MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover and profit attributable to the equity shareholders of the Company for the six months period ended 30 June 2006 amounted to US$53,394,000 and US$9,578,000 (2005: US$58,878,000 and US$11,435,000) respectively, representing a moderate slowdown as compared to the same period in 2005. Turnover in first half of 2006 was leveled to 2005 recorded revenue as a result of evident downturn in the air compressor industry while solid growth in the automotive and mechanical sectors balanced the set back. Gross profit for the period ended 30 June 2006 amounted to approximately US$16,252,000 (2005: US$18,006,000), representing a gross profit margin of approximately 29.3% (2005: 30.6%). Slowdown in air compressor sales, ramp up of new CMWT facility and product development costs for new mechanical and automotive parts and components have resulted in lower utilization and decline in gross margin. Operating profit for the period ended 30 June 2006 was approximately US$10,349,000 (2005: US$12,445,000) or 18.7% (2005: 21.1%) of turnover. Compared to the same period in 2005, the changes in operating margin reflect the write-off of the start up costs for CMWT. Net profit for the period ended 30 June 2006 was approximately US$9,377,000 (2005: US$11,435,000) or 16.9% (2005: 19.4%) of recorded turnover.

Liquidity and financial resources

As at 30 June 2006, the Group had outstanding borrowings and banking facilities amounted to US$24,156,000 (2005: US$25,536,000) of which all are repayable within one year. Certain of the Group's bank loans of approximately US$3,009,000 and US$2,789,000 (2005: US$1,320,000 and US$3,957,000) as at 30 June 2006 were secured by pledged bank deposits and trade receivables, respectively. The Group's cash and cash equivalents was US$27,790,000 (excluding pledged bank deposits) (2005: US$40,062,000). The Group's current ratio and the gearing ratio (a ratio of total loans to total assets) is 1.9 (2005: 2.2) and 10.9% (2005: 12.6%) respectively.

Capital Structure

As a result of the exercise of the over-allotment option by GC Capital (Asia) Limited in connection with the share offer, the Company has issued 37,500,000 shares of HK$0.01 each in the capital of the Company on 17 January 2005. The Company's issued share capital as at 31 December 2005 is HK$10,375,000 divided into 1,037,500,000 shares of HK$0.01 each and there has no changes in the capital structure of the Company during the six months ended 30 June 2006.

The Company maintains an efficient capital structure using a combination of equity shareholders' funds and borrowings. The structure is consistent with the Company's risk profile and the regulatory and market requirements of the business of the Group.

In managing the Group's capital, the Board seeks to:

1. Match the profile of the Group's assets and liabilities, taking into account the risks inherent in each business.

2. Maintain financial strength to support new business growth whilst still satisfying the requirements of creditors, regulators and rating agencies.

3. Retain financial flexibility by maintaining liquidity, accessibility to capital markets and committed credit lines.

4. Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

5. Manage exposures to movements in exchange rates by aligning the deployment of capital by currency with the Group's capital requirements by currency.

Significant investments

As at 30 June 2006, the Group held unlisted equity securities outside Hong Kong of US$500,000 (2005: US$500,000). The position in investment securities remains unchanged for long term investment purpose.

Material acquisition and disposals of subsidiaries or affiliated companies

The Group has not made any material acquisition or disposal of subsidiaries or affiliated companies during the period under review.

Segmental information

As at 30 June 2006, detail of segmental information of the Company is set out in note 2 to the unaudited interim financial statements.

Employee benefits

For the six months ended 30 June 2006, average number of employees was 3,051 (2005: 2,778). For the six months ended 30 June 2006, the Group's staff costs (excluding directors' fees and emoluments) amounted to US$4,578,000 (2005: US$4,167,000). The remuneration policy of the Company is reviewed annually by the Remuneration Committee of the Company 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 senior management of the Group, being non-PRC citizens, has been provided a defined-benefit retirement scheme which is administrated by China Metal Products Company Limited ("CMP") in Taiwan during the period. During the period under review, the Group reimbursed US$22,000 to CMP as the Group's share of contribution to such retirement scheme (2005: US$23,000).

Charges on group assets

As at 30 June 2006, the Group pledged its bank deposit amounting to US$1,221,000 (2005: US$1,660,000) and trade receivables amounting to US$2,789,000 (2005: US$3,957,000) to secure banking facilities granted to the Group. Included in trade and other receivables were bills discounted to a bank with recourse totaling US$958,000 as at 30 June 2006 (2005: US$Nil).

Future plans for material investments or capital assets

The Group will continue to explore new business opportunities in the three industries it operates with primary focus on the automotive and mechanical sectors. In continuation of capital expenditures on CMWT facilities, the management has made major capital investment in the first half of 2006 and is expected to continue invest in machining equipment in the second half of 2006. In addition, the Group will continue to seek new business development opportunities for further investment in the casting and machining facilities.

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 Renminbi currently is pegged against a basket of currencies and is expected to remain a managed exchange rate system. A portion of the Group's Renminbi revenue or profit must be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared.

Contingent Liabilities

As at 30 June 2006, no contingent liabilities were noted by the Directors.