1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs does not have material impacts on the Group's financial statements for the current and prior accounting periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 33).

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that trading securities are stated at their fair value as explained in note 1(h). The functional currencies of the Company and its subsidiaries in the PRC are United States dollars and Renminbi respectively. For the purposes of presenting the consolidated financial statements, the Group adopted United States dollars as its presentation currency.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Basis of preparation of the financial statements *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgement made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 31.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Property, plant and equipment

The property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(g)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 1(r)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	30 – 35 years
Leasehold improvements	2 – 10 years
Machinery and equipment	6 – 14 years
Motor vehicles	5 – 6 years
Office equipment, fixtures and fittings	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Construction in progress

Construction in progress represents fixed assets under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(g)). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the People's Republic of China (the "PRC").

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risk and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(g) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exist, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease; and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(g)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(g)).

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, the movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue represents the sales value of goods to customers after allowances for goods returned, excludes value added tax ("VAT") and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to received payment is established.

(iv) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into United States dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(r) Borrowing costs

Borrowing costs are expensed in profit and loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(s) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2 TURNOVER

The Group is principally engaged in design, development, manufacture and sale of customised metal castings for use in various industries.

Turnover represents the sales value of casting products to customers after allowances for goods returned, excludes VAT and is after the deduction of any trade discounts.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006	2005
	$'000	$'000
Sales of:		
– Automobile parts and components	56,220	38,367
– Mechanical parts	38,655	34,168
– Compressor parts	25,077	36,549
	119,952	109,084

3 OTHER REVENUE

	2006	2005
	$'000	$'000
Interest income	1,268	1,077
Government grants	288	162
Dividend income from unlisted equity securities	63	–
Sundry income	54	334
	1,673	1,573

Pursuant to the relevant approval documents issued by the local government authorities, Tian Jin CMT Industry Company Limited ("CMT") and Suzhou CMS Machinery Company Limited ("CMS") are entitled to refunds of VAT on sales of certain steel products and property tax amounted to USD 199,000 (2005: $162,000). The amount of the refund is calculated on an annual basis and recognised as government grants in other revenue when the refund is approved by the respective local government authorities. During the year ended 31 December 2006, CMT was granted a subsidy amounted to USD 89,000 (2005: $Nil) from a local government authority of Tianjin as incentives for engaging in manufacturing of automobile parts and components.

(Expressed in United States dollars unless otherwise indicated)

4 OTHER NET INCOME

	2006 $'000	2005 $'000
Exchange gain	678	970
Gain/(loss) on disposal of fixed assets	15	(86)
Net realised and unrealised gain on trading securities	2	22
Others	31	139
	726	1,045

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2006 $'000	2005 $'000
(a) Finance costs:		
Interest expense on bank advances wholly repayable within five years	1,290	1,190
Less: Amount capitalised	(204)	(321)
	1,086	869
Discounting charges	27	203
	1,113	1,072

The borrowing costs have been capitalised at a rate of 5.73-5.82% per annum (2005: 4.17-5.17%)

5 PROFIT BEFORE TAXATION *(CONTINUED)*

Profit before taxation is arrived at after charging: *(Continued)*

	2006 $'000	2005 $'000
(b) Personnel expenses:		
Salaries, wages and bonuses	8,573	7,558
Contributions to retirement benefit schemes	1,063	812
	9,636	8,370
(c) Other items:		
Amortisation of land lease premium	112	94
Auditors' remuneration	247	224
Depreciation	11,282	8,744

6 INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2006 $'000	2005 $'000
Current tax – PRC		
Tax for the year	1,104	924
Tax refund	–	(181)
Over-provision in respect of prior years	(7)	(271)
	1,097	472

6 INCOME TAX *(CONTINUED)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

Reconciliation between actual tax expense and accounting profit at applicable tax rates:

	2006 $'000	2005 $'000
Profit before tax	**20,766**	23,061
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**1,700**	1,654
Income and expenses not subject to taxation	**(224)**	(239)
Tax refund	**–**	(181)
Over-provision in respect of prior years	**(7)**	(271)
Tax effect of tax concessions	**(372)**	(491)
Actual tax expense	**1,097**	472

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 17.5%). No provision for Hong Kong Profits Tax is made for the year as CMP (Hong Kong) Industry Company Limited ("CMP(HK)") 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 year ended 2006, CMT is subject to income tax at the rate of 15% (2005: 10%) applicable to foreign invested enterprises in Tianjin, the PRC.

Pursuant to the income tax rules and regulations of the PRC, CMS and CMW (Tianjin) Industry Co., Ltd ("CMWT") are eligible for a 100% relief from PRC Enterprise Income Tax for the two years from its 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 year ended 31 December 2006 being 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%. No provision for PRC Enterprise Income Tax has been made by CMWT as it did not have assessable profits during the current and prior years.

6 INCOME TAX *(CONTINUED)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

For the year ended 31 December 2006, Suzhou CMB Machinery Co., Ltd is not subject to PRC income tax as it has not commenced business during the year.

The Group was granted a refund of PRC Enterprise Income Tax amounted to $181,000 from the Tax Bureau of Tianjin, during the year ended 31 December 2005 as tax incentives for engaging in manufacturing of automobile parts and components.

(b) Current taxation in the consolidated balance sheets represents:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Provision for PRC Enterprise Income Tax for the year	**1,104**	924	**–**	–
PRC tax paid	**(771)**	(736)	**–**	–
	333	188	**–**	–

(c) Deferred taxation

No provision has been made for deferred taxation as at 31 December 2006 (2005: $Nil) as the Group has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

(Expressed in United States dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Bonus	2006 Total
	$'000	*$'000*	*$'000* *(note 28(a))*	*$'000*	*$'000*
Executive directors					
Mr Ho Ming-Shiann	51	–	–	–	51
Mr Guu Herng-Chang	51	80	–	131	262
Mr Tsao Ming-Hong	51	–	–	–	51
Mr Wu Cheng-Tao	51	–	–	–	51
Non-executive director					
Mr Christian Odgaard Pedersen	26	–	–	–	26
Independent non-executive directors					
Mrs Chiu Lin Mei-Yu	19	–	–	–	19
Mr Hsu Shan-Ko	19	–	–	–	19
Mr Wong Tin Yau, Kelvin	19	–	–	–	19
Total	287	80	–	131	498

7 DIRECTORS' REMUNERATION *(CONTINUED)*

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows: *(Continued)*

	Directors' fees *$'000*	Basic salaries, allowances and other benefits *$'000*	Contributions to retirement benefit schemes *$'000* *(note 28(a))*	Bonus *$'000*	2005 Total *$'000*
Executive directors					
Mr Ho Ming-Shiann	51	–	–	–	51
Mr Guu Herng-Chang	51	81	–	45	177
Mr Tsao Ming-Hong	51	–	–	–	51
Mr Wu Cheng-Tao	51	–	–	–	51
Non-executive director					
Mr Christian Odgaard Pedersen	26	–	–	–	26
Independent non-executive directors					
Mrs Chiu Lin Mei-Yu	19	–	–	–	19
Mr Hsu Shan-Ko	19	–	–	–	19
Mr Wong Tin Yau, Kelvin	19	–	–	–	19
Total	287	81	–	45	413

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

HK$	**2006 Number of directors**	2005 Number of directors
Nil – 1,000,000	**7**	7
1,000,001 – 2,000,000	**1**	1
	8	8

There were no amounts paid during the year to the directors in connection with their retirement from employment with the Group or inducement to join. There was no any arrangement under which a director waived or agreed to waive any remuneration during the year.

(Expressed in United States dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include one Director (2005: one Director) of the Company whose emolument are disclosed in note 7. Details of emolument paid to the remaining highest paid individuals of the Group are as follows:

	2006	2005
	$'000	*$'000*
Basic salaries, allowances and other benefits	**205**	196
Contributions to retirement benefit schemes *(note 28(a))*	**–**	–
Bonuses	**139**	50
	344	246
Number of senior management	**4**	4

The emoluments of the remaining individuals with the highest emoluments are within the following bands:

	2006 Number of individuals	2005 Number of individuals
HK$		
Nil – 1,000,000	**3**	4
1,000,001 – 1,500,000	**1**	–
	4	4

There were no amounts paid during 2006 (2005: $Nil) to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $9,757,000 (2005: profit of $11,566,000) which has been dealt with in the financial statements of the Company.

(Expressed in United States dollars unless otherwise indicated)

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006	2005
	$'000	$'000
Interim dividend declared and paid of 0.23 cents per ordinary share (2005: 0.25 cents)	2,389	2,608
Final dividend proposed after the balance sheet date of 0.35 cents per ordinary share (2005: 0.3 cents)	3,631	3,113
	6,020	5,721

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006	2005
	$'000	$'000
Final dividend in respect of previous financial year, approved and paid during the year of 0.3 cents per ordinary share (2005: Nil)	3,113	–

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the Company's ordinary equity shareholders of $19,688,000 (2005: $22,589,000) and the weighted average number of 1,037,500,000 (2005: 1,035,753,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during 2006 and 2005 and, therefore, diluted earnings per share are not presented.

12 SEGMENT REPORT

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 PRC is a major market for all of the Group's businesses.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers.

	2006	2005
	$'000	*$'000*
The PRC	**52,127**	55,166
United States of America	**48,954**	39,010
Japan	**13,965**	11,620
Others	**4,906**	3,288
	119,952	109,084

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

(Expressed in United States dollars unless otherwise indicated)

13 FIXED ASSETS

The Group

	Interests in leasehold land held for own use under operating leases	Buildings held for own use	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment, furniture and fixtures	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:							
At 1 January 2005	3,246	18,686	1,855	61,471	1,169	3,240	89,667
Exchange adjustment	83	478	57	1,866	29	78	2,591
Additions	2,153	–	412	1,321	10	82	3,978
Transfer from construction in progress *(note 14)*	–	323	117	12,028	290	907	13,665
Disposals	–	(1)	(118)	(1,116)	(83)	(181)	(1,499)
At 31 December 2005	5,482	19,486	2,323	75,570	1,415	4,126	108,402
Accumulated depreciation:							
At 1 January 2005	388	2,068	972	13,721	450	1,203	18,802
Exchange adjustment	11	62	34	541	14	39	701
Charge for the year	94	553	360	7,103	183	545	8,838
Written back on disposal	–	(1)	–	(313)	(61)	(20)	(395)
At 31 December 2005	493	2,682	1,366	21,052	586	1,767	27,946
Carrying amount:							
At 31 December 2005	4,989	16,804	957	54,518	829	2,359	80,456

13 FIXED ASSETS *(CONTINUED)*

The Group *(Continued)*

	Interests in leasehold land held for own use under operating leases	Buildings held for own use	Leasehold improve-ments	Machinery and equipment	Motor vehicles	Office equipment, furniture and fixtures	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:							
At 1 January 2006	5,482	19,486	2,323	75,570	1,415	4,126	108,402
Exchange adjustment	184	652	94	2,909	47	138	4,024
Additions	–	1,917	1,933	2,519	505	1,346	8,220
Transfer from construction in progress *(note 14)*	–	7,826	213	35,187	–	669	43,895
Disposals	–	(14)	(286)	(1,463)	(152)	(45)	(1,960)
At 31 December 2006	5,666	29,867	4,277	114,722	1,815	6,234	162,581
Accumulated depreciation:							
At 1 January 2006	(493)	(2,681)	(1,366)	(21,052)	(586)	(1,769)	(27,947)
Exchange adjustment	(19)	(104)	(67)	(1,002)	(23)	(73)	(1,288)
Charge for the year	(112)	(761)	(793)	(8,782)	(230)	(716)	(11,394)
Written back on disposal	–	12	100	867	117	38	1,134
At 31 December 2006	(624)	(3,534)	(2,126)	(29,969)	(722)	(2,520)	(39,495)
Carrying amount:							
At 31 December 2006	5,042	26,333	2,151	84,753	1,093	3,714	123,086

Land and buildings are located in the PRC. The Group was formally granted the rights to use the land on which the Group's factories are erected for a period of 50 years, with expiry through 2055, by the relevant PRC authorities.

The applications for property ownership certificates of certain buildings located in Tianjin, the PRC, with net book value totalling $9,025,000 (2005: nil) are still in progress and the property ownership certificates have not yet been issued to the Group by the relevant local government authority as at 31 December 2006. Notwithstanding this, the directors are of the opinion that the Group has acquired the beneficial title to these buildings as at 31 December 2006 and the property ownership certificates can be obtained.

14 CONSTRUCTION IN PROGRESS

	The Group	
	2006	2005
	$'000	*$'000*
Cost:		
At 1 January	**26,409**	4,906
Exchange adjustment	**905**	119
Additions	**21,706**	35,049
Transfer to fixed assets *(note 13)*	**(43,895)**	(13,665)
At 31 December	**5,125**	26,409

15 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	$'000	*$'000*
Unlisted shares, at cost	**111,733**	94,061

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

(Expressed in United States dollars unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name of company	Place of incorporation/ operation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up registered capital	Principal activities
Capital Charm Associates Limited	British Virgin Islands	100	–	$162	Investment holding
CMP (Hong Kong) Industry Company Limited	Hong Kong/ Taiwan	–	100	HK$162,203,000	Investment holding
CMTS (Cayman Islands) Industry Company Limited	Cayman Islands/ Taiwan	–	100	$21,520,000	Investment holding
Tian Jin CMT Industry Company Limited *(note)*	PRC	–	100	$30,000,000	Manufacturing and sale of casting products
Suzhou CMS Machinery Company Limited *(note)*	PRC	–	100	$24,000,000	Manufacturing and sale of casting products
CMW (Cayman Islands) Co., Ltd	Cayman Islands	70	–	$35,000,000	Investment holding
CMW (Tianjin) Industry Co., Ltd *(note)*	PRC	–	100	$32,000,000	Manufacturing of casting products
Suzhou CMB Machinery Co., Ltd *(note)*	PRC	100	–	$1,800,000	Manufacturing of casting products

Note: Wholly foreign owned enterprises established in the PRC.

(Expressed in United States dollars unless otherwise indicated)

16 OTHER FINANCIAL ASSETS

	The Group	
	2006	2005
	$'000	$'000
Unlisted equity securities outside Hong Kong, at cost	500	500

17 TRADING SECURITIES

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Trading securities (at market value)				
Listed securities outside Hong Kong	–	79	–	79

18 INVENTORIES

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Raw materials	5,998	3,421	–	–
Work in progress	3,806	3,520	–	–
Finished goods	13,831	10,371	4,539	4,863
Others	3,279	2,406	–	–
	26,914	19,718	4,539	4,863

The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2006	2005
	$'000	$'000
Carrying amount of inventories sold	86,867	75,744

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Trade receivables	**38,880**	31,023	**16,160**	15,477
Bills receivable	**1,011**	127	**–**	–
Other receivables, deposits and prepayments	**3,997**	2,043	**214**	217
	43,888	33,193	**16,374**	15,694

All of the trade and other receivables are expected to be recoverable within one year.

Included in trade receivables are amounts due from related companies of $2,225,000 (2005: $3,314,000), details of which are disclosed in note 28(b).

Certain trade receivables of the Group approximately $3,550,000 (2005: $3,957,000) as at 31 December 2006 were pledged against bank loans (note 21).

Included in trade and other receivables were bills discounted to a bank with recourse totalling $288,000 as at 31 December 2006 (2005: $Nil).

An ageing analysis of trade receivables and bills receivable (net of impairment losses for bad and doubtful debts), based on the invoice date is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Within 3 months	**34,645**	28,385	**11,821**	13,196
Over 3 months but less than 6 months	**1,279**	1,281	**440**	901
Over 6 months but less than 1 year	**646**	795	**579**	691
Over 1 year but less than 2 years	**3,321**	689	**3,320**	689
	39,891	31,150	**16,160**	15,477

The Group's credit policy is set out in note 26(a).

19 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars	**USD 1,129**	USD 754	**USD –**	USD –
Japanese Yen	**JPY –**	JPY 5,946	**JPY –**	JPY 5,946
Euros	**EUR 779**	EUR 625	**EUR 345**	EUR 625

20 CASH AND CASH EQUIVALENTS

Analysis of the balances of cash and cash equivalents is set out below:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Cash at bank and in hand	**11,025**	8,620	**2,382**	1,924
Deposits with banks	**19,942**	31,442	**17,600**	27,423
	30,967	40,062	**19,982**	29,347

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
Hong Kong Dollars	**HKD 18,540**	HKD 197,934	**HKD 89**	HKD 197,934
United States Dollars	**USD 14,477**	USD 645	**USD 19,364**	USD –
Euros	**EUR 350**	EUR 401	**EUR 319**	EUR 187
Taiwan Dollars	**TWD 4,661**	TWD 17,481	**TWD 4,661**	TWD 1,224
Japanese Yen	**JPY 5,225**	JPY 5,057	**JPY 5,146**	JPY 4,997

21 BANK LOANS

The bank loans are repayable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year or on demand	**25,292**	24,431	**3,328**	1,320
Representing:				
Secured bank loans	**6,158**	5,277	**3,328**	1,320
Unsecured bank loans	**18,846**	19,154	**–**	–
Proceeds from discounted bills	**288**	–	**–**	–
	25,292	24,431	**3,328**	1,320

Certain bank loans of approximately $3,328,000 and $3,550,000 (2005: $1,320,000 and $3,957,000) as at 31 December 2006 were secured by pledged bank deposits and trade receivables (note 19) 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 19).

At 31 December 2006, the Company had total banking facilities amounting to $15,000,000 (2005: nil) and utilised to the extent of $3,328,000.

Included in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars	**USD 25,200**	USD 23,108	**USD –**	USD –
Euros	**EUR 2,519**	EUR 1,066	**EUR 2,519**	EUR 1,066

22 OTHER UNSECURED LOAN

Other unsecured loan from the local authorities in Suzhou, the PRC, to a subsidiary is interest-free and expected to be settled within one year.

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Trade payables	**8,009**	7,816	**–**	587
Bills payable	**8,657**	4,221	**–**	–
Other payables	**8,082**	5,708	**1,569**	510
	24,748	17,745	**1,569**	1,097

All of the trade and other payables are expected to be settled within one year.

Certain bills payable of approximately $5,014,000 (2005: $2,870,000) as at 31 December 2006 were secured by pledged bank deposits of $1,329,000 (2005: $660,000).

An ageing analysis of trade payables and bills payable is as follows:

	The Group	
	2006	2005
	$'000	*$'000*
Due within 1 month or on demand	**2,746**	3,372
Due after 1 month but within 3 months	**10,578**	8,665
Due after 3 months but within 6 months	**3,342**	–
	16,666	12,037

24 SHARE CAPITAL

	2006 Number of shares *(thousand)*	2006 *$'000*	2005 Number of shares *(thousand)*	2005 *$'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 exercise of the Over- allotment Option	**–**	**–**	37,500	48
	1,037,500	**1,333**	1,037,500	1,333

In connection with the Placing and Public Office of the Company's shares in December 2004, the Company 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 in the Stock Exchange on 19 January 2005.

The proceeds of HK$375,000 (equivalent to $48,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$52,875,000 (equivalent to $6,796,000), before the share issue expenses of HK$781,000 (equivalent to $100,000), were credited to the share premium account.

25 RESERVES

Movements in reserves of the Group during the year are set out below:

(i) The Group

	Attributable to equity shareholders of the Company							
	Share premium $'000 *(note (a))*	Statutory surplus reserve $'000 *(note (b))*	Exchange fluctuation reserve $'000 *(note (c))*	Other reserve $'000 *(note (d))*	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	–	–	2,370	–	–	2,370	–	2,370
Issuance of shares pursuant to the Over-allotment Option *(note 24)*	6,796	–	–	–	–	6,796	–	6,796
Share issue expenses *(note 24)*	(100)	–	–	–	–	(100)	–	(100)
Capital contribution from minority shareholders	–	–	–	–	–	–	9,375	9,375
Profit for the year	–	–	–	–	22,589	22,589	–	22,589
Appropriations	–	1,266	–	–	(1,266)	–	–	–
Dividend for the year	–	–	–	–	(2,608)	(2,608)	–	(2,608)
At 31 December 2005	48,878	4,878	2,364	34,920	56,719	147,759	9,375	157,134

	Attributable to equity shareholders of the Company							
	Share premium $'000 *(note (a))*	Statutory surplus reserve $'000 *(note (b))*	Exchange fluctuation reserve $'000 *(note (c))*	Other reserve $'000 *(note (d))*	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
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	–	–	3,762	–	–	3,762	383	4,145
Capital contribution from minority shareholders	–	–	–	–	–	–	5,625	5,625
Profit for the year	–	–	–	–	19,688	19,688	(19)	19,669
Appropriations	–	1,067	–	–	(1,067)	–	–	–
Dividend for the year	–	–	–	–	(5,502)	(5,502)	–	(5,502)
At 31 December 2006	48,878	5,945	6,126	34,920	69,838	165,707	15,364	181,071

(Expressed in United States dollars unless otherwise indicated)

25 RESERVES *(CONTINUED)*

(ii) The Company

	Share premium $'000	Contributed surplus $'000 (note (e))	Retained profits/ (accumulated loss) $'000	Total $'000
At 1 January 2005	42,182	74,653	(58)	116,777
Issuance of share pursuant to the Over-allotment Option *(note 24)*	6,796	–	–	6,796
Share issue expenses	(100)	–	–	(100)
Profit for the year	–	–	11,566	11,566
Dividend for the year	–	–	(2,608)	(2,608)
At 31 December 2005	48,878	74,653	8,900	132,431
At 1 January 2006	48,878	74,653	8,900	132,431
Profit for the year	–	–	9,757	9,757
Dividend for the year	–	–	(5,502)	(5,502)
At 31 December 2006	48,878	74,653	13,155	136,686

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(b) Statutory surplus reserve

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(c) Exchange fluctuation reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in notes 1(q).

25 RESERVES *(CONTINUED)*

(d) Other reserve

Other reserve represents the difference between the contributed capitals of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange therefor.

(e) Contributed surplus

Pursuant to the Reorganisation in 2004, the Company became the holding company of the Group on 8 December 2004. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus.

(f) Distributability of reserves

As at 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $136,686,000 (2005: $132,431,000).

26 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 to 120 days from the date of billing except for receivables related to moulds development which are not due until the mass production of related products. Normally, the Group does not obtain collateral from customers.

Cash and cash equivalents are normally placed with licensed banks that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any licensed bank to fail to meet its obligations.

At the balance sheet date, the Group had a certain concentration of credit risk as 53% (2005: 50%) of the total trade and other receivables was due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

26 FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and fixed asset acquisitions beyond certain limits.

(c) Interest rate risk

Cash and cash equivalents and bank loans are the major types of the Group's financial instruments subject to interest rate risk.

Cash and cash equivalents comprise mainly bank deposits with fixed interest rates ranging from 3.88% to 5.37% per annum and the maturity dates of these bank deposits are within 1 year.

Bank loans of $17,194,000 and $8,098,000 bear a floating interest rate at 0.8% over LIBOR and fixed interest rate ranging from 5.02% to 5.30% per annum respectively. All bank loans are repayable within 1 year. Other details of the bank loan are set out in note 21.

(d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchase that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi and United States dollars.

RMB 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.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

27 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments, representing purchase of property, plant and equipment, not provided for in the financial statements are as follows:

	2006 *$'000*	2005 *$'000*
Authorised, but not contracted for	4,301	8,854
Contracted for	2,792	9,444
	7,093	18,298

(b) Other commitments

At 31 December 2006, the Company had commitments to contribute capital of $10,200,000 (2005: $30,372,000) to a subsidiary.

28 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 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

(Expressed in United States dollars unless otherwise indicated)

28 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 year are as follows:

	2006 *$'000*	2005 *$'000*
Sales of goods to		
– Asahi	730	265
– Fuzhou Xin Mi	820	2,012
– TRAS	858	282
– Yanmar	12,167	9,921
	14,575	12,480
Commission to		
– CMAI	627	570
– CMJ	232	185
	859	755
Reimbursement of expenses to		
– CMAI	3,422	2,782
– CMP	91	44
	3,513	2,826
Royalties to Yanmar	104	100

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 $44,000 (2005: $44,000) for the year ended 31 December 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.

28 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Recurring transactions *(Continued)*

In addition, remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of highest paid employees as disclosed in note 8, is as follows:

	2006	2005
	$'000	*$'000*
Short-term employee benefits	**2,110**	1,673
Post-employment benefits	**–**	–
Equity compensation benefits	**–**	–
	2,110	1,673

Total remuneration is included in "personnel expenses" (see note 5(b)).

(b) Amounts due from related companies

	2006	2005
	$'000	*$'000*
Trade		
– Asahi	**68**	64
– Fuzhou Xin Mi	**108**	743
– TRAS	**–**	67
– Yanmar	**2,049**	2,440
	2,225	3,314
Non-trade		
– CMAI	**1,288**	73
	3,513	3,387

All the other 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 31 December 2006.

28 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Amounts due to related companies

	2006 $'000	2005 $'000
CMP	1	18
CMJ	22	25
Dairitsu	71	71
Yanmar	104	100
	198	214

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

29 RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Tianjin and Suzhou whereby the Group is required to make contributions to the Schemes at the rate of 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

Employees engaged by the Group in Taiwan are covered by the retirement schemes in Taiwan which are administered by CMP. As disclosed in note 28(a), CMP is responsible for the retirement liability of these persons and the Group is not obliged to incur any liability beyond the contribution.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

30 EQUITY COMPENSATION BENEFIT

The Company has a share option scheme (the “Option Scheme”) which was adopted on 8 December 2004 whereby the directors of the Company are authorised, at their discretion, to invite, among others, any full-time or part-time employees and directors, suppliers, customers and advisers to the Group (subject to the eligibility requirements as set out therein) to take up options which entitle them to subscribe for shares not exceeding 10% of the total issued shares of the Company in issue immediately following completion of the Share Offer and Capitalisation Issue, being 100,000,000 shares, unless the Company obtains a fresh approval from shareholders and which must not in aggregate exceed 30% of the shares in issue form the time to time. The options may be exercised and for a period not more than 10 years after the date upon which the option is deemed to be granted. The exercise price of options may be determined by the board at its absolute discretion but in any event will not be less than the higher of:

(i) the closing price of the shares as stated in the daily quotations sheet of Stock Exchange on the date of grant, which must be a business day;

(ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

No share options have been granted under the Option Scheme to the eligible participants so far.

31 ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the management use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. Certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimates useful lives, after taking into account the estimated residual value. The management reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Inventories

Inventories are stated at the lower of cost and net realisable value at balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions.

(c) Impairment losses for bad and doubtful debts

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the income statement in future years.

(d) Impairment of fixed assets

Fixed assets are assessed at each balance sheet date to identify indications that they may be impaired. Such indications include physical damage of a fixed asset and a decrease in the revenue derived from a fixed asset. If any such indication exists, the recoverable amount of the fixed asset is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years. The recoverable amount of a fixed asset is based on value-in-use calculations. These calculations use cash flow projections based on reasonable assumption that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.

(Expressed in United States dollars unless otherwise indicated)

32 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 10.

(b) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. Certain subsidiaries of the Group have been granted the status of high-tech enterprise by the relevant tax authorities and currently their applicable income tax rate is 15%. According to the new tax law, certain high-tech enterprises will continue to be entitled to a reduced tax rate of 15%. However, the detailed implementation rules regarding the preferential tax policies (e.g. the details of how a taxpayer can qualify as a high-tech enterprise under the new tax law) have yet to be made public. Consequently, the Group is not able to assess whether these subsidiaries will qualify as high-tech enterprise under the new tax law and therefore is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax assets and liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006

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

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.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006 *(CONTINUED)*

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

34 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.