MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's recorded turnover and profit attributable to shareholders for the six months ended 30 June 2005 amounted to US$58.88 million and US$11.44 million, demonstrating another evident growth as compared to the same period in 2004 as a result of overall advancement in the Group's three industry sectors. Compared to the same period in 2004, revenues from air compressor parts and components grew 18%; revenues from automobile parts and components increased by 455%; and revenues from mechanical sector were up by 41%. The new shipment to leading auto maker and Tier 1 supplier in North America initiated in June 2004 on automobile parts and component sector continues to ramp up in production volume and was the primary driver of the outstanding revenue growth.

Gross profit for the six months ended 30 June 2005 amounted to approximately US$18.01 million, representing a gross profit margin of approximately 30.58%.

Liquidity and financial resources

On 31 December 2004, the Company successfully listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited (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 ("Share Offer"). 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$49.88 million, net of share issue expenses.

As at 30 June 2005, the Group had outstanding borrowings amounted to US$28.94 million with approximately US$25.94 million repayable within one year, approximately US$3.0 million repayable after 1 year but within 2 years. Borrowing costs capitalized at an annualized rate of 4.29% for the six months ended 30 June 2005 (2004: 4.42%). The Group's cash and bank balances totaled US$50.16 million (excluding pledged bank deposits) of which denominated in HK$, US$, Renminbi and other currencies are US$31.03 million, US$10.19 million, US$8.55 million and US$388 thousand, respectively. Renminbi 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. The Group's current ratio is at 2.30 times and the gearing ratio (a ratio of total bank loans to total assets) is 14.73%. Upon receiving fund raised through the Share Offer, the Group continues to be in a net cash position.

Capital Structure

Save as the issue of 37,500,000 shares under the exercise of the over-allotment option by the underwriters, there was no change in the capital structure of the Company for the six months ended 30 June 2005.

Significant investment

As at 30 June 2005, the Group held investment securities in unlisted securities outside Hong Kong at cost of approximately US$500 thousand. The position in investment securities remains unchanged for long term investment purpose in these equity securities. As at 30 June 2005, the Group held investment in various listed securities and mutual funds outside Hong Kong with market value of approximately US$551 thousand.

Material acquisition and disposals of subsidiaries

During the period under review, the Group set up a joint venture, CMW (Cayman Islands) Co., Ltd. in the Cayman Islands ("CMW(CI)"). CMW(CI) has a paid-up share capital of US$25 million, where minority shareholders have contributed a total of US$6.25 million, representing a 25% equity interest of CMW(CI) and its wholly owned subsidiary, CMW (Tianjin) Industry Co., Ltd. ("CMWT"), which will focus primary on casting and machining parts and components for automobile and mechanical applications. Up to 30 June 2005, both CMW(CI) and CMWT have not commenced commercial operations. CMWT is expected to launch commercial production in first half of 2006 with 60,000 tpa planned capacity.

Segmental information

Details of segmental information of the Group as at 30 June 2005 are set out in note 4 to the unaudited interim financial statements.

Employee benefits

For the six months ended 30 June 2005, average number of employees was 2,778 and the Group's staff costs (excluding Directors' fees and emoluments) amounted to US$4.17 million. The remuneration policy of the Company is reviewed annually and is in line with the prevailing market practice.

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.

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, have been provided a defined-benefit retirement scheme which is administrated by China Metal Products Company Limited ("CMP") in Taiwan during the period under review. During the period up to 30 June 2005, the Group reimbursed US$23 thousand to CMP as the Group's share of contribution to such retirement scheme.

Charges on group assets

At 30 June 2005, the Group pledged its bank deposits amounting to US$2.17 million (2004: US$2.73 million) to secure bank deposits, bills payable and bank guarantee of the Group.

On the other hand, bills receivable totalling US$2.73 million were discounted to the bank with recourse as at 30 June 2005.

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 a wholly owned foreign enterprise, CMWT, will focus on casting and machining of automobile and mechanical parts and component. The facility began construction on 24 February 2005 and the construction is on schedule. The machinery facility is expected to complete for customer certification by the end of 2005 and the construction progress of the foundry facility is expected to be completed in the first quarter of 2006. CMWT is expected to commence mass production in the second half of 2006 adding 60,000 tpa foundry capacity to the Group. In Suzhou, in order to accelerate machinery capacity expansion, the Directors have approved to construct a new machining facility in the CMS premise to meet increasing demand from customers on value-added services to the cast parts and components for air compressor and mechanical applications. The decision will advance the availability of machining capacity expansion to the fourth quarter of 2005. As a result, the Directors postpone the construction of Suzhou New Company to a later date that will be dedicated for machining of mechanical and automobile parts and components. As the machining facility will occupy the last available spaces, the original planned moulding line expansion for DISA 230 Type B in CMS will be relocated to a new plant facility.

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.

The government of the PRC has changed its foreign exchange policy and the China Central Bank had confirmed that the US dollars, Euro, Japanese Yen and won of the Republic of Korea constitute the basket of the currencies that will act as a reference for the Renminbi exchange rate. A portion of the Group's Renminbi revenue or profit must be converted into other currencies to meet foreign currency obligations such as the payment of dividends, if declared, acquisition of plant and equipment, and settlements of bank borrowings.

The Group continues to adopt a prudent policy regarding foreign exchange risk exposure. During the period under review, majority of business are conducted in Renminbi, US dollars, and Euro. For revenues denominated in US dollars and Euro, the Group continues to expose to currency fluctuation risk. Majority of the Group's operating costs and expenses are denominated in Renminbi, the appreciation of Renminbi will incur negative impact to the Group. However, as the Group's plant and equipment investments are mostly paid in US$ or Euro. The appreciation of Renminbi is expected to have favorable impact to the Group. Overall, the Directors believe that unless there is a significant appreciation in Renminbi, the Group is not expected the above foreign exchange exposure to have material adverse impact on the Group in the foreseeable future.

Contingent Liabilities

As at 30 June 2005, no contingent liabilities were noted by the Directors.

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.

Details of the Scheme are set out in the Prospectus.

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