua Metal was diluted from approximately 16.75% to 14.49%, and the dilution resulted to a loss of HK$6,858,000 to the Group for the year under review.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Segment results

Profit from the Group's business segments amounted to HK$108,797,000 for the year, an increase of 22.9% over the previous year. The breakdown is as follows:

	2006 HK$'000	2005 HK$'000 (restated)	**% change**
Steel cord	**65,668**	77,743	**-15.5**
Copper & brass products	**39,823**	7,665	**+419.5**
Others	**3,306**	3,146	**+5.1**
	108,797	88,554	**+22.9**

Finance costs

The Group's finance costs amounted to HK$18,904,000 for the year, representing an increase of 30.7% over the previous year. The increase in finance costs was due to (i) total bank borrowings of the Group increased by HK$119,962,000 over the end of previous year; and (ii) the continued interest rate hike since 2005 which pushed HKD and USD interbank rates from circa 1% level to over 4% during 2006.

Share of results of a jointly controlled entity and an associate

The revenue of Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") lowered by 3% over the previous year to HK$451,609,000, as the selling price of its core product of pre-stressed concrete strands dropped in line with steel prices. Despite the decrease in revenue, its gross profit increased by 14.2% to HK$112,780,000 as (i) its sales volume increased by 6.7%; and (ii) sales of products with higher gross profit margin increased during the year that pushed its gross profit margin from 21.2% in the previous year to 25%. As such, its profit for the year increased by 12.2% to HK$40,979,000. The Group's share of the profit of Shanghai Shenjia for the year also increased proportionally to HK$10,245,000.

With regard to Xinhua Metal, its revenue increased by 24.8% over the previous year to HK$980,112,000, while its gross profit increased by 19.7% to HK$133,217,000. Gross profit margin slightly dropped from 14.2% in the previous year to 13.6% for the year. Furthermore, as a result of reduced provisions and investment loss; reduction in income tax liabilities from certain tax concessions and reversal of staff welfare fund following the changes in related regulations, its profit for the year increased by 123.9% to HK$63,905,000. The Group's share of the profit of Xinhua Metal for the year increased by 108.2% to HK$9,952,000.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Income tax expenses

The Group's income tax expenses increased by 21.1% over the previous year to HK$7,252,000, as tax provisions were required for the Group's copper & brass products segment as its profit for the year fully offset available tax losses brought forward from previous years.

SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES

On 22 and 27 September 2006, the Company entered into a subscription agreement and a supplemental agreement with NV Bekaert SA ("Bekaert") respectively for the subscription of 250,000,000 new shares of the Company at a price of HK$0.65 each (the "Bekaert Subscription"). The Bekaert Subscription was completed on 15 December 2006 and raised net proceeds of approximately HK$161,411,000 for the Group. After the completion of the Bekaert Subscription, the total issued share capital of the Company increased from 1,026,066,556 shares to 1,276,066,556 shares. The net asset value of the Group increased from HK$693,753,000 at 31 December 2005 to HK$957,354,000 at 31 December 2006, while net asset value per share increased from HK$0.68 at 31 December 2005 to HK$0.75 at 31 December 2006.

The Group's bank balances and cash (including pledged bank deposits) at 31 December 2006 amounted to HK$300,566,000, increased markedly by 6.4 times over the end of 2005. In addition to the net proceeds from the Bekaert Subscription, a bank loan of HK$140,000,000 was drawn during the year, both would principally be used for the expansion plan of Jiaxing Eastern, also caused to the increase in bank balances and cash.

The above bank loan drawdown and net proceeds from the Bekaert Subscription contributed to the HK$311,311,000 of net cash inflow from financing activities of the Group during the year, while the Group utilized HK$55,364,000 of cash in its operating activities and generated HK$3,769,000 of net cash from its investing activities.

SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31 December 2006, the Group's total bank borrowings amounted to HK$362,975,000, increased by HK$119,962,000 as compared to HK$243,013,000 as at 31 December 2005. All the bank loans of the Group are floating-rate borrowings except HK$113,946,000 which were collared at a rate ranging from 2.64% to 5.58% per annum. The nature and maturity profile of the Group's bank borrowings at 31 December 2006 were as follows:

	HK$'000
Due within one year or on demand	
– Trust receipt loans	55,382
– Short term bank loan and current portion of medium term loan	138,845
– Discounted bills with recourse	44,272
Subtotal	238,499
Due in the second year	
– Medium term loan	124,476
Total	362,975

Because of the strengthening of capital base from the Bekaert Subscription, the gearing ratio (total interest bearing borrowings less cash and bank balances / shareholders' equity) of the Group reduced from 29.2% at 31 December 2005 to 6.5% at 31 December 2006. While the strong bank balances and cash at 31 December 2006 improved the Group's current ratio from 1.54 times at 31 December 2005 to 2.6 times at 31 December 2006.

FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

The Group's sources of revenue were principally denominated in RMB and HKD, while purchases and payments were in RMB, HKD and USD. On the other hand, the currency mix of bank borrowings of the Group at 31 December 2006 were as follows:

	2006	2005
	%	%
HKD	**61.2**	38.2
USD	**7.4**	61.8
RMB	**31.4**	–
Total	**100.0**	100.0

Management Discussion and Analysis

FOREIGN CURRENCY AND INTEREST RATE EXPOSURES (continued)

The Group shifted a majority portion of its USD borrowings to RMB and HKD borrowings during the year as USD borrowing rate became higher than RMB and HKD borrowing rates after a sustained period of interest rate hike by the Federal Reserve of the United States. We believed these adjustments could reduce our interest costs and minimize our exposure to currency risks as our major sources of income were in RMB and HKD.

Regarding interest rate risks, out of the HK$249,029,000 variable-rate bank borrowings at 31 December 2006, HK$100,000,000 had been hedged by two structured interest rate swap contracts, covering 40.2% of variable-rate bank borrowings at 31 December 2006.

During the year under review, we engaged an external consultancy firm (the "External Consultancy Firm") to conduct a review and give suggestions for improvement on the internal control of the Group's hedging activities in respect of foreign currencies, interest rates and raw materials. The recommendations by the External Consultancy Firm had been put in place as part of the Group's internal control policies. Details in this regard are set out under the Corporate Governance Report on pages 21 to 34.

We would keep monitoring the currency composition of our bank borrowings under the guidance of our policy and take appropriate action to minimize our exchange and interest rate risks when needed.

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Manufacturing of steel cord for radial tyres

With the successful introduction of Bekaert as the strategic shareholder of the Company, we have accelerated our plan to expand the production capacity of Jiaxing Eastern from an original of 45,000 tonnes to 60,000 tonnes per annum, which is expected to be completed by the fourth quarter of 2007. As the half products (including brass coated wires) for the additional production capacities will be supplied by Bekaert under the supply contract entered into in September 2006, the capital expenditure for the purchase of upstream production facilities can be saved, and the total costs of the expansion are adjusted to approximately HK$400,000,000 (excluding working capital requirement). The capital expenditure would be financed by the Group's internal resources, the net proceeds from the issue of shares to Bekaert and external financing.

Processing and trading of copper and brass products

The additional production plant in Qingxi, Dongguan, the PRC for domestic sales of copper and brass products in the PRC has been under construction and is expected to start operation in the second quarter of 2007. Total capital expenditure for the development is 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 31 December 2006, the Group had a total of 738 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 of the industry. 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 scheme, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund scheme 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 year amounted to HK$1,941,000. 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 Company 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, 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 year.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 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$47,504,000;

2. Prepaid lease payments amounted to HK$7,280,000;

3. Bills receivable amounted to HK$44,272,000;

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

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

Management Discussion and Analysis

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES (continued)

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 were 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 2006 amounted to approximately HK$7,465,000.

BUSINESS OUTLOOK

We believe the prospect of radial tyre industry in the PRC will be continuously optimistic in the foreseeable future, as the economy of PRC maintains its high growth momentum and more and more international tyres companies establishing their plants in the PRC to be their major manufacturing base serving customers worldwide. In view of this, demand for steel cord is expected to keep strong, but pricing pressure will remain for at least in the short term as supply production capacity continues to increase.

Since the completion of the issue of 250,000,000 shares to Bekaert in December 2006, Bekaert and the Group have built a collage of co-operation, in which it will share with us its expert knowledge and experience to assist Jiaxing Eastern to expand its production capacity, improve its technical and product development strength, and opening up of new markets in both domestic and overseas, with a view to strengthening our competitiveness and maintain our position in the industry. We expect our co-operation with Bekaert will eventually be broadened to other areas where each party could utilize its competitive advantages and believe that such co-operation will bring fruitful results to the Group in the longer term.

Regarding our copper & brass products business, we do not expect the exceptional profit in 2006 to recur in the next year, as we do not anticipate the soaring of copper prices in 2006 to repeat. On the other hand, global economic growth has shown signs of slowdown that may hinder the growth in demand for copper. Notwithstanding, we strive to maintain a reasonable level of profit, while more efforts will be given to develop the domestic market in the PRC.

In conclusion, the operating environment of the Group's core businesses is still challenging in the short term, but we will endeavor to expand our businesses and generate satisfactory return to our shareholders.