FINANCIAL REVIEW

The Group's recorded turnover and profit attributable to shareholders for the year ended 31 December 2006 amounted to approximately US$119,952,000 and approximately US$19,688,000 respectively (2005: US$109,084,000 and US$22,589,000), representing a moderate increase as compared to the year 2005. Turnover growth was led by the healthy growth in the automotive and mechanical sectors while the slowdown in the air compressor sector set back the overall growth. Compared to 2005, revenues from automotive parts and components grew about 46.5% year on year; revenues from mechanical parts were up by 13.1%; and revenues from compressor parts were down by about 31.4%. Gross profit for the year ended 31 December 2006 amounted to approximately US$33,085,000 (2005: US$33,340,000), representing a gross profit margin of approximately 27.6% (2005: 30.6%). Operating profit for the year ended 31 December 2006 was approximately US$21,879,000 (2005: US$24,133,000) or about 18.2% (2005: 22.1%) of recorded turnover.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had outstanding borrowing and banking facilities amounted to approximately US$25,292,000 (2005: US$24,431,000) which are repayable within one year. The Group's other unsecured loan amounted to approximately US$1,142,000 (2005: US$1,105,000) from the local authority in Suzhou, the PRC, to a subsidiary is interest-free and is expected to be settled within one year. The Group has cash and bank balances totalling of approximately US$30,967,000 (excluding pledged bank deposits) (2005: US$40,062,000). The Group's current ratio was 2.0 (2005: 2.2) and the gearing ratio (a ratio of total loans to total assets) was 11.3% (2005: 12.6%).

CAPITAL STRUCTURE

The Company's issued share capital as at 31 December 2006 is HK$10,375,000 divided into 1,037,500,000 shares of HK$0.01 each and there is no change in the capital structure of the Company during the year ended 31 December 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 financially 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 INVESTMENT

As at 31 December 2006, the Group did not hold any investment in listed securities outside Hong Kong (2005: US$79,000). The Group made net divestment of approximately US$79,000 (2005: net divestment of US$472,000) and resulted in net gain from investment of approximately US$2,000 in 2006 (2005: net gain of US$22,000). As at 31 December 2006, the Group held investment securities in unlisted equity securities outside Hong Kong at cost of approximately US$500,000 (2005: US$500,000). The position in investment securities remains unchanged for long term investment purpose in these equity securities.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

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

SEGMENTAL INFORMATION

Details of segmental information of the Group for the year ended 31 December 2006 is set out in note 12 to the financial statements.

EMPLOYEE BENEFITS

For the year ended 31 December 2006, average number of employees was 3,151 (2005: 3,007) and the Group's staff costs (excluding Directors' fees and emoluments) amounted to approximately US$8,573,000 (2005: US$7,558,000). The remuneration policy of the Group is reviewed annually by the Remuneration Committee and is in line with the prevailing market practice. During the year under review, the Company has not granted any share options to its employees or Directors under the share option scheme of the Company adopted on 8 December 2004.

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 this 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. During the year under review, the Group contributed approximately US$1,063,000 (2005: US$812,000) to this scheme.

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 year. During the year under review, the Group reimbursed US$44,000 to CMP as the Group's share of contribution to such retirement scheme (2005: US$44,000). The Group is not obliged to incur any liability beyond the contribution.

CHARGES ON GROUP ASSETS

As at 31 December 2006, the Group pledged its bank deposit amounting to approximately US$2,349,000 (2005: US$1,660,000) and trade receivables amounting to approximately US$3,550,000 (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$288,000 (2005: US$Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group will continue to develop new business opportunities in the three industries it operates with primary focus on the automotive and mechanical sectors. In continuation of capital expenditures on the facilities of CMWT, the management is expected to plan second phase facility expansion and capital investment in the second half of 2007. In addition, the Group will continue to seek new business opportunities for further investment in 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. As the impact to the Group's performance is minimal, there is no hedging policy in place against 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.

COMMITMENTS AND CONTINGENCIES

As at 31 December 2006, the Group had no contingent liabilities and the Group had commitments to contribute capital of US$10,200,000 (2005: US$30,372,000) to subsidiaries.