

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present to the Shareholders the interim report of China Metal International Holdings Inc. (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006.

FINANCIAL PERFORMANCE

For the six months ended 30 June 2006, the Group recorded a turnover of approximately US\$55.4 million (2005: US\$58.9 million) with profit attributable to the equity shareholders of the Company approximately US\$9.6 million (2005: US\$11.4 million).

INTERIM DIVIDEND

The Directors declared to pay an interim dividend of US cent 0.23 (equivalent to HK cents 1.79) per ordinary share for the six months ended 30 June 2006 (2005: US cents 0.25 or equivalent to HK cents 1.95) on 29 September 2006 to the shareholders of the Company whose names appear in the Register of Members of the Company on 20 September 2006, representing a 25% payout ratio of the Group's profit for the six months period ended 30 June 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed on Wednesday, 20 September 2006 which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 19 September 2006.

BUSINESS REVIEW

First half of 2006 marked a new milestone achieved by the Group. Upon completion of the Group's listing on 31 December 2004, the management team has been striving for delivering the financial performance of our existing facilities in Tianjin and Suzhou and executing plant construction of CMW (Tianjin) Industry Company Limited ("CMWT"). In the second quarter of 2006, the management has completed all plant construction, equipment installation and test run for CMWT, which will continue to focus on cast and machined parts for applications in the automotive and mechanical industries. In June 2006, CMWT commenced production ramp up and made new shipments of rotor and manifold products to one of the leading Tier 1 automotive parts of components makers in North America, and one of the Big 3 automobile companies. However, the performances of the existing facilities had experienced market slow down in the air compressor market. The performance set back in the air compressor industry has been stronger than we expected. Tightened macro-economic control had an adverse impact on the new housing projects and depressed the demand for air conditioners. Frail demand with bullish supply expansion commenced

in the past 3 to 5 years, the supply surplus dragged inventory turnover and resulted in strong pricing pressure that has driven down the gross margin. To mitigate the challenges in the air compressor sector, we shift our focus to other high value added products in the automotive and mechanical sectors and the management has moved more aggressively and rapidly on product development of parts and components for the two sectors. We will continue to focus on product development for our key customers such as Big 3 and leading Tier 1 automotive parts and components makers. New products developed for a leading agricultural equipment maker and cast and machined parts developed for Asia's leading oil seal and vibration control manufacturer have successfully completed production ramp up and the volume is expected to show evident revenue advancement in the second half of 2006. Several new automotive and mechanical parts and components had begun production launch by the end of second quarter of 2006 and will gradually stimulate growth momentum back on rack. New order production launch is expected to begin shipment by the end of 2006 and early 2007. With new facility ramping up smoothly and production launch for new items in existing facilities, we do expect a stronger second half of 2006, that will boost plant utilization and grow our top and bottom line performance, and continue demonstrate our focus on profitability.

In the first half of 2006, overall financial performance was below our expectation. Turnover was down by 6% to US\$55.4 million and net profit was down by 18% to US\$9.4 million. Automotive sector continues to lead the growth and revenues from mechanical applications leveled as new shipment is scheduled starting end of June 2006. Air compressor sector, however, had experienced remarkable slowdown due to supply surplus and pricing pressure. China government continues to tighten macroeconomic control that had held back the residential property roll out and depressed the demand for air conditioners. With capacity over expanded in the past 3 to 5 years, the air conditioner industry has experienced supply surplus and inventory accumulation since second half of 2005. The extended weak demand triggered pricing pressure that negatively impacted margin performance. While many new products were scheduled for production launch by the end of second quarter of 2006, the air conditioner market slow down has led to lower plant utilization in the existing facilities in the first half of 2006. Furthermore, as CMWT began stage ramp up also burdened the overall plant utilization. In addition to the lower utilization, margin performance is further held back by the CMWT start up cost write-off. Gross margin was 29.3% in the first half of 2006, down from 30.6% in the same period of 2005. Cost structure is relatively stable and on the raw material aspect, costs remained stable in the first half of 2006. The Group continues to tighten expense control although the effort was partially offset by the expenses incurred in supporting the major construction and personnel training for CMWT. The operating margin for the Group was down to 18.7% from 21.1% in the same period in 2005. Net profit margin for the Group was 16.9% compared to 19.4% in the same period in 2005.

FUTURE PROSPECTS AND APPRECIATION

The primary working objective for second half of 2006 is the execution of production ramp up for our newly commenced facility, CMWT. Order book for CMWT is very promising. Benefited from the global sourcing theme, we have successfully expanded our production support to our customers in various locations across the globe. Demands from automotive and mechanical parts and components will continue to lead the growth and we expect to reach production economic of scale in CMWT by the end of third quarter of 2006, a quarter ahead of our original plan. The management team is confident on the business outlook and will continue to strive for achieving financial performance of existing plants and driving profitability growth through both volume and value improvement in the new facility. We will continue to evaluate the market momentum for future expansion to enlarge our business scale.

Lastly, 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. Besides, I would also like to thank our business associates, investors, shareholders for their continued support over the years.