NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in United States dollars)

1 Basis of presentation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 31 August 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. It has also been reviewed by KPMG in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports", issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 22.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2006.

2 Segment reporting

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 People's Republic of China (other than Hong Kong) ("the PRC") and United States of America ("USA") are major markets 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.

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
The PRC	**25,326**	33,798
USA	**22,575**	18,607
Japan	**6,239**	5,335
Others	**1,254**	1,138
	55,394	58,878

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

3 Profit before taxation

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

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
(a) Finance costs:		
Interest expense on bank advances wholly repayable within five years	**626**	564
Less: Amount capitalised	**(136)**	(165)
	490	399
Discounting charges	**18**	168
	508	567

Borrowings costs were capitalised at an annualised rate of 5.82% for the six months ended 30 June 2006 (six months ended 30 June 2005: 4.29%).

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
(b) Other items:		
Amortisation of land lease premium	**55**	32
Depreciation	**5,352**	3,909
Interest income	**(601)**	(374)
Net realised gain on trading securities	**2**	–
Carrying amount of inventories sold	**39,142**	40,872
Loss on disposal of fixed assets	**16**	72

4 Income tax

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
Current tax – PRC		
Tax for the period	**550**	742
Over-provision in respect of prior years	**–**	(269)
Tax refund	**(86)**	(30)
	464	443

The provision for Hong Kong Profits Tax for the period ended 30 June 2006 is calculated at 17.5%. No provision for Hong Kong Profits Tax is made for the period as CMP (Hong Kong) Industry Company Limited did not earn any assessable income for Hong Kong Profits Tax purposes.

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

For the period ended 30 June 2006, Tian Jin CMT Industry Company Limited ("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, Suzhou CMS Machinery Company Limited ("CMS") and CMW (Tianjin) Industry Co., Ltd ("CMWT") are 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 period ended 30 June 2006 being the period within the fifth 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 the six months ended 30 June 2006. As CMWT did not generate assessable profits during the six months ended 30 June 2006, the company did not subject for any income tax.

For the six months ended 30 June 2006, Suzhou CMB Machinery Co., Ltd is not subject to PRC income tax as it has not commenced business during the period.

The Group was granted a refund of PRC Enterprise Income Tax amounted to $86,000 from the Tax Bureau of Tianjin during the period ended 30 June 2006 as tax incentives for engaging in manufacturing of automobile parts and components.

For the six months ended 30 June 2005, the Group was granted a refund of PRC Enterprise Income Tax amounted to $30,000 from the Tax Bureau of Tianjin following the capitalisation of retained earnings of CMT.

5 Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
Interim dividend declared and paid after the interim period of 0.23 cents per share (2005: 0.25 cents per share)	**2,386**	2,594

The interim dividend has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
Final dividend in respect of the financial year ended 31 December 2005, approved and paid during the interim period, of 0.3 cents per share	**3,117**	–

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit attributable to equity shareholders of the Company of $9,578,000 (six months ended 30 June 2005: $11,435,000) and the weighted average number of 1,037,500,000 ordinary shares in issue during the period (six months ended 30 June 2005: 1,033,978,000).

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the six month periods ended 30 June 2005 and 2006 and, therefore, diluted earnings per share are not presented.

7 Fixed assets

During the six months ended 30 June 2005, the Group acquired items of plant and machinery with a cost of $1,424,000 (six months ended 30 June 2005: $1,062,000) and transferred items from construction in progress with a cost of $37,298,000 (six months ended 30 June 2005: $8,405,000). Items of plant and machinery with a net book value of $22,000 were disposed of during the six months ended 30 June 2006 (six months ended 30 June 2005: $457,000), resulting in a loss on disposal of $16,000 (six months ended 30 June 2005: $72,000).

8 Trade and other receivables, deposits and prepayments

Included in trade and other receivables are trade receivables and bills receivable (net of impairment losses) with the following ageing analysis:

	At 30 June 2006 $'000	At 31 December 2005 $'000
Within 3 months	**29,746**	28,385
Over 3 months but less than 6 months	**1,720**	1,281
Over 6 months but less than 1 year	**5,189**	795
Over 1 year but less than 2 years	**173**	689
Total trade receivables and bills receivable, net of impairment loss	**36,828**	31,150
Other receivables, deposits and prepayments	**3,646**	2,043
	40,474	33,193

Credit evaluations are performed on all customers requiring credit over a certain amount. Trade receivables are due within 60 days from the date of billings. Normally, the Group does not obtain collateral from customers.

Included in trade receivables are amounts due from related companies of $1,930,000 (2005: $3,314,000), details of which are disclosed in note 15.

Certain trade receivables of the Group approximately $2,789,000 (2005: $3,957,000) as at 30 June 2006 were pledged for bank loans.

Included in trade receivables and bills receivable were bills discounted to a bank with recourse totalling $958,000 as at 30 June 2006 (2005: $Nil).

9 Cash and cash equivalents

	At 30 June 2006 $'000	At 31 December 2005 $'000
Cash at bank and in hand	**3,540**	8,620
Deposits with banks maturing within three months	**24,250**	31,442
	27,790	40,062

10 Trade and other payables

Included in trade and other payables are trade payables and bills payable with the following ageing analysis:

	At 30 June 2006 $'000	At 31 December 2005 $'000
Due within 1 month or on demand	5,827	3,372
Due after 1 month but within 3 months	4,603	8,665
Due after 3 months but within 6 months	1,246	–
Trade payables and bills payable	11,676	12,037
Other payables	12,479	5,708
	24,155	17,745

Certain bills payable of approximately $1,105,000 (2005: $2,870,000) were secured by pledged deposits of $221,000 (2005: $660,000).

11 Bank loans

Bank loans are repayable as follows:

	At 30 June 2006 $'000	At 31 December 2005 $'000
Within 1 year or on demand	23,051	24,431
Representing:		
Secured bank loans	5,798	5,277
Unsecured bank loans	16,295	19,154
Proceeds from discounted bills	958	–
	23,051	24,431

Certain bank loans of approximately $3,009,000 and $2,789,000 (2005: $1,320,000 and $3,957,000) as at 30 June 2006 were secured by pledged bank deposits and trade receivables (note 8), respectively.

Certain bills receivable were discounted with recourse. The proceeds from discounting are stated in the consolidated balance sheet as borrowings pledged with bills receivable (note 8).

12 Share capital

	At 30 June 2006 No. of shares *(thousand)*	At 30 June 2006 Amount *$'000*	At 31 December 2005 No. of shares *(thousand)*	At 31 December 2005 Amount *$'000*
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000**	**12,853**	10,000,000	12,853
Issued:				
At 1 January	**1,037,500**	**1,333**	1,000,000	1,285
Issuance of shares pursuant to the Over-allotment Option	**–**	**–**	37,500	48
	1,037,500	**1,333**	1,037,500	1,333

In connection with the Placing and Public Offer of the Company's shares in December 2004, the Company has granted GC Capital (Asia) Limited ("GCC"), the joint bookrunners, an Over-allotment Option for issuing additional Over-allotment shares of not more than 37,500,000 ordinary shares of the Company within 30 days after the day of the Prospectus.

On 17 January 2005, GCC exercised the Over-allotment Option in full on behalf of the Placing Underwriters (as defined in the Prospectus) at HK$1.42 each. The Over-allotment shares commenced dealing on the Stock Exchange on 19 January 2005.

13 Reserves

	Attributable to equity shareholders of the Company							
	Share premium $'000	Statutory surplus reserve $'000	Exchange fluctuation reserve $'000	Other reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2005	42,182	3,612	(6)	34,920	38,004	118,712	–	118,712
Exchange differences arising from consolidation	–	–	10	–	–	10	–	10
Issuance of shares pursuant to the Over-allotment Option	6,796	–	–	–	–	6,796	–	6,796
Share issue expenses	(72)	–	–	–	–	(72)	–	(72)
Capital contribution from minority shareholders	–	–	–	–	–	–	6,250	6,250
Profit for the period	–	–	–	–	11,435	11,435	–	11,435
At 30 June 2005	48,906	3,612	4	34,920	49,439	136,881	6,250	143,131
At 1 January 2006	**48,878**	**4,878**	**2,364**	**34,920**	**56,719**	**147,759**	**9,375**	**157,134**
Exchange differences arising from consolidation	**-**	**-**	**1,067**	**-**	**-**	**1,067**	**174**	**1,241**
Capital contribution from minority shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**5,625**	**5,625**
Profit/(loss) for the period	**-**	**-**	**-**	**-**	**9,578**	**9,578**	**(201)**	**9,377**
Dividend approved in respect of previous financial year	**-**	**-**	**-**	**-**	**(3,117)**	**(3,117)**	**-**	**(3,117)**
At 30 June 2006	**48,878**	**4,878**	**3,431**	**34,920**	**63,180**	**155,287**	**14,973**	**170,260**

14 Capital commitments outstanding not provided for in the interim financial report

	At 30 June 2006 $'000	At 31 December 2005 $'000
Contracted for	**1,110**	9,444
Authorised but not contracted for	**8,650**	8,854
	9,760	18,298

15 Material related party transactions

During the period ended 30 June 2006, 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
TRAS Shokai Co., Ltd ("TRAS")	Shareholder of the Company
Dairitsu Industry Company Limited ("Dairitsu")	Shareholder of the Company
China Metal Japan Company Limited ("CMJ")	Affiliated Company
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

15 Material related party transactions (continued)

(a) Recurring transactions

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

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
Sales of goods to		
– Asahi	**304**	135
– Fuzhou Xin Mi	**647**	822
– TRAS	**461**	–
– Yanmar	**5,678**	4,442
	7,090	5,399
Commission to		
– CMAI	**332**	272
– CMJ	**111**	228
	443	500
Reimbursement of expenses to		
– CMAI	**1,782**	1,452
– CMP	**43**	49
	1,825	1,501

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 $22,000 (2005: $23,000) for the six months ended 30 June 2006. 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.

15 Material related party transactions (continued)

(a) Recurring transactions (continued)

The remuneration for key management personnel is disclosed as follows:

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
Short-term employee benefits	**1,231**	842
Post-employment benefits	**–**	–
Equity compensation benefits	**–**	–
	1,231	842

(b) Amounts due from related companies

	At 30 June 2006	At 31 December 2005
	$'000	*$'000*
Trade		
– Asahi	**131**	64
– Fuzhou Xin Mi	**337**	743
– TRAS	**45**	67
– Yanmar	**1,417**	2,440
	1,930	3,314
Non-trade		
– CMAI	**–**	73
	1,930	3,387

All 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 30 June 2006.

15 Material related party transactions (continued)

(c) Amounts due to related companies

	At 30 June 2006 $'000	At 31 December 2005 $'000
CMP	2	18
CMJ	45	25
CMAI	327	–
Dairitsu	71	71
Yanmar	149	100
	594	214

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

16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2006

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2006 and which have not been adopted in this interim financial report.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HK(IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
HKFRS 7	Financial instruments: disclosures	1 January 2007

The above amendments, new standards and interpretations have not been applied in this interim financial report because the directors expect that the Group will not early apply them when preparing the Group's annual financial statements for the year ending 31 December 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.