FINANCIAL REVIEW

The Group's recorded turnover and profit attributable to shareholders for the year ended 31 December 2004 amounted to approximately US$88,759,000 and approximately US$17,849,000 respectively, representing a significant increase as compared to the same period in year 2003 as a result of overall growth in the Group's three business segments. Compared to 2003, revenues from compressor parts grew 74.9% year on year; revenues from automotive parts and components increased by 208.3%; and revenues from mechanical parts were up by 83.8%. The outstanding revenue growth for automobile parts and component sector was resulted from new shipment to leading auto makers and Tier 1 suppliers in North America beginning in June 2004.

Gross profit for the year ended 31 December 2004 amounted to approximately US$27,959,000 (2003: US$15,612,000), representing a gross profit margin of approximately 31.5% (2003: 34.1%).

LIQUIDITY AND FINANCIAL RESOURCES

On 31 December 2004, the Company successfully listed its shares on the Stock Exchange through a placing of 175,000,000 shares and public offer of 75,000,000 new shares at an issue price of HK$1.42 per share, together with the exercise of the over-allotment option by the underwriters on 17 January 2005 which a further 37,500,000 shares were issued, the Company raised approximately US$49,780,000.

As at 31 December 2004, the Group had outstanding borrowings amounted to US$33,737,000 (2003: US$25,537,000) with approximately US$30,237,000 (2003: US$24,037,000) repayable within one year, approximately US$3,500,000 (2003: US$Nil) repayable after 1 year but within 2 years and nil balance repayable after 2 years but within 5 years (2003: US$1,500,000). The Group's cash and bank balances amounted to approximately US$6,947,000 (excluding pledged bank deposits) (2003: US$9,756,000). The Group's current ratio was 1.90 (2003: 1.02) and the gearing ratio (a ratio of total loans to total assets) was 19.2% (2003: 24.4%).

CAPITAL STRUCTURE

Upon the successful listing of its shares on the Stock Exchange by way of the corporate reorganisation, the Share Offer and the Capitalisation Issue of 1,000,000,000 shares, the Company's issued share capital as at 31 December 2004 is HK$10,000,000 divided into 1,000,000,000 shares of HK$0.01 each.

SIGNIFICANT INVESTMENT

As at 31 December 2004, the Group held investment in listed securities outside Hong Kong of approximately US$161,000 (2003: US$206,000) and unlisted investment funds outside Hong Kong of approximately US$390,000 (2003: US$647,000). The Group made net divestment of US$302,000 (2003: net investment of US$58,000) and resulted in net loss from investment of US$43,000 in 2004 (2003: net gain of US$11,000). As at 31 December 2004, the Group held investment securities in unlisted securities outside Hong Kong at the cost of approximately US$500,000 (2003: US$500,000). The position in investment securities remains unchanged for long term investment purpose in these equity securities.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group has not made any material acquisition or disposal of subsidiaries or associated companies during the year under review.

SEGMENTAL INFORMATION

As at 31 December 2004, detail of segmental information of the Group is set out in note 14 to the financial statements.

EMPLOYEE BENEFITS

For the year ended 31 December 2004, average number of employees was 2,246 (2003: 1,408). For the year ended 31 December 2004, the Group's staff costs (excluding directors' fees and emoluments) amounted to US$5,790,000 (2003: US$3,826,000). The remuneration policy of the Company is reviewed annually and is in line with the prevailing market practice. During the year under review, the Company has not granted any share options to its employees or directors under the share option scheme of the Company adopted on 8 December 2004.

The employees of the Company's subsidiaries in the PRC are members of a state-managed social welfare scheme operated by the local government of the PRC. Under the scheme, the Group provides retirement, medical, employment injury, unemployment and maternity benefits to its employees in the PRC in accordance with the relevant PRC rules and regulations. The Group is required to contribute a specified percentage of their payroll costs to the social welfare scheme to fund the benefits. The only obligation of the Group with respect to the social welfare scheme is to make the specified contributions. During the year under review, the Group contributed US$439,000 (2003: US$344,000) to the scheme.

The Directors and all members of the senior management of the Group, being non-PRC citizens, are not entitled to the state-managed social welfare scheme operated by the local government in the PRC. However, the Directors and the senior management of the Group, being non-PRC citizens, were under a defined-benefit retirement scheme which is administered by China Metal Products Company Limited ("CMP") in Taiwan during the year. During the year under review, the Group reimbursed US$13,000 to CMP as the Group's share of contribution to such retirement scheme (2003: US$13,000). The Group is not obliged to incur any liability beyond the contribution.

CHARGES ON GROUP'S ASSETS

As at 31 December 2004, the Group pledged its bank deposits amounting to US$2,725,000 (2003: US$1,562,000) to secure bank deposits, bills payable and bank guarantee of the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group expects to continue expanding capacity for foundry and machining in Tianjin and Suzhou. In Tianjin, the Group received Certificate of Approval for establishment of CMW. CMW will focus on casting and machining of automotive and mechanical parts and components. The facility began construction on 24 February 2005 and is expected to economically commence production in second half of 2006 to add 60,000 tpa foundry capacity to the Group. In Suzhou, the Group is in the process of applying for the establishment of Suzhou New Company which will focus on expanding machining capacity for air compressor, automobile parts and components and mechanical parts. The Group plans to relocate a portion of current CMS machining facility to its Suzhou New Company and install another automotive moulding line, DISA 230B. The new foundry capacity of 24,000 tpa in CMS is expected to commence production in 2006.

FOREIGN CURRENCY EXPOSURE

Most of the sales made to overseas customers are denominated in United States dollars. As the Group focuses on developing an international customer base and its export sales are expected to grow, the Group may be exposed to higher currency risk in relation to sales denominated in United States dollars, Euros and other currencies and the profitability of the Group may be affected by significant currency rates fluctuation.

Renminbi currently is not a freely convertible currency. A portion of the Group's Renminbi revenue or profit must be converted into other currencies to meet foreign currency obligations of the Group such as (after its listing on the Main Board) the payment of dividends, if declared.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group had contingent liabilities of US$1,921,000 (2003: US$2,851,000).