



**CHINA METAL INTERNATIONAL HOLDINGS INC.**  
**勤美達國際控股有限公司\***  
(Incorporated in the Cayman Islands with limited liability)  
(stock code: 319)



**INTERIM REPORT 2008**

\*For identification purposes only

## CORPORATE INFORMATION

### Board of directors

#### Executive Directors

HO Ming-Shiann (*Chairman*)

TSAO Ming-Hong (*Vice Chairman*)

GUU Heng-Chang

(also known as Stanley Guu)

WU Cheng-Tao

#### Non-Executive Director

Christian Odgaard PEDERSEN

#### Independent Non-Executive Directors

WONG Tin Yau, Kelvin

CHIU LIN Mei-Yu

(also known as Mary Lin Chiu)

HSU Shan-Ko

### Company secretary

TSE Kam Fai *ACIS, ACS, MHKIoD*

### Qualified accountant

Alice LIU CA

### Authorised representatives

WU Cheng-Tao

TSE Kam Fai *ACIS, ACS, MHKIoD*

### Audit committee

WONG Tin Yau, Kelvin (*Chairman*)

CHIU LIN Mei-Yu

(also known as Mary Lin Chiu)

HSU Shan Ko

### Remuneration committee

CHIU LIN Mei-Yu

(also known as Mary Lin Chiu) (*Chairman*)

HSU Shan-Ko

HO Ming-Shiann

### Auditors

KPMG

### Registered office

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman

Cayman Islands

### Principal place of business in Hong Kong

Unit 703

7/F., Euro Trade Centre

13-14 Connaught Road Central

Hong Kong

### Principal share registrar and transfer office

Appleby Corporate Services (Cayman) Ltd.

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman

Cayman Islands

### Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor

Services Limited

Shops 1712-1716, 17/F.

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

### Principal bankers

Agricultural Bank of China

China Construction Bank

International Bank of Taipei

### Stock code

319

### Website

<http://www.irasia.com/listco/hk/chinametal/index.htm>

## CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present to the Shareholders the interim report of China Metal International Holdings Inc. (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2008.

## BUSINESS REVIEW

During the first half of 2008, the Group achieved outstanding operating performance. While the whole world is affected by soaring prices in raw materials, caused by inflation and the subprime mortgage crisis in the United States, the overall business environment becomes more difficult and our management team felt increased pressure. However, because of the efforts made by the entire management team, both the compressor components and automotive components operations for the first half of 2008 can still meet the expected growth. Business in mechanical parts achieved an unexpected substantial growth due to growing production in new products. Regarding the outlook in the second half of 2008, the rapidly changing economic environment is still a challenge to the Group, but our entire management team has always been maintaining cautious, optimistic and endeavored attitudes to manage the Group and make the best contribution.

For the first half of 2008, the Group's overall financial performance is striking. Turnover for the first half of 2008 was US\$114.3 million, or a 36.7% growth year-on-year. Profit attributable to equity shareholders was US\$18.5 million, or a 26% growth year-on-year. In addition to the expected growth in motor vehicles and compressors parts, mechanical parts reach a growth of more than 66% due to the increasing production in new products. Generally, the three major product categories all achieve a steady growth, capacity utilization rates have also reached its full capacity. Therefore, in the first half of 2008, though facing the soaring prices in raw materials and appreciation of Renminbi, operating margin of the Group still maintains at 20.4%, compared to 20.8% for the same period in 2007. Net profit margin after tax for the first half of 2008 was 17.8%, compared to 18.5% for the same period in 2007. We will continue to strengthen our management, and to enhance cost control to maintain stable revenue and profit growth.

## **INTERIM DIVIDEND**

The Directors resolved the payment of a cash interim dividend of US cents 0.53 (equivalent to HK cents 4.13) per ordinary share for the six months ended 30 June 2008 payable on 29 September 2008 to the shareholders of the Company whose names appear in the Register of Members of the Company on 22 September 2008.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Friday, 19 September 2008 to Monday, 22 September 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 18 September 2008.

## **FUTURE PROSPECTS AND APPRECIATION**

In 2008, on top of continuing to grow our business and meet demands from our customers and improving our productivity and yield, we are developing new products and customers for the business of automotive and mechanical applications in both domestic China and overseas. Also, we will continue to raise in-house machining ratio of our products to increase their added-value. At the same time, we are in the process of the capacity expansion plans of CMS and CMWT plants.

I would like to take this opportunity to express my sincere appreciation and gratitude to all our fellow directors, management and employees for their contributions to the Group. I also thank our business associates, investors, shareholders for their continued support over the years.

## CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008 – UNAUDITED

(Expressed in United States dollars)

		<b>Six months ended 30 June</b>	
		<b>2008</b>	2007
		<b>\$'000</b>	\$'000
<b>Turnover</b>	2	<b>114,272</b>	83,583
Cost of sales	3(b)	<b>(84,340)</b>	(58,856)
<b>Gross profit</b>		<b>29,932</b>	24,727
Other revenue		<b>260</b>	621
Other net income		<b>3,500</b>	1,015
Selling and distribution costs		<b>(6,397)</b>	(5,697)
Administrative expenses		<b>(3,953)</b>	(3,240)
<b>Profit from operations</b>		<b>23,342</b>	17,426
Finance costs	3(a)	<b>(87)</b>	(688)
<b>Profit before taxation</b>	3	<b>23,255</b>	16,738
Income tax	4	<b>(2,921)</b>	(1,273)
<b>Profit for the period</b>		<b>20,334</b>	15,465
<b>Attributable to:</b>			
Equity shareholders of the Company	13	<b>18,518</b>	14,755
Minority interests	13	<b>1,816</b>	710
<b>Profit for the period</b>	13	<b>20,334</b>	15,465
<b>Dividends payable to equity shareholders of the Company attributable to the interim period:</b>	5		
Interim dividend declared after the balance sheet date		<b>5,457</b>	4,461
<b>Earnings per share</b>	6		
Basic (cents)		<b>1.80</b>	1.42

The notes on pages 8 to 21 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET AT 30 JUNE 2008 – UNAUDITED

(Expressed in United States dollars)

	Note	30 June 2008 \$'000	31 December 2007 \$'000
<b>Non-current assets</b>			
Fixed assets			
– Property, plant and equipment	7	127,010	125,390
– Interests in leasehold land held for own use under operating leases		5,534	5,261
Construction in progress		23,881	6,740
Other non-current financial assets		500	500
		<u>156,925</u>	<u>137,891</u>
<b>Current assets</b>			
Inventories		42,756	33,529
Trade and other receivables	8	71,396	65,143
Amounts due from a related company	15(c)	1,552	1,683
Pledged bank deposits		2,251	1,775
Cash and cash equivalents	9	14,924	20,960
		<u>132,879</u>	<u>123,090</u>
<b>Current liabilities</b>			
Bank loans	11	6,841	8,847
Trade and other payables	10	41,457	35,887
Amounts due to related companies	15(d)	301	324
Current taxation		1,594	699
		<u>50,193</u>	<u>45,757</u>
<b>Net current assets</b>		<u>82,686</u>	<u>77,333</u>
<b>Total assets less current liabilities</b>		<u>239,611</u>	<u>215,224</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		156	–
<b>NET ASSETS</b>		<u>239,455</u>	<u>215,224</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	12	1,323	1,328
Reserves	13	214,958	193,312
<b>Total equity attributable to equity shareholders of the Company</b>		<u>216,281</u>	<u>194,640</u>
Minority interests	13	23,174	20,584
<b>TOTAL EQUITY</b>		<u>239,455</u>	<u>215,224</u>

The notes on pages 8 to 21 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2008 – UNAUDITED

(Expressed in United States dollars)

		<b>Six months ended 30 June</b>	
	Note	<b>2008</b> <b>\$'000</b>	2007 \$'000
<b>Total equity at 1 January</b>		<b>215,224</b>	182,404
<b>Net income for the period recognised directly in equity:</b>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	13	<b>8,733</b>	3,249
<b>Net profit for the period</b>	13	<b>20,334</b>	15,465
<b>Total recognised income and expense for the period</b>		<b>29,067</b>	18,714
<b>Attributable to:</b>			
– Equity shareholders of the Company		<b>26,477</b>	17,752
– Minority interests		<b>2,590</b>	962
		<b>29,067</b>	18,714
Dividends declared and approved during the period	5(b)	<b>(4,736)</b>	(3,926)
<b>Movements in equity arising from capital transactions:</b>			
Share repurchased and cancelled			
– par value	12(b)	<b>(1)</b>	–
– premium paid	12(b)	<b>(99)</b>	–
Capital contributions by minority shareholders	13	<b>–</b>	2,450
		<b>(100)</b>	2,450
<b>Total equity at 30 June</b>		<b>239,455</b>	199,642

The notes on pages 8 to 21 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008 – UNAUDITED

(Expressed in United States dollars)

		<b>Six months ended 30 June</b>	
	Note	<b>2008 \$'000</b>	2007 \$'000
<b>Cash generated from operations</b>		<b>20,875</b>	16,434
<b>Net income tax paid</b>		<b>(1,982)</b>	(936)
<b>Net cash from operating activities</b>		<b>18,893</b>	15,498
<b>Net cash used in investing activities</b>		<b>(17,535)</b>	(6,317)
<b>Net cash used in financing activities</b>		<b>(7,497)</b>	(5,944)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,139)</b>	3,237
<b>Cash and cash equivalents at 1 January</b>	9	<b>20,960</b>	30,967
<b>Effect of foreign exchange rate changes</b>		<b>103</b>	314
<b>Cash and cash equivalents at 30 June</b>	9	<b>14,924</b>	34,518

The notes on pages 8 to 21 form part of this interim financial report.



## NOTES:

*(Expressed in United States dollars)*

### **1 Basis of preparation**

This 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 of Hong Kong Limited, 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 28 August 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 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 2007 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 and by the auditors, KPMG, in accordance with Hong Kong Standards on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", 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 2007 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 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2008.

## 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 design, development, manufacture and sale of customised metal castings for use in various industries. 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 ("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.

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
The PRC	<b>60,147</b>	39,753
United States of America	<b>36,574</b>	30,089
Japan	<b>12,945</b>	9,431
Others	<b>4,606</b>	4,310
	<hr/> <b>114,272</b> <hr/>	<hr/> 83,583 <hr/>

Most of the assets 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 and (crediting):

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
(a) Finance costs:		
Interest expense on bank advances wholly repayable within five years	<b>177</b>	756
Less: Amount capitalised	<b>(90)</b>	(81)
	<hr/>	<hr/>
Discounting charges	<b>87</b>	675
	<b>-</b>	13
	<hr/>	<hr/>
	<b>87</b>	688
	<hr/> <hr/>	<hr/> <hr/>

Borrowing costs were capitalised at an annualised rate of 5.63% for the six months ended 30 June 2008 (six months ended 30 June 2007: 5.94%).

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
(b) Other items:		
Amortisation of land lease premium	<b>51</b>	58
Depreciation	<b>8,338</b>	7,272
Interest income	<b>(257)</b>	(551)
Carrying amount of inventories sold	<b>84,340</b>	58,856
Loss on disposal of fixed assets	<b>19</b>	16
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

#### 4 Income tax in the consolidated income statement

	<b>Six months ended 30 June</b>	
	<b>2008</b> <b>\$'000</b>	2007 \$'000
<b>Current tax</b>		
PRC enterprise income tax for the period	<b>2,763</b>	1,273
Under-provision in respect of prior year	<b>2</b>	-
	<b>2,765</b>	1,273
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	<b>156</b>	-
	<b>2,921</b>	1,273

The provision for Hong Kong Profits Tax for the six months ended 30 June 2008 is calculated at 16.5% (six months ended 30 June 2007: 17.5%). In June 2008, the Government of Hong Kong Special Administrative Region enacted a change in the profits tax rate from 17.5% to 16.5% commencing with the fiscal year 2008/09. No provision for Hong Kong Profits Tax is made for the period as CMP (Hong Kong) Industry Company Limited ("CMP(HK)") and CMB (Hong Kong) Company Limited ("CMB(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 six months ended 30 June 2008, Tian Jin CMT Industry Company Limited ("CMT") is subject to income tax at the rate of 25% (six months ended 30 June 2007: 15%).

During the six months ended 30 June 2008, Suzhou CMS Machinery Company Limited ("CMS") is subject to income tax at the rate of 25% (six months ended 30 June 2007: 10%).

Pursuant to the income tax rules and regulations of the PRC, CMW (Tianjin) Industry Company Limited ("CMWT") and Suzhou CMB Machinery Company Limited ("CMB") 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 current period is the second and the first profit-making year of CMWT and CMB respectively and CMWT and CMB are eligible for a 100% relief from PRC enterprise income tax.

#### 4 Income tax in the consolidated income statement (continued)

In addition, pursuant to the Corporate Income Tax Law of the PRC effective on 1 January 2008 and the Implementation Rules to the Corporate Income Tax Law, dividends payable by subsidiaries in the PRC to foreign investors are subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a tax treaty between the PRC and Hong Kong, the holding companies of CMB and CMT are established in Hong Kong, and therefore, dividends payable by CMB and CMT are subject to a reduced withholding tax rate of 5%. Dividends receivable by the Group from subsidiaries established in the PRC in respect of their undistributed profits prior to 31 December 2007 are exempted from withholding tax.

#### 5 Dividends

##### (a) Dividends payable to equity shareholders of the Company attributable to the interim period:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Interim dividend declared and payable after the interim period of 0.53 cents per share (2007: 0.43 cents)	<b><u>5,457</u></b>	<u>4,461</u>

The interim 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 interim period:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Final dividend in respect of previous financial year, approved and paid during the interim period of 0.46 cents per share (year ended 31 December 2007: 0.35 cents)	<b><u>4,736</u></b>	<u>3,926</u>

## 6 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the profit attributable to the equity shareholders of the Company of \$18,518,000 (six months ended 30 June 2007: \$14,755,000) and the weighted average number of 1,029,783,000 ordinary shares in issue during the period (six months ended 30 June 2007: 1,037,500,000), calculated as follows:

	<b>Number of shares (thousand)</b>	<i>(thousand)</i>
	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
Issued ordinary shares at 1 January	<b>1,032,822</b>	1,037,500
Effect of shares repurchased (note 12(b))	<b>(3,039)</b>	–
	<hr/>	<hr/>
Weighted average number of ordinary shares at 30 June	<b><u>1,029,783</u></b>	<u>1,037,500</u>

### (b) Diluted earnings per share

There were no dilutive potential ordinary shares during the six months ended 30 June 2007 and 2008 and, therefore, diluted earnings per share is not presented.

## 7 Fixed assets

During the six months ended 30 June 2008, the Group acquired items of plant and machinery with a cost of \$879,000 (six months ended 30 June 2007: \$2,349,000) and transferred items from construction in progress with a cost of \$563,000 (six months ended 30 June 2007: \$5,330,000). Items of plant and machinery with a net book value of \$137,000 were disposed of during the six months ended 30 June 2008 (six months ended 30 June 2007: \$241,000), resulting in a loss on disposal of \$19,000 (six months ended 30 June 2007: \$16,000).

**8 Trade and other receivables**

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

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Within 3 months	<b>56,196</b>	52,741
Over 3 months but less than 6 months	<b>1,440</b>	768
Over 6 months but less than 1 year	<b>345</b>	428
Over 1 year but less than 2 years	<b>1,888</b>	2,441
Over 2 years but less than 3 years	<b>8</b>	–
Total trade receivables and bills receivables, net of impairment losses	<b>59,877</b>	56,378
Other receivables, deposits and repayments	<b>11,519</b>	8,765
	<b>71,396</b>	65,143

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 billings except for receivables related to mould development which are not due until the mass production of related products. Normally, the Group does not obtain collateral from customers.

Included in trade receivables are amounts due from related companies of \$2,815,000 (31 December 2007: \$2,975,000), details of which are disclosed in note 15(c).

**9 Cash and cash equivalents**

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Cash at bank and in hand	<b>8,650</b>	10,328
Deposits with banks with maturity within three months	<b>6,274</b>	10,632
	<b>14,924</b>	20,960

**10 Trade and other payables**

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

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Due within 1 month or on demand	<b>16,237</b>	6,772
Due after 1 month but within 3 months	<b>9,607</b>	17,695
Due after 3 months but within 6 months	<b>3,709</b>	1,944
Due after 6 months but within 12 months	<b>51</b>	120
Due after 12 months	<b>54</b>	63
	<hr/>	<hr/>
Total trade payables and bills payable	<b>29,658</b>	26,594
Other payables	<b>11,799</b>	9,293
	<hr/>	<hr/>
	<b>41,457</b>	<b>35,887</b>

Certain bills payable of approximately \$10,868,000 (31 December 2007: \$9,192,000) as at 30 June 2008 were secured by pledged bank deposits of \$2,051,000 (31 December 2007: \$1,285,000).

**11 Bank loans**

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Unsecured bank loans repayable within 1 year or on demand	<b>6,841</b>	8,847
	<hr/>	<hr/>



**12 Share capital****(a) Authorised and issued share capital**

	<b>At 30 June 2008</b>		At 31 December 2007	
	<b>Number of shares (thousand)</b>	<b>\$'000</b>	Number of shares (thousand)	\$'000
<b>Authorised:</b>				
Ordinary shares of HK\$0.01 each	<u>10,000,000</u>	<u>12,853</u>	<u>10,000,000</u>	<u>12,853</u>
<b>Issued:</b>				
At 1 January	<b>1,032,822</b>	<b>1,328</b>	1,037,500	1,333
Share repurchased and cancelled	<u>(3,166)</u>	<u>(5)</u>	<u>(4,678)</u>	<u>(5)</u>
	<u><b>1,029,656</b></u>	<u><b>1,323</b></u>	<u>1,032,822</u>	<u>1,328</u>

**(b) Repurchase of own shares**

The Company repurchased and cancelled its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

<b>Month/year</b>	<b>Number of shares repurchased</b>	<b>Highest price paid per share</b> HK\$	<b>Lowest price paid per share</b> HK\$	<b>Aggregate price paid</b> \$'000
December 2007 (note (i))	2,806,000	2.65	2.23	878
January 2008 (note (iii))	<u>360,000</u>	<u>2.23</u>	<u>1.90</u>	<u>100</u>
	<u><b>3,166,000</b></u>			<u><b>978</b></u>

Notes:

- (i) The repurchased shares were pending for cancellation at 31 December 2007 and the amount paid on the repurchase of the shares of \$878,000 was charged to the share repurchase reserve. The repurchased shares were cancelled on 7 January 2008 and 14 January 2008. Pursuant to section 37(4) of the Companies Law (2007 Revision) of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of \$4,000 was transferred from retained profits to the capital redemption reserve. The par value of the shares cancelled of \$4,000 and the premium paid on the repurchased shares of \$874,000 was transferred from the share repurchase reserve to issued share capital and share premium respectively.
- (ii) The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law (2007 Revision) of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of \$1,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchased shares of \$99,000 was charged to share premium.

## 13 Reserves

	Attributable to equity shareholders of the Company									
	Share redemption premium	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Other reserve	Share repurchase reserve	Retained profits	Sub-total	Minority interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2007	48,878	-	5,945	6,126	34,920	-	69,838	165,707	15,364	181,071
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	2,997	-	-	-	2,997	252	3,249
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	2,450	2,450
Profit for the period	-	-	-	-	-	-	14,755	14,755	710	15,465
Appropriations	-	-	604	-	-	-	(604)	-	-	-
Dividend approved in respect of previous financial year	-	-	-	-	-	-	(3,926)	(3,926)	-	(3,926)
At 30 June 2007	<u>48,878</u>	<u>-</u>	<u>6,549</u>	<u>9,123</u>	<u>34,920</u>	<u>-</u>	<u>80,063</u>	<u>179,533</u>	<u>18,776</u>	<u>198,309</u>

	Attributable to equity shareholders of the Company									
	Share redemption premium	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Other reserve	Share repurchase reserve	Retained profits	Sub-total	Minority interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2008	47,160	5	7,041	13,760	34,920	(878)	91,304	193,312	20,584	213,896
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	7,959	-	-	-	7,959	774	8,733
Profit for the period	-	-	-	-	-	-	18,518	18,518	1,816	20,334
Purchase and cancellation of own shares (note 12(b)):										
- premium paid	(973)	-	-	-	-	878	-	(95)	-	(95)
- transfer between reserves	-	5	-	-	-	-	(5)	-	-	-
Appropriations	-	-	2,509	-	-	-	(2,509)	-	-	-
Dividend approved in respect of previous financial year	-	-	-	-	-	-	(4,736)	(4,736)	-	(4,736)
At 30 June 2008	<u>46,187</u>	<u>10</u>	<u>9,550</u>	<u>21,719</u>	<u>34,920</u>	<u>-</u>	<u>102,572</u>	<u>214,958</u>	<u>23,174</u>	<u>238,132</u>

## 14 Commitments

### (a) Capital commitments

Capital commitments, representing purchase of property, plant and equipment, not provided for in the interim financial report were as follows:

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Contracted for	<b>10,347</b>	<u>1,912</u>

### (b) Foreign currency contracts

Foreign currency forward contracts are entered into in the normal course of business primarily to protect the Group from the impact of currency fluctuations in United States dollars ("USD"). At 30 June 2008, the Group had commitments in respect of forward contracts to sell USD and receive Renminbi totalling \$6,000,000 (31 December 2007: \$23,600,000). In accordance with the Group's treasury policy, the Group does not hold foreign currency forward contracts for trading purposes. However, all of the foreign currency forward contracts entered into by the Group during the six months ended 30 June 2008 were not qualified for hedge accounting and were accounted for as trading instruments.

## 15 Material related party transactions

During the six months ended 30 June 2008, transaction with the following parties are considered as related party transactions.

<b>Name of party</b>	<b>Relationship</b>
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
Vald. Birn A/S ("Birn")	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")	Affiliated company

**15 Material related party transactions (continued)****(a) Recurring transactions**

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

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Sales of goods to		
– Asahi	<b>30</b>	57
– Fuzhou Xin Mi	<b>377</b>	348
– TRAS	<b>519</b>	464
– Yanmar	<b>11,815</b>	8,541
– Birn	<b>191</b>	–
	<b><u>12,932</u></b>	<u>9,410</u>
Commission to		
– CMAI	<b>492</b>	659
– CMJ	<b>231</b>	167
	<b><u>723</u></b>	<u>826</u>
Reimbursement of expenses to		
– CMAI	<b>2,571</b>	1,300
– CMP	<b>75</b>	106
	<b><u>2,646</u></b>	<u>1,406</u>
Royalties to		
– Yanmar	<b>44</b>	83

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 \$24,000 (six months ended 30 June 2007: \$22,000) for the six months ended 30 June 2008. 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:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Short-term employee benefits	<b>1,508</b>	998
Post-employment benefits	–	–
Equity compensation benefits	–	–
	<hr/> <b>1,508</b> <hr/>	<hr/> 998 <hr/>

**(b) Non-recurring transactions**

During the six months ended 30 June 2007, Birn made capital contribution of \$2,450,000 to a subsidiary of the Company. During the six months ended 30 June 2008, there was no capital contribution by Birn to that subsidiary of the Company.

**(c) Amounts due from related companies**

	<b>At</b>	At
	<b>30 June</b>	31 December
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Trade		
– Fuzhou Xin Mi	<b>298</b>	91
– TRAS	<b>66</b>	42
– Yanmar	<b>2,383</b>	2,842
– Birn	<b>68</b>	–
	<hr/> <b>2,815</b> <hr/>	<hr/> 2,975 <hr/>
Non-trade		
– CMAI	<b>1,552</b>	1,683
	<hr/> <b>4,367</b> <hr/>	<hr/> 4,658 <hr/>

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 2008 and 31 December 2007.

## 15 Material related party transactions (continued)

### (d) Amounts due to related companies

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
CMP	<b>7</b>	33
CMJ	<b>38</b>	79
Dairitsu	<b>71</b>	71
Yanmar	<b>185</b>	141
	<b>301</b>	324

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

## 16 Financial instruments

The Group is exposed to foreign currency risks on sales that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily USD.

The Group uses foreign currency forward contracts to hedge its foreign currency risk. All foreign currency forward contracts have maturity of less than one year after the balance sheet date. At any point in time the Group hedges certain amount of its estimated USD foreign currency exposure.

In respect of other monetary assets and liabilities held in currencies other than the functional currency of the operations to which they relate, the directors ensure that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalance.

Other aspects of the Group's financial risk management policies and practices are consistent with those disclosed in the Company's statutory financial statements for the year ended 31 December 2007.

## 17 Post balance sheet events

After the balance sheet date, the directors proposed an interim dividend. Further details are disclosed in note 5.

## 18 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2008

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 2008:

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 8	Operating segments	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009

The above amendments, new standards and interpretations were not 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 2008.

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.



## **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA METAL INTERNATIONAL HOLDINGS INC.**

### **Introduction**

We have reviewed the interim financial report set out on pages 4 to 21 which comprise the consolidated balance sheet of China Metal International Holdings Inc. as at 30 June 2008 and the related consolidated statements of income, and changes in equity and condensed consolidated statements of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Scope of review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

28 August 2008

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

The Group's recorded turnover and profit attributable to equity shareholders for the six months ended 30 June 2008 amounted to US\$114,272,000 and US\$18,518,000 (six months ended 30 June 2007: US\$83,583,000 and US\$14,755,000), representing a strong growth as compared to the same period in 2007. Gross profit for the six months ended 30 June 2008 amounted to approximately US\$29,932,000 (six months ended 30 June 2007: US\$24,727,000), representing a gross profit margin of approximately 26.2% (six months ended 30 June 2007: 29.6%). Operating profit for the six months ended 30 June 2008 was approximately US\$23,342,000 (six months ended 30 June 2007: US\$17,426,000) or 20.4% (six months ended 30 June 2007: 20.8%) of recorded turnover. Net profit for the six months ended 30 June 2008 was approximately US\$20,334,000 (six months ended 30 June 2007: US\$15,465,000) or 17.8% (six months ended 30 June 2007: 18.5%) of recorded turnover.

### Liquidity and financial resources

As at 30 June 2008, the Group had outstanding bank borrowings amounted to US\$6,841,000 (31 December 2007: US\$8,847,000) and all are repayable within one year. The Group's cash and cash equivalents amounted to US\$14,924,000 (31 December 2007: US\$20,960,000). The Group's current ratio and the gearing ratio (a ratio of total liabilities to total assets) is 2.6 (31 December 2007: 2.7) and 17.4% (31 December 2007: 17.5%), respectively.

### Capital Structure

The Company's issued share capital as at 30 June 2008 is HK\$10,296,560 divided into 1,029,656,000 shares of HK\$0.01 each.

### Significant investments

As at 30 June 2008, the Group held unlisted equity securities outside Hong Kong of US\$500,000 (31 December 2007: 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

Details of segmental information of the Group as at 30 June 2008 are set out in note 2 to the interim financial report.



### **Employee benefits**

The remuneration policy of the Company is reviewed annually by the Remuneration Committee so as to keep the policy in line with the prevailing market practice. During the period 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 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\$24,000 (six months ended 30 June 2007: US\$22,000) to CMP as the Group's share of contribution to such retirement scheme. The Group is not obliged to incur any liability beyond the contribution.

### **Charges on group assets**

As at 30 June 2008, bank deposits amounting to US\$2,251,000 (31 December 2007: US\$1,775,000) were pledged to secure banking facilities granted to the Group.

### **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 mechanical and automotive sectors. In continuation of capital expenditures on CMWT, CMS and CMB facilities, the Group has made major capital investment in the first half of 2008 and is expected to continue the investment in new equipment in the second half of 2008. In addition, the Group will continue to seek new business development opportunities for further investment in the casting and machining facilities.

### **Foreign currency exposure**

The Group's sales are mostly denominated in Reminbi and United States dollars. The Group has not experienced any material difficulties or negative impact on its operations as a result of fluctuations in currency exchange rates. Nevertheless, the Group will continue to monitor the foreign exchange exposure and will take prudent measures when needed.

The Renminbi currently is not a freely convertible currency. 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 2008, no contingent liabilities were noted by the Directors.

### **Share Option Scheme**

The Company adopted a share option scheme (the "Scheme") on 8 December 2004. The purpose of the Scheme is to enable the Board to grant options to selected eligible participants (as defined in the prospectus of the Company dated 20 December 2004 (the "Prospectus")), to motivate them and to optimize their performance and efficiency for the benefit of the Group, and attract and retain or otherwise maintain on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

Details of the Scheme are set out in the Prospectus.

No share option was granted by the Company since its adoption.

## DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES UNDERLYING SHARES AND DEBENTURES

At 30 June 2008, the interest or short positions of the directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

### Interests and short positions in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the issued ordinary share capital of the Company
Mr. Ho Ming-Shiann	Beneficial interest	Long position	6,024,923	0.59%
Mr. Tsao Ming-Hong	Beneficial Interest	Long position	6,373,766	0.62%
	Family interest (Note i)	Long position	1,566,386	0.15%
Mr. Guu Herng-Chang	Beneficial interest	Long position	7,891,083	0.77%
Mr. Wu Cheng-Tao	Beneficial interest	Long position	8,081,435	0.78%
	Family interest (Note ii)	Long position	783,193	0.08%
Dr. Wong Tin Yau, Kelvin	Beneficial interest	Long position	1,000,000	0.10%

Notes:

- (i) Pursuant to section 316 of the SFO, Mr. Tsao Ming-Hong is deemed to be interested in 1,566,386 shares held by his spouse, Ms. Lin Hsiu Man.
- (ii) Pursuant to section 316 of the SFO, Mr. Wu Cheng-Tao is deemed to be interested in 783,193 shares held by his spouse, Ms. Ho Pei-Lin.

Save as disclosed above, as at 30 June 2008, none of the Directors or chief executive of the Company nor their associates, had any interest in long position or short position in the shares, underlying shares or debentures of the Company or its associated corporations which they are taken or deemed to have under such provision of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/ OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER SECTION 336 OF THE SFO

At 30 June 2008, so far as is known to the Directors and chief executives of the Company, the interests or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

#### Interests and short positions of substantial shareholders in shares and underlying shares of the Company

Name	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the issued ordinary share capital of the Company
China Metal Products Company Limited ("CMP")	Controlled corporation	Long position	446,516,059	43.46%
United Elite Agents Limited ("UEA") (Note)	Beneficial interest	Long position	446,516,059	43.46%
Vald Birns Holdings A/S	Beneficial interest	Long position	91,528,922	8.89%

Note: UEA is wholly and beneficially owned by CMP, a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2008.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2008, the Company repurchased 360,000 shares of HK\$0.01 each in the capital of the Company at prices ranging from HK\$1.90 to HK\$2.23 per share on the Stock Exchange. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share		Aggregate purchase consideration HK\$
		Highest HK\$	Lowest HK\$	
January 2008	360,000	2.23	1.90	770,760

The repurchased shares were cancelled and accordingly, the issued share capital of the Company was diminished by the nominal value thereof. The premium paid on repurchased shares was charged to share premium.

Repurchases of shares were made for the benefit of the shareholders as a whole as they enhanced the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005.

During the period ended 30 June 2008, the Company was in compliance with the code provisions set out in the CG Code except that code A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separated. The roles of chairman and chief executive officer were not separated as the Company has not appointed a chief executive officer and the roles and functions of the chief executive officer have been performed by all the executive Directors, including the Chairman, of the Company collectively.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the period ended 30 June 2008.

## **AUDIT COMMITTEE**

The Company established an audit committee (the "Audit Committee") on 8 December 2004 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three independent non-executive Directors, Dr. Wong Tin-Yau, Kelvin (as chairman), Mrs. Chiu Lin Mei-Yu and Mr. Hsu Shan-Ko. The Audit Committee has reviewed the unaudited interim financial results of the Group for the period ended 30 June 2008.

On behalf of the Board  
**China Metal International Holdings Inc.**  
**Ho Ming-Shiann**  
*Chairman*

Hong Kong, 28 August 2008