

## **BUSINESS REVIEW**

The Group continues to have growth on turnover as well as net profit in the first half of 2005. Turnover increased 64% and net profit was up by 69% compared to the same period in 2004. While all three industry sectors for air compressor, automobile and mechanical parts and components showed advancement, automobile parts and components was the primary growth driver for the top line and bottom line improvement. The Company began shipment of exhaust manifolds and brackets to leading auto maker and Tier 1 supplier in North America in June 2004. As the production continues to ramp up, the high value added products have significant contributions especially to the profitability performance. In the first half of 2005, the Group has also experienced stabilization of cost of raw material. While pig iron and scrap steel remained at high level in first quarter of 2005, the material prices adjusted downward during the second quarter of 2005. Gross margin was 30.58% compared to 28.14% for the first half of 2004. The material price adjustment is expected to gradually filter into gross margin improvement in the second half of 2005. In addition, the Group continues to tighten expense control and operating margin for the Group was 21.14% compared to 20.90% in the same period of 2004. The Group successfully implemented installation of four automatic pouring systems to the four moulding lines by the end of second quarter of 2005. The auto-pouring systems are expected to generate cost savings by lowering material waste and improve moulding line efficiency by raising casting yield. Net margin for the Group was 19.42% compared to 18.77% in the same period of 2004.

## **FUTURE PROSPECTS AND APPRECIATION**

Upon the successful listing of the Group on the Stock Exchange, the Group accelerates its expansion plans in Tianjin and Suzhou. The Group began construction for its second foundry and machining facility, CMW (Tianjin) Industry Co., Ltd ("CMWT") with projected foundry capacity of 60,000 tpa. CMWT will focus on casting and machining for the automobile and mechanical parts and components. The construction of foundry and machining capacity for CMWT is on schedule. The machinery facility is expected to complete for customer certification by the end of 2005 and foundry facility is expected to complete installation by the end of first quarter of 2006. The facilities in CMWT are expected to commence economic production in second quarter of 2006. We continue to advance our top line booking for the CMWT facility. Demand from North America outsourcing orders continues in strength as many automobile makers and Tier 1 suppliers are subject to pressure of cost savings and financial challenges. With our established relationship with leading North America automobile makers and Tier 1 suppliers, we are well positioned to meet market competition to win new orders and grow with our customers. In addition, due to increasing demand for the machined air compressor, mechanical and

automobile parts and components from our customers, especially in the People's Republic of China, the Board has decided to accelerate capacity expansion schedule for machinery facilities and approved the construction of a new machinery facility in current facilities located in Suzhou CMS Machinery Company Limited ("CMS"). The new machinery facility is expected to commence production in the fourth quarter of 2005. Hence, the establishment of a wholly foreign owned enterprise, Suzhou CMB Machinery Co., Ltd., will be pending for a later date to focus on high value-added mechanical and automobile parts and components. Upon expansion of the new machinery facility in CMS, the physical space available for foundry capacity expansion is fully occupied and the original designated space for the installation of moulding line, DISA 230 Type B, in CMS will be relocated to a new plant location. The management team continue to evaluate and negotiate for new plant facility.

I would like to take this opportunity to express my sincere appreciation and gratitude to all our fellow directors, management and employees for their contributions to the Group. I also thank our business associates, investors, shareholders for their continued support over the years.