Notes on the Consolidated Financial Statements

(Expressed in United States dollars)

1 REORGANISATION

China Metal International Holdings Inc. ("the Company") was incorporated in the Cayman Islands on 5 August 2004 as an exempted company with limited liability under the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") completed on 8 December 2004 to rationalise the group structure in preparation for the public listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Stock Exchange on 31 December 2004.

Details of the Reorganisation are set out in the prospectus dated 20 December 2004 issued by the Company and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 17 to the financial statements.

2 BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 8 December 2004. Accordingly, the consolidated results of the Group for the years ended 31 December 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 January 2003 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheets at 31 December 2003 and 2004 are combinations of the balance sheets of the Company and its subsidiaries at the respective balance sheet dates. All material intra-group transactions and balances have been eliminated on combination. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

3 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries and controlled enterprises

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3(g)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(d) Associate

An associate is an enterprise in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associate for the year.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

(e) Fixed assets and depreciation

(i) Valuation

Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see below) and impairment losses (see note 3(g)). The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition and location for its intended use.

(ii) Subsequent expenditure

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(Expressed in United States dollars)

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(e) Fixed assets and depreciation *(Continued)*

(iii) Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Land use rights	Over the shorter of the useful life and the unexpired term of the land use rights
Buildings	30 – 35 years
Leasehold improvements	2 – 10 years
Machinery and equipment	6 – 14 years
Motor vehicles	5 – 6 years
Office equipment, fixtures and fittings	5 years

(iv) Disposals

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(f) Construction in progress

Construction in progress represents fixed assets under construction and equipment pending installation, and is stated at cost less impairment losses (see note 3(g)). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the People's Republic of China (the "PRC").

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– investments in subsidiaries (except for those accounted for at fair value under note 3(c)); and

– fixed assets and construction in progress.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(h) Investments in securities

The Group's policies for investments in securities other than investments in subsidiaries and associate are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short-term fluctuations in price.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(i) Inventories *(Continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Employee benefits

(i) Salaries, wages, annual bonuses and staff welfare are accrued in the year in which the associated services are rendered by employee of the Group.

(ii) Contributions to appropriate local retirement schemes pursuant to the relevant labour rules and regulations in the place of operations are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(l) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(l) Income tax *(Continued)*

(iii) *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, the movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue represents the sales value of goods to customers after allowances for goods returned, excludes value added tax ("VAT") and is after deduction of any trade discounts.

(ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into United States dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

The results of enterprises which have a reporting currency other than United States dollars are translated into United States dollars at the average exchange rates for the period; balance sheet items are translated into United States dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(o) Translation of foreign currencies *(Continued)*

On disposal of an enterprise which was a reporting currency other than United States dollars, the cumulative amount of the exchange differences which relate to that enterprise is included in the calculation of the profit and loss on disposal.

(p) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(q) Financial derivatives

Open foreign exchange, futures and option contracts are valued at market contract prices quoted at the balance sheet date. Where the financial derivates are speculative, the gain or loss should be credited to the income statement. Unrealised profits and losses on open contracts are also dealt with in the income statement. Where a non-speculative forward contract is used as a hedge of a firm commitment, no gain or loss is recognised until the transaction occurs.

(r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(Expressed in United States dollars)

4 TURNOVER

Turnover represents the sales value of casting products to customers after allowances for goods returned, excludes VAT and is after the deduction of any trade discounts.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2004 *$'000*	2003 *$'000*
Sales of:		
– Compressor parts	**43,004**	24,593
– Automobile parts and components	**17,120**	5,553
– Mechanical parts	**28,635**	15,576
	88,759	45,722

5 OTHER REVENUE

	2004 *$'000*	2003 *$'000*
VAT and property tax refunds	**191**	145
Interest income	**77**	56
Additional charges for bills settlement	**–**	55
Sundry income	**55**	43
	323	299

Pursuant to the relevant approval documents issued by the local tax bureau, Tian Jin CMT Industry Company Limited ("CMT") and Suzhou CMS Machinery Company Limited ("CMS") are entitled to refunds of VAT on sales of steel products and property tax. The amount of the refund is calculated on an annual basis and recognised as other revenue when the refund is approved by the respective tax authorities.

(Expressed in United States dollars)

6 OTHER NET INCOME

	2004 $'000	2003 $'000
Exchange gain	278	205
Gain from trading of foreign exchange contracts	61	65
Loss on disposal of fixed assets	(16)	(50)
Net realised and unrealised (loss)/gain on other investments	(43)	11
Gain on disposal of associate *(Note 29(b))*	9	–
Others	39	(20)
	328	211

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2004 $'000	2003 $'000
(a) Finance costs:		
Interest expense on bank advances wholly repayable within five years	913	406
Less: Amount capitalised	(380)	(353)
	533	53
Discounting charges	146	29
	679	82

Borrowing costs were capitalised at an annualised rate of 3.52% for the year ended 31 December 2004 (2003: 3.47%).

(b) Personnel expenses:

	2004 $'000	2003 $'000
Salaries, wages and bonuses	5,671	3,772
Contributions to retirement benefit schemes	439	344
	6,110	4,116
Average number of employees during the year	2,246	1,408

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION *(CONTINUED)*

	2004 $'000	2003 $'000
(c) Other items:		
Auditors' remuneration	177	55
Depreciation	5,714	3,515
Provision for inventories	–	(49)
Provision for bad debts	–	32

8 INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2004 $'000	2003 $'000
Current tax – PRC		
Tax for the year	1,414	404
Tax refund from capitalisation of retained earnings	(307)	(385)
Under-provision in respect of prior years	8	3
	1,115	22

Reconciliation between actual tax expense and accounting profit at applicable tax rates:

	2004 $'000	2003 $'000
Profit before tax	18,964	11,355
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	2,573	1,717
Income and expenses not subject to taxation	(607)	(330)
Tax refund from capitalisation of retained earnings	(307)	(385)
Under-provision in respect of prior years	8	3
Tax effect of tax concessions	(552)	(983)
Actual tax expense	1,115	22

The provision for Hong Kong Profits Tax for 2004 is calculated at 17.5%. No provision for Hong Kong Profits Tax is made for the year as CMP (Hong Kong) Industry Company Limited ("CMP(HK)") did not earn any assessable income for Hong Kong Profits Tax purposes.

(Expressed in United States dollars)

8 INCOME TAX *(CONTINUED)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

Pursuant to the rules and regulations of the Cayman Islands, the Company and CMTS (Cayman Islands) Industry Company Limited ("CMTS (CI)") are not subject to any income tax in the Cayman Islands.

For the year ended 31 December 2004, CMT is subject to income tax at the rate of 15% applicable to foreign invested enterprises in Tianjin, the PRC.

Pursuant to the income tax rules and regulations of the PRC, CMS is eligible for a 100% relief from PRC Enterprise Income Tax for the two years from their first profit-making year of operations and thereafter, they are subject to PRC Enterprise Income Tax at 50% of the standard income tax rate for the following three years. The financial year ended 31 December 2004 being the third year of CMS following the first profit-making year, CMS is subject to PRC Enterprise Income Tax at a reduced rate of 7.5% for 2004.

For the year ended 31 December 2004, the Group was granted a refund of PRC Enterprise Income Tax amounted to $307,000 (2003: $385,000) from the Tax Bureau of Tianjin following the capitalisation of retained earnings of CMT.

(b) Current taxation in the consolidated balance sheet represents:

	2004 $'000	2003 $'000
Provision for PRC Enterprise Income Tax for the year	1,414	404
PRC tax paid	(734)	(312)
	680	92

(c) Deferred taxation

No provision has been made for deferred taxation as at 31 December 2004 (2003: $Nil) as the Group has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

9 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Bonus	Total
	$'000	*$'000*	*$'000* *(Note 29(a))*	*$'000*	*$'000*
2004					
Executive directors					
Mr Ho Ming-Shiann	–	35	–	18	53
Mr Guu Herng-Chang	–	114	–	111	225
Mr Tsao Ming-Hong	–	30	–	12	42
Mr Wu Cheng-Tao	–	–	–	–	–
Non-executive director					
Mr Christian Odgaard Pedersen	–	–	–	–	–
Independent non-executive directors					
Mrs Chiu Lin Mei-Yu	–	–	–	–	–
Mr Hsu Shan-Ko	–	–	–	–	–
Mr Wong Tin Yau, Kelvin	–	–	–	–	–
Total	–	179	–	141	320

9 DIRECTORS' REMUNERATION *(CONTINUED)*

Details of directors' remuneration are as follows: *(Continued)*

	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Bonus	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
			(Note 29(a))		
2003					
Executive directors					
Mr Ho Ming-Shiann	–	29	–	15	44
Mr Guu Herng-Chang	–	116	–	93	209
Mr Tsao Ming-Hong	–	25	–	12	37
Mr Wu Cheng-Tao	–	–	–	–	–
Non-executive director					
Mr Christian Odgaard Pedersen	–	–	–	–	–
Independent non-executive directors					
Mrs Chiu Lin Mei-Yu	–	–	–	–	–
Mr Hsu Shan-Ko	–	–	–	–	–
Mr Wong Tin Yau, Kelvin	–	–	–	–	–
Total	–	170	–	120	290

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	2004 Number of directors	2003 Number of directors
HK$		
Nil – 1,000,000	**7**	2
1,000,001 – 2,000,000	**1**	1
	8	3

There were no amounts paid during the year to the directors in connection with their retirement from employment with the Group or inducement to join. There was no any arrangement under which a director waived or agreed to waive any remuneration during the year.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include one (2003: one) director of the Company during the year ended 31 December 2004 whose remuneration are reflected in the analysis presented above. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

	2004	2003
	$'000	*$'000*
Basic salaries, allowances and other benefits	**249**	238
Contributions to retirement benefit schemes *(Note 29(a))*	**–**	–
Bonuses	**164**	159
	413	397
Number of senior management	**4**	4

The emoluments of the remaining individuals with the highest emoluments are within the following bands:

	2004 Number of individuals	2003 Number of individuals
HK$		
Nil – 1,000,000	**3**	4
1,000,001 – 1,500,000	**1**	–
	4	4

There were no amounts paid during 2004 (2003: $Nil) to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of $58,000 which has been dealt with in the financial statements of the Company.

12 DIVIDENDS

Dividends attributable to the year

	2004	2003
	$'000	*$'000*
Interim dividend paid during the year	8,553	1,000

Pursuant to the resolution passed at the board of directors' meeting on 31 August 2004, an interim dividend of $7,618,000 (2003: $1,000,000) was paid by CMP(HK) to its then shareholders. Pursuant to the resolutions passed at the board of directors' meeting on 31 August 2004, dividends of $738,000 (2003: $Nil) and $197,000 (2003: $Nil) were paid by CMTS(CI) and CMS to their then minority shareholders respectively.

The dividend per share and the number of shares ranking for dividend are not presented above as such information is not meaningful having regard to the consolidated financial statements.

13 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2004 is based on the profit attributable to shareholders of $17,849,000 and the weighted average number of 750,685,000 ordinary shares in issue during the year. The calculation of basic earnings per share for the year ended 31 December 2003 was based on the profit attributable to shareholders of $11,333,000 and on the 750,000,000 ordinary shares of the Company in issue as at the date of the Prospectus, as if the shares were outstanding throughout 2003 (note 26).

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during 2003 and 2004 and, therefore, diluted earnings per share are not presented.

14 SEGMENT REPORT

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group is principally engaged in the manufacture and sale of steel products. Accordingly, no business segment analysis is provided.

(b) Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. The PRC is a major market for all of the Group's businesses.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	2004	2003
	$'000	*$'000*
The PRC	**55,506**	35,907
United States of America	**21,399**	3,203
Japan	**8,308**	4,098
Others	**3,546**	2,514
	88,759	45,722

Most of the assets of the Group are located in the PRC. Accordingly, no geographical segment assets and capital expenditure are provided.

(Expressed in United States dollars)

15 FIXED ASSETS

The Group

	Leasehold land and buildings $'000	Leasehold improvements $'000	Machinery and equipment $'000	Motor vehicles $'000	Office equipment, furniture and fixtures $'000	Total $'000
Cost:						
At 1 January 2004	17,729	1,646	43,835	935	2,156	66,301
Additions	510	179	1,795	248	908	3,640
Transfer from construction in progress *(Note 16)*	3,693	30	15,849	71	271	19,914
Disposals	–	–	(8)	(85)	(95)	(188)
At 31 December 2004	21,932	1,855	61,471	1,169	3,240	89,667
Accumulated depreciation:						
At 1 January 2004	1,916	772	9,290	375	884	13,237
Charge for the year	540	200	4,436	144	394	5,714
Written back on disposal	–	–	(5)	(69)	(75)	(149)
At 31 December 2004	2,456	972	13,721	450	1,203	18,802
Carrying amount:						
At 31 December 2004	19,476	883	47,750	719	2,037	70,865
At 31 December 2003	15,813	874	34,545	560	1,272	53,064

Leasehold land and buildings are located in the PRC. The Group was formally granted the rights to use the land on which the Group's factories are erected for a period of 50 years, with expiry through 2054, by the relevant PRC authorities.

15 FIXED ASSETS *(CONTINUED)*

A surplus of approximately $1,449,000 arising as a result of an independent valuation of the Group's property as at 31 October 2004 carried out by LCH (Asia-Pacific) Surveyors Limited has not been incorporated in the Group's consolidated financial statements for the year ended 31 December 2004. It is the Group's policy to state its fixed assets at cost less accumulated depreciation and impairment loss in accordance with SSAP 17 "Property, plant and equipment" issued by the HKICPA. If such revaluation surplus was included in the Group's consolidated financial statements, additional annual depreciation charges of approximately $32,000 would be incurred.

16 CONSTRUCTION IN PROGRESS

	The Group	
	2004	2003
	$'000	*$'000*
Cost:		
At 1 January	**13,879**	12,864
Additions	**10,941**	25,321
Transfer to fixed assets *(Note 15)*	**(19,914)**	(24,306)
At 31 December	**4,906**	13,879

17 INVESTMENTS IN SUBSIDIARIES

	The Company 2004 *$'000*
Unlisted shares, at cost	74,933

Details of the subsidiaries at 31 December 2004 are as follows. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ operation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up registered capital	Principal activities
Capital Charm Associates Limited	British Virgin Islands	100	–	$162	Investment holding
CMP (Hong Kong) Industry Company Limited	Hong Kong/ Taiwan	–	100	HK$162,203,000	Investment holding and trading of casting products
CMTS (Cayman Islands) Industry Company Limited	Cayman Islands/ Taiwan	–	100	$21,520,000	Investment holding and trading of casting products
Tian Jin CMT Industry Company Limited *(Note)*	The PRC	–	100	$30,000,000	Manufacturing and sale of casting products
Suzhou CMS Machinery Company Limited *(Note)*	The PRC	–	100	$24,000,000	Manufacturing and sale of casting products

Note: A wholly foreign owned enterprise established in the PRC.

All of these are controlled subsidiaries as defined under note 3(c) and have been consolidated into the consolidated financial statements.

(Expressed in United States dollars)

18 INTEREST IN ASSOCIATE

	The Group	
	2004	2003
	$'000	*$'000*
Share of net assets	**–**	22

On 30 September 2004, the Group disposed of its interest in China Metal Japan Company Limited ("CMJ"), details of which are disclosed in note 29(b).

19 INVESTMENT SECURITIES

	The Group	
	2004	2003
	$'000	*$'000*
Unlisted equity securities outside Hong Kong, at cost	**500**	500

20 OTHER INVESTMENTS

	The Group	
	2004	2003
	$'000	*$'000*
Trading securities (at market value)		
Listed securities outside Hong Kong	**161**	206
Unlisted investment funds outside Hong Kong	**390**	647
	551	853

21 INVENTORIES

	The Group	
	2004	2003
	$'000	*$'000*
Raw materials	**4,842**	1,905
Work in progress	**2,643**	2,114
Finished goods	**6,211**	3,074
Others	**2,457**	1,185
	16,153	8,278

Included in finished goods are inventories of $17,000 (2003: $20,000) as at 31 December 2004, stated net of provisions, made in order to state these inventories at the lower of their cost and estimated net realisable value.

22 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade and other receivables, deposits and prepayments comprise:

	The Group		The Company
	2004	2003	**2004**
	$'000	*$'000*	***$'000***
Trade receivables	**25,711**	14,382	**–**
Bills receivable	**1,428**	889	**–**
Other receivables, deposits and prepayments	**46,232**	1,039	**43,859**
	73,371	16,310	**43,859**

Included in trade receivables are amounts due from related companies of $1,841,000 (2003: $841,000), details of which are disclosed in note 29(c).

Certain bills receivable of the Group approximately $836,000 as at 31 December 2003 were pledged for bills payable. No bills receivable of the Group was pledged as at 31 December 2004.

An ageing analysis of trade receivables and bills receivable (net of provision for bad and doubtful debts), based on the invoice date is as follows:

	The Group	
	2004	2003
	$'000	*$'000*
Within 3 months	**25,452**	14,191
Over 3 months but less than 6 months	**938**	989
Over 6 months but less than 1 year	**648**	43
Over 1 year but less than 2 years	**85**	34
Over 2 years but less than 3 years	**16**	14
	27,139	15,271

All of the trade and other receivables are expected to be recoverable within one year.

Included in other receivables is the net proceeds of $43,859,000 receivable from issuance of shares by public offer. The balance was fully received in January 2005.

(Expressed in United States dollars)

23 CASH AND CASH EQUIVALENTS

Analysis of the balances of cash and cash equivalents is set out below:

	The Group	
	2004	2003
	$'000	*$'000*
Cash and cash equivalents in the consolidated balance sheet and consolidated cash flow statement	**6,947**	9,756
Cash and cash equivalents denominated in:		
– USD	**3,514**	7,384
– Renminbi ("RMB")	**1,529**	742
– Euro	**1,195**	756
– Japanese Yen	**591**	268
– New Taiwan dollar	**118**	606
	6,947	9,756

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

24 BANK LOANS

The bank loans are repayable as follows:

	The Group	
	2004	2003
	$'000	*$'000*
Within 1 year or on demand	**30,237**	24,037
After 1 year but within 2 years	**3,500**	–
After 2 years but within 5 years	**–**	1,500
	33,737	25,537
Representing:		
Secured bank loans	**5,043**	6,391
Unsecured bank loans	**28,694**	19,146
	33,737	25,537

Certain bank loans of approximately $5,043,000 (2003: $3,891,000) as at 31 December 2004 were secured by pledged bank deposits.

(Expressed in United States dollars)

25 TRADE AND OTHER PAYABLES

Trade and other payables comprise:

	The Group		The Company
	2004	2003	**2004**
	$'000	*$'000*	***$'000***
Trade payables	**8,451**	2,966	**–**
Bills payable	**5,071**	1,260	**–**
Other payables	**7,988**	7,928	**156**
	21,510	12,154	**156**

Certain bills payable of approximately $4,649,000 (2003: $1,260,000) as at 31 December 2004 were secured by pledged bank deposits of $1,610,000 (2003: $712,000), and bills receivable as disclosed in note 22.

An ageing analysis of trade payables is as follows:

	The Group	
	2004	2003
	$'000	*$'000*
Due within 1 month or on demand	**5,548**	1,979
Due after 1 month but within 3 months	**2,903**	987
	8,451	2,966

(Expressed in United States dollars)

26 SHARE CAPITAL

	Note	2004 Number of shares (thousand)	2004 $'000	2003 Number of shares (thousand)	2003 $'000
Authorised:					
Ordinary shares of HK$1 each	(a)	–	–	162,203	21,000
Ordinary shares of HK$0.01 each	(b)	10,000,000	12,853	–	–
		10,000,000	12,853	162,203	21,000
Issued:					
At 1 January	(a)	–	–	162,203	21,000
Issuance of shares pursuant to the Reorganisation	(c)	224,411	288	–	–
Capitalisation issue	(d)	525,589	676	–	–
Issuance of shares by placing and public offer	(e)	250,000	321	–	–
		1,000,000	1,285	162,203	21,000

Notes:

(a) Share capital in the Group's consolidated balance sheet as at 31 December 2003 represents the authorised and issued share capital of CMP(HK) comprising 162,203,000 ordinary shares of HK$1 each.

(b) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 August 2004 with an authorised share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each. On 5 August 2004, 1 share was transferred by Reid Services Limited to CMP (Cayman Islands) Industry Co., Ltd. ("CMP(CI)") at par.

Pursuant to a written resolution of the sole shareholder passed on 8 December 2004, the authorised share capital of the Company was increased from HK$390,000 to HK$100,000,000 by the creation of an additional 9,961,000,000 ordinary shares.

(c) Pursuant to the Reorganisation, an aggregate of 224,411,000 ordinary shares of HK$0.01 each were issued. Amongst them, 218,171,000 ordinary shares were issued and swapped with the former shareholders of the subsidiaries in accordance with their respective equity interests. The remaining 6,240,000 ordinary shares were issued to employees at HK$0.1 each in return for their waiver of share options in CMP(HK), with HK$62,400 (equivalent to $8,000) credited to the Company's share capital and the remaining proceeds of HK$561,600 (equivalent to $72,000) credited to the share premium. The issuance of shares resulted in the Company becoming the holding company of the Group.

(d) Authorised by a written resolution of the sole shareholder passed on 8 December 2004, the directors capitalised an amount of HK$5,256,000 (equivalent to $676,000) standing to the credit of the share premium account of the Company and appropriated such amount as capital to pay up in full at par 525,589,000 ordinary shares for allotment and issue to the then existing shareholders.

(e) On 31 December 2004, 250,000,000 additional ordinary shares of par value HK$0.01 were issued and offered for subscription at a price of HK$1.42 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. The proceeds of HK$2,500,000 (equivalent to $321,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$352,500,000 (equivalent to $45,309,000), before the share issue expenses of HK$19,633,000 (equivalent to $2,523,000), were credited to the share premium account.

(Expressed in United States dollars)

27 RESERVES

Movements in reserves of the Group during the year are set out below:

(i) The Group

	Share premium $'000 (Note (a))	Statutory surplus reserve $'000 (Note (b))	Exchange fluctuation reserve $'000 (Note (c))	Other reserve $'000 (Note (d))	Retained profits $'000	Total $'000
At 1 January 2003	2,200	2,063	–	7,920	19,924	32,107
Exchange differences arising from consolidation	–	–	8	–	–	8
Capital injection by shareholders	–	–	–	3,280	–	3,280
Profit for the year	–	–	–	–	11,333	11,333
Appropriation	–	674	–	–	(674)	–
Dividend for the year	–	–	–	–	(1,000)	(1,000)
At 31 December 2003	2,200	2,737	8	11,200	29,583	45,728
At 1 January 2004	2,200	2,737	8	11,200	29,583	45,728
Exchange differences arising from consolidation	–	–	(14)	–	–	(14)
Transfer to other reserve	(2,200)	–	–	2,200	–	–
Other reserve arising from the Reorganisation	–	–	–	21,520	–	21,520
Issuance of shares pursuant to the Reorganisation *(Note 26(c))*	72	–	–	–	–	72
Capitalisation issue (Note 26(d))	(676)	–	–	–	–	(676)
Issuance of shares by placing and public offer *(Note 26(e))*	45,309	–	–	–	–	45,309
Share issue expenses *(Note 26(e))*	(2,523)	–	–	–	–	(2,523)
Profit for the year	–	–	–	–	17,849	17,849
Appropriation	–	875	–	–	(875)	–
Dividend for the year	–	–	–	–	(8,553)	(8,553)
At 31 December 2004	42,182	3,612	(6)	34,920	38,004	118,712

(Expressed in United States dollars)

27 RESERVES *(CONTINUED)*

(ii) The Company

	Share premium $'000	Contributed surplus $'000 (Note (e))	Accumulated loss $'000	Total $'000
At 5 August 2004 (date of incorporation)	–	–	–	–
Contributed surplus arising from the Reorganisation	–	74,653	–	74,653
Issuance of shares pursuant to the Reorganisation	72	–	–	72
Capitalisation issue *(Note 26(d))*	(676)	–	–	(676)
Issuance of shares by placing and public offer *(Note 26(e))*	45,309	–	–	45,309
Share issue expenses *(Note 26(e))*	(2,523)	–	–	(2,523)
Loss for the year	–	–	(58)	(58)
At 31 December 2004	42,182	74,653	(58)	116,777

(a) Share premium

Share premium as at 31 December 2003 represents the share premium of CMP(HK).

Share premium as at 31 December 2004 represents the share premium of the Company, the application of which is governed by the Companies Law of the Cayman Islands. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

27 RESERVES *(CONTINUED)*

(b) Statutory surplus reserve

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(c) Exchange fluctuation reserve

The exchange fluctuation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for translation of foreign currencies as disclosed in note 3.

(d) Other reserve

Other reserve represents the difference between the contributed capitals of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange therefor.

(e) Contributed surplus

Pursuant to the Reorganisation, the Company became the holding company of the Group on 8 December 2004. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus.

(f) Distributable reserves

As at 31 December 2004, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to approximately $116,777,000 subject to the restrictions stated above.

28 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments, representing purchase of property, plant and equipment, not provided for in the financial statements are as follows:

	2004 *$'000*	2003 *$'000*
Authorised, but not contracted for	**36,827**	–
Contracted for	**1,427**	829
	38,254	829

(b) Foreign currency contracts

The notional amounts of the Group's foreign currency contracts are as follows:

	2004 *$'000*	2003 *$'000*
Foreign currency contracts	**2,000**	–

(c) Contingent liabilities

The Group had contingent liabilities as follows:

	2004 *$'000*	2003 *$'000*
Bills discounted with banks (with recourse)	**1,921**	2,851

(d) Other commitments

At 31 December 2004, CMI had commitments to contribute capital of $30,000,000 to the establishment of a 60% owned subsidiary in the PRC. The subsidiary was subsequently established after the balance sheet date, details of which are disclosed in note 32(c).

29 RELATED PARTY TRANSACTIONS

During the year ended 31 December 2004, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Taiwan Asahi Bearing Co., Ltd (“Asahi”)	Shareholder of the Company
China Metal Products Company Limited (“CMP”)	Shareholder of the Company
CMP (Cayman Islands) Industry Co., Ltd (“CMP(CI)”)	Shareholder of the Company
Dairitsu Industry Company Limited (“Dairitsu”)	Shareholder of the Company
China Metal Japan Company Limited (“CMJ”)	Associate
China Metal Automotive International Co., Limited (“CMAI”)	Affiliated company
Fuzhou Xin Mi Mechanical and Electrical Products Co., Ltd (“Fuzhou Xin Mi”)	Affiliated company
Yanmar Diesel Engine Co., Ltd. (“Yanmar”)	Related company

(Expressed in United States dollars)

29 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Recurring transactions

Particulars of significant transactions between the Group and the one of the above related parties during the year are as follows:

	2004	2003
	$'000	*$'000*
Sales of goods to		
– Asahi	642	442
– Fuzhou Xin Mi	859	454
– Yanmar	5,670	1,153
	7,171	2,049
Commission to		
– CMAI	240	–
– CMJ	106	10
	346	10
Reimbursement of expenses to		
– CMAI	1,253	–
– CMP	52	78
	1,305	78

Included in the reimbursement of expenses to CMP is the Group's share of contributions to retirement schemes of certain eligible employees in Taiwan of $13,000 (2003: $13,000) for the year ended 31 December 2004. The schemes are administered by CMP. Based on an agreement between the Group and CMP, CMP is responsible for the retirement liability of these employees. The Group is not obliged to incur any liability beyond the contribution.

29 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Non-recurring transactions

	2004 $'000	2003 $'000
Purchases of goods from CMP	280	262
Interest income from CMP(CI)	–	3

On 30 September 2004, the Group entered into a share transfer agreement with CMP, for the disposal of the Group's 50% interest in CMJ at a consideration of $69,000. A gain of $9,000 arose from this transaction.

Certain bank loans of approximately $6,391,000 as at 31 December 2003 were guaranteed by CMP and/or Mr Ho Ming-Shiann, Chairman of the Company and/or secured by a USD promissory note drawn by Mr Ho Ming-Shiann. The above guarantees and security were released prior to the listing of the Company.

(c) Amounts due from related companies

	2004 $'000	2003 $'000
Trade		
– Asahi	162	68
– Fuzhou Xin Mi	427	244
– Yanmar	1,252	529
	1,841	841
Non-trade		
– CMAI	83	–
– CMJ	–	6
– CMP(CI)	–	345
	83	351
	1,924	1,192

All the other amounts due from related companies are unsecured, interest-free and are expected to be recovered within one year. There was no provision made against these amounts at 31 December 2004.

29 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Amounts due to related companies

	2004	2003
	$'000	*$'000*
CMP	**65**	64
CMJ	**41**	–
Dairitsu	**71**	–
	177	64

These amounts are unsecured, interest-free and are expected to be repaid within one year.

30 RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Tianjin and Suzhou whereby the Group is required to make contributions to the Schemes at the rate of 25% and 20% respectively of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

Employees engaged by the Group in Taiwan are covered by the retirement schemes in Taiwan which are administered by CMP. As disclosed in note 29(a), CMP is responsible for the retirement liability of these persons and the Group is not obliged to incur any liability beyond the contribution.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

31 EQUITY COMPENSATION BENEFIT

The Company has a share option scheme (the "Option Scheme") which was adopted on 8 December 2004 whereby the directors of the Company are authorised, at their discretion, to invite, among others, any full-time or part-time employees and directors, suppliers, customers and advisers to the Group (subject to the eligibility requirements as set out therein) to take up options which entitle them to subscribe for shares not exceeding 10% of the 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 shareholders and which must not in aggregate exceed 30% of the shares in issue from time to time. The options may be exercised and for a period not more than 10 years after the date upon which the option is deemed to be granted. The exercise price of options may be determined by the board at its absolute discretion but in any event will not be less than the higher of:

(i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant, which must be a business day;

(ii) the average closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

No share options have been granted under the Option Scheme to the eligible participants so far.

32 POST BALANCE SHEET EVENTS

(a) On 17 January 2005, the underwriters of the Placement exercised the over-allotment option for the issuance of 37,500,000 ordinary shares of HK$0.01 each at HK$1.42 per share. The total consideration amounted to HK$53,250,000 before the related issue expenses.

(b) Subsequent to 31 December 2004, the Company set up a direct wholly-owned subsidiary in the Cayman Islands which will be engaged in the investment holding with an issued share capital of approximately $10,000,000.

(c) Subsequent to 31 December 2004, the Company set up an indirect wholly-owned subsidiary in Tianjin, the PRC which will be engaged in the manufacture and sale of casting parts and components with a registered share capital of approximately $32,000,000.

(d) Subsequent to 31 December 2004, the Company submitted an application to the relevant government authorities in Suzhou, the PRC in connection with the establishment of a wholly-owned subsidiary. The registered capital of the subsidiary is approximately $12,000,000 and its principal activities are the manufacture and sale of casting parts and components.

33 RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.