

### RESULTS

The Directors of the Company and its subsidiaries (the "Group") announced the results for the 15 months period from 1 April 2004 to 30 June 2005 (the "Period"). Due to the change of financial year end date from 31 March to 30 June, the results for the Period should not be directly compared with the results for the period from 1 April 2003 to 31 March 2004 (the "Previous Year") or any of her previous periods.

The results for the Period are as follows:

The Group recorded a total turnover of approximately HK\$2,056,288,000, while profit from operations and loss attributable to shareholders were approximately HK\$2,694,000 and HK\$61,135,000 respectively. Loss per share was approximately HK19.1 cents. Excluding the impairment loss recognised in respect of goodwill, impairment loss of machineries and equipment and provision for doubtful debts of approximately HK\$61,205,000 in aggregate, which had been included in the profit and loss account for the year, the Period was in fact a profit-making period.

### FINAL DIVIDEND

The Directors resolved not to pay any final dividend for the period ended 30 June 2005 (Previous Year: Nil).

### BUSINESS REVIEW

During 2004, the Company underwent restructuring and reorganisation, the purpose of which was to inject the business of manufacturing and sales of copper rods and related products to another listed company, so as to enable the Group's copper rod business to raise funds independently. The plan provided a good opportunity for the Group to realise its investment in its copper rod business at a reasonable price while at the same time maintain its controlling interests in the business.

The copper rod business is currently operated by Hua Yi Copper Holdings Limited ("Hua Yi Copper"), a listed subsidiary of the Group. Upon completion of restructuring of the Company, Hua Yi Copper will concentrate its resources on copper rods and related business while the Company will focus on the development of cable and wire and connectors and terminals business. Through the restructuring activities, the principal business of the Group will be more explicit, and in particular, investors will be able to make more accurate and profitable decisions based on the Company's clearer and more focused performance. Such factors will be significant in enhancing the Company's reputation and investors confidence.

During the Period, performance of the Group business was as follows:

During the Period, sales of cable and wire products was approximately HK\$807,486,000, representing 39.27% of the Group's total sales; sales of copper rod products during the Period was approximately HK\$1,041,881,000, contributing 50.67% to the Group's total sales. Sales of connectors and terminals during the Period was approximately HK\$147,708,000, accounting for 7.18% of the Group's total sales, while sales of chemical products and the acquired life-like plants businesses were HK\$18,503,000 and HK\$40,710,000 respectively.

In terms of geographical breakdown, sales from the Mainland China and Hong Kong markets was approximately HK\$1,595,678,000, contributing 77.6% to the Group's turnover. Sales from the North America market was approximately HK\$222,807,000, accounting for 10.83% of the Group's turnover. Sales from other markets in Asia was approximately HK\$196,780,000, representing 9.57% of the Group's sales, while sales from the European market recorded approximately HK\$41,023,000, representing 2% of the Group's turnover.

# Chairman's Statement

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## **BUSINESS REVIEW (continued)**

### **Cable and Wire Products**

During the Period, given the surging prices of plastic and metal materials and the increasing labour costs in the Pearl River Delta region, a significant increase in production costs, and a stringent operating environment for the cable and wire business was experienced. Despite the Group's attempt to transfer the increased costs to customers in order to narrow down losses, selling prices were not be increased accordingly, which resulted in a decrease in the profit margin of the cable and wire business, and a loss in the business during the Period. On monthly average basis, sales of cable and wire products during the Period was approximately HK\$53,832,000, up approximately 5.3% from HK\$51,136,000 of the Previous Year. Compared with the Previous Year, average monthly turnover still recorded growth, but vendors from various regions lacked confidence to increase the prices and inventories, resulting in urgent orders at a lower revenue to the downstream cable and wire manufacturers, which adversely affected gross profit. On the other hand, the satisfactory revenue and sales growth recorded by the Group's plant in Shanghai was very encouraging. During the Period, the Shanghai plant recorded total sales of approximately HK\$132,551,000 with an average monthly sales of approximately HK\$8,837,000, representing an increase of 61.8% compared with HK\$5,461,000 of the Previous Year. However, due to its smaller scale compared to the production base in Dongguan, in terms of sales, the Shanghai plant only accounted for 16% of the total sales of cable and wire business, not sufficient to make up the Group's results.

Meanwhile, under the increasing prices of production resources such as energy and copper materials, as well as the serious power shortage and the under supply in transportation services in the Pearl River Delta region, the Group's production and operating costs faced a certain degree of pressure. Even with its strong foundation, the Group still suffered loss.

With "increasing income, reducing cost and enhancing efficiency" as its core aims, the Group is actively implementing marketing, new product developments and cost and quality controls, emphasising on the enhancement of overall capability in terms of sales and large-scale production, as well as product competitiveness. It will also continue to optimize the organizational structure in order to improve the overall profitability of its cable and wire business, moving forward to becoming a leader in the cable and wire industry in the PRC.

### **Copper Rod Business**

On 25 March 2004, the Group and FT Holdings International Limited ("FT Holdings") entered into an acquisition agreement, whereby the Group agreed to procure to sell, and FT Holdings agreed to procure to purchase, the Group's copper rod business at an agreed total consideration of HK\$320 million. Approval from independent shareholders was obtained at the special general meeting held on 30 June 2004 and the acquisition of the interests in FT Holdings, which changed its name to Hua Yi Copper Holdings Limited ("Hua Yi Copper") in October the same year, was duly completed on 11 August 2004. As at 30 June 2005, the Company held 71.5% shareholding interests in Hua Yi Copper.

The Group is confident that the injection of the copper rod business to another listed company will enable such business to raise fund independently, and accordingly by the Company and Hua Yi Copper conducted top-up placing of shares on 26 April and 4 July 2005 respectively and recorded proceeds of over HK\$100,000,000. The Company has also purchased machineries and production facilities for its newly-established factory located at Kunshan, Jiangsu Province, the PRC, to fully equip itself for further market expansion, as well as to provide stronger backup to further enhance production capacity of the Group's copper rod business.

### **BUSINESS REVIEW (continued)**

#### **Copper Rod Business (continued)**

The Group's copper rod business is operated by Hua Yi Copper, a subsidiary separately listed on the Main Board of the Stock Exchange of Hong Kong Company Limited (the "Stock Exchange"), of which the Company currently owns 59.59% shareholding interests. The Dongguan factory of Hua Yi Copper is one of the three sizable factories in the Pearl River Delta region, Guangdong Province, the PRC. During the Period, the average utilisation rate of the factory was around 60% and would be close to 100% if including the processing of products with materials provided by customers and products for their own sales. The existing facility will be adequate to support a further business growth of 50% or over. As a strategy to capture the relevant market potentials, the Group is actively expanding the production capacity of its own copper rod business based on the existing scale of the Dongguan factory.

During the Period, the strong demand for copper products worldwide has driven the growth in copper consumption, especially in the PRC. The rapid growth in power, electronics and real estate industries also fuelled the demand for copper in the PRC, and the PRC continued to be the largest consumer of copper worldwide. Meanwhile, there was an undersupply of copper raw materials and a shortfall between the growth in copper refining output and consumption. Under this severely imbalanced supply and demand, copper prices continued to surge. Copper cash prices quoted on the London Metal Exchange ("LME") reached its record high of US\$4,005 per tonne on 28 September 2005 while the LME average cash settlement price was US\$3,078 per tonne during the Period, representing an increase of US\$1,032 or 50.4% per tonne compared with US\$2,046 per tonne of the Previous Year.

Driven by the strong demand for copper products and continuous economic growth, the Group's copper rod business achieved a turnover of approximately HK\$69,459,000 per month on the average, recording a significant increase of 76.6% from approximately HK\$39,338,000 of the Previous Year. On the one hand, the growth was attributable to the rise of copper prices on LME while turnover of copper wires is calculated based on selling prices determined by international copper price plus agreed processing fees. On the other hand, the growth in turnover was also the result of actual increase in sales volume, which increased by approximately 9.3% from 2,890 tonnes per month in the Previous Year to 3,160 tonnes per month during the Period. Currently, the Group's high value-added downstream products contributed 40% to its total turnover. The Group will gradually increase the sales percentage of these products, including stranded copper wires, tinsel copper wires, enameled copper wires and tin coated copper wires.

The Group's copper rod business is mainly involved in processing, so the costs resulted from higher copper prices will be borne by customers. Furthermore, the Group will be in a better bargaining position in light of the undersupply. However, since the Group had to order copper cathodes from overseas suppliers by letter of credit and trust receipt loans, the constantly high copper prices undoubtedly increased its finance costs. Coupled with the interest hike, finance costs increased considerably during the Period.

# Chairman's Statement

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## **BUSINESS REVIEW (continued)**

### **Connectors and Terminals**

The Group's production base for connectors and terminals in Penang, Malaysia recorded sound growth in sales as well as profit since its establishment. Its turnover increased from HK\$9,000,000 in 1999 to over HK\$147,708,000 for the Period. On a monthly average basis, the turnover of connectors and terminals grew by 15.5% from HK\$8,529,000 of the Previous Year to HK\$9,847,000 for the Period. Despite the difficult operating environment, the business still managed to achieve growth with encouraging performance, which was attributable to the Group's strong sales and marketing efforts, appropriate allocation of resources and improvement in production efficiency. Such strategies enabled the Group to successfully fulfill the high quality standards of its clients, so as to help them to increase their respective market share.

In order to take a proactive approach to enhance the profitability of its connectors and terminals, the Group's additional production lines for connectors and terminals in Qingdao, Shandong Province, the PRC commenced production in mid 2005 and is expected to provide this business with ample room for expansion.

### **Life-like Plant**

The turnover of the Group's acquired life-like plant business amounted to HK\$40,710,000 for the Period. Prices for raw materials of its products remained high. However, as the Group and its clients had already fixed the order prices, the Group was not able to transfer the cost increment to its clients, putting its profit margin under pressure. Fortunately, the business still managed to turnaround. In view of the increasing competition, the management will closely monitor market trends and formulate appropriate strategies so as to mitigate the negative impact on the Group's overall performance.

## **PROSPECTS**

The Group invested in the establishment of new factory at Kunshan, Jiangsu Province, the PRC so as to tap into the cable, wire and copper wire processing market in the Yantze River Delta region. The new cable and wire factory is expected to commence production in early 2006. With an area of approximately 43,000 sq.m. and an annual production value up to HK\$250,000,000, the factory will mainly produce cable and wires for electrical appliances and electronic products. The new factory of Hua Yi Copper is expected to commence production by the end of 2005. With an area of approximately 38,000 sq.m., and an annual output of copper rods of various specification up to 10,000 tonnes, the factory will mainly produce high value-added downstream copper wire products, such as soft copper wires, tin coated copper wires, stranded copper wires and enamelled copper wires.

With the increasingly fierce market competition for household appliances in the coming years, elimination will be expected to further intensify in the PRC markets. The household appliance enterprises in the PRC is moving towards larger scale, higher quality and lower costs. The Company will continue to focus on its core business development of cable and wires, connectors and terminals and copper products, and divest its non-core business as soon as possible as well as optimize its corporate structure and production process so as to further enhance operating efficiency. Moreover, the Group will put further efforts on research and development of production technology and enhancement of its product competitiveness to support its ongoing business growth.

Looking forward, leveraging on the Group's capability and experience, as well as the focus on its core businesses, the Group is confident that its products will continue to increase market share, and will build a strong foundation to achieve a fruitful forthcoming financial year for its investors and shareholders.

### EMPLOYEES

As at 30 June 2005, the Group had approximately 5,000 employees in Hong Kong, the PRC and overseas. Remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Staff benefits include medical schemes, Mandatory Provident Fund scheme for Hong Kong employees, and state-sponsored retirement plans for employees in the PRC.

### LIQUIDITY AND FINANCIAL RESOURCES

During the period from 1 April 2004 to 30 June 2005 (the "15 months period ended 30 June 2005"), the Group had implemented a prudent financial management policy. As at 30 June 2005, the Group had cash and bank balances (including pledged bank deposits) amounted to of approximately HK\$189 million (31 March 2004: HK\$166 million) and net current assets value being over HK\$343 million (31 March 2004: HK\$306 million). The Group's gearing ratio as at 30 June 2005 was 0.47 (31 March 2004: 0.37), being the ratio of total bank borrowings of approximately HK\$372 million (31 March 2004: HK\$295 million) to shareholders' funds of approximately HK\$783 million (31 March 2004: HK\$803 million).

As at 30 June 2005, the Group pledged certain property, plant and machinery, fixed deposits and trade debtors with an aggregate net book value of approximately HK\$212 million (31 March 2004: HK\$181 million) to secure general banking facilities granted to the Group.

As at 30 June 2005, the Company has issued guarantees to the extent of approximately HK\$330 million (31 March 2004: HK\$389 million) to banks to secure banking facilities granted to its subsidiaries, of which, approximately HK\$207 million (31 March 2004: HK\$229 million) was utilised. In addition, the Company has issued guarantees to a financial institution amounting to approximately HK\$39 million (31 March 2004: Nil) in respect of commodity trading of copper by its subsidiaries.

The transactions of the Group are mostly denominated in HK\$, US\$ and RMB. In managing the foreign currency exchange risk, the Group has adopted a prudent hedging policy through booking forward foreign exchange contracts with the principal banks.

### CHANGE OF FINANCIAL YEAR END DATE

On 20 August 2004, the Directors resolved to change the Company's financial year end date from 31 March to 30 June. Accordingly, the financial year end date of the Company for 2005 was 30 June 2005.

### PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

Pursuant to the placing and subscription agreements dated 17 June 2004, Chau's Family 1996 Limited ("Chau's Family") placed 54,000,000 ordinary shares of HK\$0.01 each in the capital of the Company to independent investors at a price of HK\$0.27 per share and subscribed for 54,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.27 per share. The net proceeds of approximately HK\$14.2 million from the subscription were used for purchasing raw materials for production of cables and wires.

Pursuant to the placing and subscription agreements dated 24 May 2005, Chau's Family placed 65,390,000 ordinary shares of HK\$0.01 each in the capital of the Company to independent investors at a price of HK\$0.28 per share and subscribed for 65,390,000 new ordinary shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.28 per share. The net proceeds of approximately HK\$17.8 million from the subscription were used for purchasing raw materials for production of cables and wires.

## **PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES (continued)**

### **Top-Up Placing of Existing Shares and Subscription of New Shares of Hua Yi Copper**

On 26 April 2005, Skywalk Assets Management Limited ("Skywalk"), a wholly owned subsidiary of the Company, entered into the agreements to place and subscribe for new shares in Hua Yi Copper Holdings Limited ("Hua Yi Copper"). Pursuant to the agreements, Skywalk agreed to place 25,912,000 ordinary shares of HK\$0.20 each in the capital of Hua Yi Copper to independent investors at a price of HK\$0.93 per share and to subscribe for 25,912,000 new ordinary shares of HK\$0.20 each in the capital of Hua Yi Copper at a price of HK\$0.93 per share.

## **POST BALANCE SHEET EVENTS**

### **Top-Up Placing of Existing Shares and Subscription of New Shares of Hua Yi Copper**

On 4 July 2005, Skywalk entered into the agreements to place and subscribe for new shares in Hua Yi Copper. Pursuant to the agreements, Skywalk placed 111,000,000 ordinary shares of HK\$0.20 each in the capital of Hua Yi Copper to independent investors at a price of HK\$0.88 per share ("Top-Up Placing") and, upon the completion of the Top-Up Placing, subscribed for 111,000,000 new ordinary shares of HK\$0.20 each in the capital of Hua Yi Copper at a price of HK\$0.88 per share (the "Subscription"). The Top-Up Placing and the Subscription were completed on 7 July 2005 and 18 July 2005 respectively.

Prior to the Top-Up Placing and the Subscription, Skywalk had held 397,121,875 shares in Hua Yi Copper, representing approximately 71.49% of the issued share capital of Hua Yi Copper. Upon completion of the Top-Up Placing and the Subscription, Skywalk held 397,121,875 shares in Hua Yi Copper, representing 59.59% of the enlarged issued share capital of Hua Yi Copper.

### **Proposed Formation of a Joint Venture Company for the Production of Copper Pipe Products**

On 8 September 2005, Hua Yi Copper entered into an agreement with Fujian Zijin Investment Co., Ltd and Minxi Xinghang State-owned Assets Investment Co., Ltd under which the parties have agreed to jointly establish a limited liability joint venture company ("JV") in Fujian Province, the PRC to mainly engage in copper pipes production and sales in Shanghang, Fujian. Pursuant to the agreement, the proposed registered capital of the JV is RMB40.5 million, of which RMB18.2 million, representing a 45% equity interest in the JV, will be contributed by Hua Yi Copper in cash.

## **ANNUAL GENERAL MEETING**

The 2005 Annual General Meeting of the Company ("2005 Annual General Meeting") will be held on Thursday, 10 November 2005.

## **CLOSURE OF REGISTERS OF MEMBERS**

For the purpose of determining the identity of the shareholders entitled to attend and vote at the 2005 Annual General Meeting, the registers of members will be closed from Tuesday, 8 November 2005 to Wednesday, 9 November 2005, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong for registration not later than 4:00 p.m. on Monday, 7 November 2005.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the 15 months period ended 30 June 2005.

### **PROPOSED AMENDMENTS TO THE BYE-LAWS OF THE COMPANY**

The Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), subject to certain transitional arrangements, came into effect on 1 January 2005. The Directors resolved to propose certain amendments to the Bye-laws of the Company in compliance with the requirements of the CG Code and certain amendments to the Listing Rules which took effect on 31 March 2004. Details of the proposed amendments will be set out in the Notice of the 2005 Annual General Meeting of the Company.

### **APPRECIATION**

On behalf of the Board, I would like to extend my sincere gratitude to our business partners, shareholders, staff and management for their continuous dedication, commitment and support in the past year.

By order of the Board

**Chau Lai Him**

*Chairman and Managing Director*

Hong Kong SAR, 29 September 2005