

## Report of the Directors

The board of directors (“Board”) of the Company is pleased to submit their report together with the audited financial statements of the Group for the year ended 31 December 2004.

### GROUP REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 August 2004. In preparation for the listing of the shares of the Company on the Stock Exchange, the Group underwent a corporate reorganisation (“Reorganisation”), details of which were set out in note 26 to the financial statements. As a result, the Company became the holding company of the Group.

### PRINCIPAL ACTIVITIES

The Company is an investment company and the subsidiaries are principally engaged in design, development, manufacture and sale of customized metal castings for use in various industries. As part of its integrated services, the Group also provides moulding, machining and coating services to its customers.

### RESULTS AND APPROPRIATIONS

The Group’s profit for the year ended 31 December 2004 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 21 to 65.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2004.

### SHARE CAPITAL

Details of movements in the Company’s share capital for the year ended 31 December 2004 are set out in note 26 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiary purchased, redeemed or sold any of the Company’s listed securities during the year ended 31 December 2004.

### DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company’s reserves available for distribution to the shareholders amounted to approximately US\$116,777,000.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

### **Executive directors**

Mr. Ho Ming-Shiann (Chairman)	(appointed on 5 August 2004)
Mr. Tsao Ming-Hong (Vice Chairman)	(appointed on 8 December 2004)
Mr. Guu Heng-Chang (also known as Stanley Guu)	(appointed on 8 December 2004)
Mr. Wu Cheng-Tao	(appointed on 8 December 2004)

### **Non-executive director**

Mr. Christian Odgaard Pedersen	(appointed on 8 December 2004)
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### **Independent non-executive directors**

Mr. Wong Tin Yau, Kelvin	(appointed on 8 December 2004)
Mrs. Chiu Lin Mei-Yu (also known as Mary Lin Chiu)	(appointed on 8 December 2004)
Mr. Hsu Shan-Ko	(appointed on 8 December 2004)

In accordance with Article 112 of the Company's Articles of Association, Mr. Guu Heng-Chang, Mr. Wu Cheng-Tao, Mr. Christian Odgaard Pedersen, Mr. Wong Tin Yau, Kelvin, Mrs. Chiu Lin Mei-Yu and Mr. Hsu Shan-Ko will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive directors, an annual confirmation of independency pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). The Company considers all of the independent non-executive directors are independent.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 8 December 2004. The purpose of the Scheme is to enable the Board to grant options to selected eligible participants (as defined in the prospectus of the Company dated 20 December 2004 (the "Prospectus")), to motivate them and to optimize their performance and efficiency for the benefit of the Group, and attract and retain or otherwise maintain on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

The principal terms of the Scheme are summarized as follows:

- (1) The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option scheme of the Company must not exceed 10% of total issued shares of the Company in issue immediately following completion of the Share Offer and Capitalisation Issue, being 100,000,000 shares, unless the Company obtains a fresh approval from the shareholders, and which must not in aggregate exceed 30% of the shares in issue from time to time.

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As at the date of this report, the total number of shares available for issue under the Scheme is 100,000,000 shares, which represents approximately 9.64% of the existing issued shares.

- (2) The total number of shares which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the issued shares as at the date of grant.
- (3) The exercise price shall be determined by the Board in its absolute discretion, but will not be less than the highest of (i) the closing price of the share as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share.
- (4) An option may be exercised in accordance with the terms of the Scheme at any time after the date the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may exercise will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.
- (5) Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.
- (6) Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption, i.e. 8 December 2004.

Details of the Scheme are set out in the Prospectus.

No share option was granted by the Company since its adoption.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

### **DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors has entered into a service agreement with the Company for a term of two years respectively commencing from 8 December 2004 until terminated by not less than one month's notice in writing served by either party on the other.

The non-executive director and independent non-executive directors have been appointed from a term of two years commencing on 8 December 2004.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or its subsidiary was a party during the year.

## DIRECTORS' INTERESTS IN SHARES

At 31 December 2004, the interest or short positions of the directors in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

### I. Aggregate long position in the shares and underlying shares of the Company

Name of director	Type of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Ho Ming-Shiann	Beneficial interest	6,024,923	0.60%
Mr. Tsao Ming-Hong	Beneficial interest	6,373,766	0.63%
	Family interest (Note i)	1,566,386	0.16%
Mr. Guu Herng-Chang	Beneficial interest	8,537,083	0.85%
Mr. Wu Cheng-Tao	Beneficial interest	8,081,435	0.81%
	Family interest (Note ii)	783,193	0.08%

Notes:

- (i) Pursuant to section 316 of the SFO, Mr. Tsao Ming-Hong is deemed to be interested in 1,566,386 shares held by his spouse, Ms. Lin Hsiu Man.
- (ii) Pursuant to section 316 of the SFO, Mr. Wu Cheng-Tao is deemed to be interested in 783,193 shares held by his spouse, Ms. Ho Pei-Lin.

## 2. Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations.

Save as disclosed above, none of the directors or chief executive of the Company nor their associates, had any interest in long position or short position in the shares, underlying shares or debentures of the Company or its associated corporation.

At no time during the year was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the directors (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporation.

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

### I. Aggregate long position in the shares and underlying shares of the Company

Name of shareholder	Type of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
United Elite Agents Limited ("UEA") Note (i)	Beneficial interest	394,894,034	39.49%
China Metal Products Company Limited ("CMP") Note (ii)	Controlled corporation	394,894,034	39.49%
CMP (Cayman Islands) Industry Company Limited ("CMP(CI)") Note (iii)	Controlled corporation	394,894,034	39.49%

## Notes:

- (i) UEA is beneficially owned as to 58.07% by CMP and 41.93% by CMP(CI).
- (ii) CMP is a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation.
- (iii) CMP(CI) is wholly-owned by CMP.
- (iv) GC Capital (Asia) Limited borrowed 37,500,000 shares from UEA in respect of covering the over-allocations of shares pursuant to the stock borrowing agreement dated 17 December 2004.

## 2. Aggregate short position in the shares and underlying shares of the Company

At 31 December 2004, the Company had not been notified of any short positions being held by any substantial shareholders in the shares or underlying shares of the Company.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2004.

## CONNECTED TRANSACTION

For the year ended 31 December 2004, the Group has the following connected transactions entered into with China Metal Products Company Limited (“CMP”) or its subsidiaries:

### Continuing Connected Transactions

The following continuing connected transactions (as defined in the Listing Rules) for the Company which are exempt under Rule 14A.34 of the Listing Rules:

1. On 8 December 2004, the Company and China Metal Automotive International Co., Limited (“CMAI”), a non-wholly owned subsidiary of CMP entered into a services agreement, pursuant to which, the Group will continue to appoint CMAI to provide logistic agency service to the Group for its sales in the US, Canada and Europe commencing from the Listing Date (i.e. 31 December 2004) and ending on 31 December 2006.

For the year ended 31 December 2004, the aggregate fees paid by the Group to CMAI amounted to approximately US\$240,000.

2. On 8 December 2004, the Company and China Metal Japan Co., Ltd. (“CMJ”), a non-wholly owned subsidiary of CMP entered into a services agreement, pursuant to which, the Group will continue to appoint CMJ to provide logistic agency services to the Group for its sales in Japan from the Listing Date and ending on 31 December 2006.

For the year ended 31 December 2004, the aggregate fees paid by the Group to CMJ amounted to approximately US\$106,000.

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The Stock Exchange had granted a waiver dated 20 December 2004 to the Company from compliance with the announcement requirement relating to the continuing connected transactions under the Listing Rules.

The independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of the Group's business;
2. on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
3. have been carried out in accordance with the terms of the agreement governing such transactions.

### MAJOR CUSTOMERS AND SUPPLIERS

The Group focuses on developing an international customer base which mainly includes air conditioner manufacturers and air conditioner compressor manufacturers, refrigerator compressor manufacturers, automobile manufacturers and automobile part and component manufacturers; and other industrial manufacturers. Most of the suppliers of the Group were located in the PRC. During the year, the Group did not enter into any long-term procurement contract with its suppliers.

During the year, the respective percentage of sales attributable to the largest customer and the five largest customers of the Group is 24.6% and 57.2%.

The largest supplier and the five largest suppliers of the Group accounted for approximately 9.6% and 32.9 of the total purchases of the Group respectively.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

### SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float since its listing of its shares on the Stock Exchange on 31 December 2004.

## AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 8 December 2004 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises three independent non-executive directors of the Company, Mr. Wong Tin Yau, Kelvin, Mrs. Chiu Lin Mei-Yu and Mr. Hsu Shan-Ko. The Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2004.

## AUDITORS

KPMG were first appointed as auditors of the Company since its incorporation on 5 August 2004.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board  
**China Metal International Holdings Inc.**  
**Ho Ming-Shiann**  
*Chairman*

Hong Kong, 31 March 2005