

Chairman's Statement

Dear fellow shareholders,

OVERVIEW

"Harmony, Innovation, Sustainable Development and Customer Satisfaction through Provision of Goods and Services of High Quality" has been the Group's vision and mission. The year of 2004 was a year with great challenges, despite of which, the Group has made significant achievement in progressing our business towards a sustainable growth path.

During the year, the Group overcame various difficulties and managed to follow a clearly focused business strategy by continuing with product development and innovation, aggressive marketing, process improvement and cost management. Major achievements are as follows:

Business:

- The Group's Phase III production plant expansion, including installation of new equipment and machinery, was in good progress. Our production capacity has been expanding through the use of new equipment and machinery, which would help to enhance our competitive strengths.
- The Group successfully expanded its direct export business, laying a solid foundation for the Group to seek new business opportunities for future development.
- The Group's new product, stainless pipes, has been launched to the domestic market in the PRC as well as the international market.

Management:

- The Group reinforced its financial management for its business and effectively controlled various operating costs and expenses.
- The Group fully implemented a performance assessment system, which has greatly boosted the morale of our staff.
- The online ERP System was officially launched in July 2004.

Recognition:

In 2004, the Group received the following recognitions and accreditations from relevant government authorities:

- Approval document on Safety Products Involving the Water Hygiene (known as the Hygiene Permit for Stainless Steel Pipes) from the Guangdong Province Health Bureau;
- Certificate for Acknowledgement as Foreign Invested Advance Technology Enterprise from Guangzhou Municipal Commission of Foreign Trade and Economic Cooperation. We were also one of the first group of enterprises receiving "Enterprise with A-class Tax Credit Rating" in Guangzhou Municipality from Guangzhou Municipal Office, SAT and the local tax bureau of Guangzhou Municipality.

Chairman's Statement *(Continued)*

Development:

- The shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 21 June 2004.

The Group is in healthy state of affairs with steady growth in economic efficiency. Turnover and sales volume grew by 44% and 11% respectively. The Group recorded profit after tax and minority interests of RMB41,229,000, which yielded a return on total assets of 8% and a return on shareholders' fund of 18%.

FUTURE DEVELOPMENT

Looking forward to 2005, the Group will continue to build on its earlier success and existing foundation, and put greater efforts in market penetration and industry development, and will be devoted to achieve the following goals:

- Expanding our purchase channels to cope with the growth in business and sales volume for the coming years.
- Acquiring additional equipment, in coordination with our Phase III production plant expansion, to give full play to economic efficiency and making adjustments to related product mix. We will also establish allied "industrial chains" with major customers so as to minimise the risk of pricing.
- Leveraging on the favourable market trend, grasping business opportunities in a careful manner and diversifying the market. We will also raise our crisis awareness about the overheated iron and steel industry and hence formulate risk-avoidance strategies in advance.
- Making use of the ERP system to optimise the management of our process flow and information efficiency on purchasing, inventory, planning, quality, cost and sales activities.

To sustain the development of the Group, we are giving full consideration to every investment opportunity which is beneficial to the Group, with an aim to generate the best return from investments. Among our various investment projects, we are assessing the feasibility of establishing our second production base for steel processing in eastern China, and we are considering, with the extensive experience of the board members and the management, to bring in expertise and explore business opportunity in metal-processing of related auto parts.

APPRECIATION

Finally, I wish to express my sincere gratitude to our shareholders, directors, employees and business partners for their support to the Group. I believe that we can sustain our current development and will record a greater growth in business and profit in the coming years.

Lai Yueh-hsing

Chairman