



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 2012

*For identification purposes only

CORPORATE INFORMATION

Board of directors

Executive Directors

KING Fong-Tien (*Chairman*)
 TSAO Ming-Hong (*Vice Chairman*)
 WU Cheng-Tao

Non-Executive Director

Christian Odgaard PEDERSEN

Independent Non-Executive Directors

WONG Tin Yau, Kelvin, *FHKIoD*
 CHIU LIN Mei-Yu
 (also known as Mary Lin Chiu)
 CHEN Pou-Tsang
 (also known as Angus P.T. Chen)

Company secretary

TSE Kam Fai, *ACIS, ACS, MHKIoD*

Authorised representatives

WU Cheng-Tao
 TSE Kam Fai, *ACIS, ACS, MHKIoD*

Audit committee

WONG Tin Yau, Kelvin, *FHKIoD* (*Chairman*)
 CHIU LIN Mei-Yu
 (also known as Mary Lin Chiu)
 CHEN Pou-Tsang
 (also known as Angus P.T. Chen)

Remuneration committee

CHIU LIN Mei-Yu
 (also known as Mary Lin Chiu) (*Chairman*)
 CHEN Pou-Tsang
 (also known as Angus P.T. Chen)
 KING Fong-Tien

Nomination committee

KING Fong-Tien (*Chairman*)
 CHIU LIN Mei-Yu
 (also known as Mary Lin Chiu)
 CHEN Pou-Tsang
 (also known as Angus P.T. Chen)

Auditor

KPMG
 Certified Public Accountants
 8th Floor, Prince's Building
 10 Chater Road
 Central, Hong Kong

Registered office

Clifton House
 75 Fort Street
 P.O. Box 1350 GT
 George Town
 Grand Cayman
 Cayman Islands

Place of business in Hong Kong

Room 1502, 15th Floor
 The Chinese Bank Building
 61-65 Des Voeux 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
 Tianjin TEDA Branch
 International Development Building
 Tianjin Economic Development Area
 Tianjin, The PRC

China Construction Bank
 Suzhou High and New Technology
 Industrial Development Zone Branch
 No.27, Shi Shan Road
 Suzhou New District
 Suzhou
 Jiangsu Province
 The PRC

Bank Sinopac
 No. 1, Lane 236
 Section 1, Tun Hua S. Road
 Taipei 106, Taiwan

Taipei Fubon Bank
 6/F., No. 169
 Section 4, Jen-Ai Road
 Taipei 106, Taiwan

Stock code

319

Website

http://www.hkstockinfo.com/china_metal

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 2012.

BUSINESS REVIEW

The global economy in the first half of 2012 was in a very unstable state due to the European sovereign debt crisis, which caused the implementation by governments of various economic control policies cautiously. In such a volatile economic environment, enterprises were facing more severe challenges. As a result of such economic environment and market factors, the widely raised electricity charges by the end of 2011, and the substantially increased basic salaries in the second quarter of this year in the PRC, affecting the revenue and the profitability of the Group. However, after striving by the management team, the results for the first half of 2012 is very close to that in the second half of 2011. At present, our factories in Tianjin and Suzhou have successfully sourced many new domestic and overseas customers, and new products are under development which will be put in mass production and shipments successively in 2013 and 2014. In addition, Suzhou CMB Machinery Co., Ltd. (hereinafter referred to as "CMB") carries out its relocation and expansion project smoothly and has received orders for newly developed products of larger castings which are suitable for the production of CMB. The Group made some personnel changes in the first half of this year to enhance the management and operational efficiency of CMWT, and we believe that this will lead to more sophisticated and more effective operation and management, and hence improve the operational performance of the Group.

FINANCIAL PERFORMANCE

For the six months ended 30 June 2012, the Group's revenue amounted to US\$156,352,000 (30 June 2011: US\$155,221,000), profit after tax amounted to US\$16,226,000 (30 June 2011: US\$17,030,000). The sales of vehicles parts, and agriculture equipment parts recorded moderate increase and other machinery parts recorded significant decrease. For the six months ended 30 June 2012, operating margin was 12.1% and profit after tax over turnover ratio was 10.4%.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors resolved the declaration of an interim dividend of US cent 0.54 (equivalent to HK cents 4.18) per ordinary share for the six months ended 30 June 2012 payable on Thursday, 27 September 2012 to the shareholders of the Company whose names appear on the Register of Members of the Company on Thursday, 20 September 2012.

For determining the entitlement of the shareholders to the interim dividend, the register of members of the Company will be closed from Wednesday, 19 September 2012 to Thursday, 20 September 2012, both days inclusive, during which period no transfer of shares shall 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 and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 18 September 2012.

FUTURE PROSPECTS AND APPRECIATION

Despite of the current uncertain economic environment, the Group successfully sourced new customers in 2012 and to get their confirmations of putting a large number of currently developing products to the mass production, the management team of the Group will uphold a positive, healthy attitude to strengthen the sophisticated management system, and the Board is confident that there will be a breakthrough in our operational performance of the Group in the near future.

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 and shareholders for their continued support over the years.

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012 – UNAUDITED

(Expressed in United States dollars)

		Six months ended 30 June	
		2012	2011
		\$'000	\$'000
	Note		
Turnover	3	156,352	155,221
Cost of sales	5(b)	(126,146)	(119,642)
Gross profit		30,206	35,579
Other revenue		4,339	131
Other net income		510	330
Selling and distribution costs		(9,410)	(10,390)
Administrative expenses		(6,754)	(5,985)
Profit from operations		18,891	19,665
Finance costs	5(a)	(383)	(201)
Profit before taxation	5	18,508	19,464
Income tax	6	(2,282)	(2,434)
Profit for the period		16,226	17,030
Attributable to:			
Equity shareholders of the Company		14,500	16,632
Non-controlling interests		1,726	398
Profit for the period		16,226	17,030
Earnings per share	7		
– Basic (cents)		1.44	1.66
– Diluted (cents)		1.44	1.66

The notes on pages 11 to 27 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2012 – UNAUDITED

(Expressed in United States dollars)

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
Profit for the period	16,226	17,030
Other comprehensive income for the period (after tax):		
Exchange differences on translation of financial statements of overseas subsidiaries	(1,483)	4,245
Total comprehensive income for the period	<u>14,743</u>	<u>21,275</u>
Attributable to:		
Equity shareholders of the Company	13,128	20,760
Non-controlling interests	1,615	515
Total comprehensive income for the period	<u>14,743</u>	<u>21,275</u>

The notes on pages 11 to 27 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012

(Expressed in United States dollars)

	Note	Unaudited 30 June 2012 \$'000	Audited 31 December 2011 \$'000
Non-current assets			
Property, plant and equipment	8	160,992	170,385
Lease prepayments		4,535	4,936
Construction in progress		19,720	3,875
Other financial assets		72	112
		<u>185,319</u>	<u>179,308</u>
Current assets			
Inventories		48,628	53,834
Trade and other receivables	9	130,565	113,456
Amounts due from related companies	17(b)	1,873	2,293
Pledged bank deposits		3,526	3,030
Cash and cash equivalents	10	31,938	25,989
		<u>216,530</u>	<u>198,602</u>
Current liabilities			
Bank loans	12	18,049	13,170
Trade and other payables	11	57,100	58,300
Amounts due to related companies	17(c)	3,971	4,075
Current tax payable		3,586	2,666
		<u>82,706</u>	<u>78,211</u>
Net current assets		<u>133,824</u>	<u>120,391</u>
Total assets less current liabilities		<u>319,143</u>	<u>299,699</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012 (CONTINUED)

(Expressed in United States dollars)

	Note	Unaudited 30 June 2012 \$'000	Audited 31 December 2011 \$'000
Non-current liabilities			
Long-term loans	12	30,000	20,000
Deferred tax liabilities		107	107
		30,107	20,107
		289,036	279,592
NET ASSETS			
Capital and reserves			
Share capital	14	1,291	1,291
Reserves		278,233	270,404
		279,524	271,695
Non-controlling interests		9,512	7,897
TOTAL EQUITY		289,036	279,592

The notes on pages 11 to 27 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012 - UNAUDITED

(Expressed in United States dollars)

	Attributable to equity shareholders of the Company										
	Share capital \$'000	Share premium \$'000	Capital redemption reserve \$'000	Statutory surplus reserve \$'000	Exchange fluctuation reserve \$'000	Capital reserve-share option \$'000	Other reserve \$'000	Retained profits \$'000	Sub-total \$'000	Non-controlling interests \$'000	Total \$'000
Balance at 1 January 2011	1,291	43,484	42	13,904	27,940	-	18,036	137,785	242,482	5,833	248,315
Changes in equity for the six months ended 30 June 2011:											
Total comprehensive income for the period	-	-	-	-	4,128	-	-	16,632	20,760	515	21,275
Final dividends approved in respect of previous financial year (note 15(b))	-	-	-	-	-	-	-	(6,829)	(6,829)	-	(6,829)
Equity settled share-based transaction (note 13)	-	-	-	-	-	323	-	-	323	-	323
Balance at 30 June 2011	<u>1,291</u>	<u>43,484</u>	<u>42</u>	<u>13,904</u>	<u>32,068</u>	<u>323</u>	<u>18,036</u>	<u>147,588</u>	<u>256,736</u>	<u>6,348</u>	<u>263,084</u>
Balance at 1 July 2011	1,291	43,484	42	13,904	32,068	323	18,036	147,588	256,736	6,348	263,084
Changes in equity for the six months ended 31 December 2011:											
Total comprehensive income for the period	-	-	-	-	5,598	-	-	14,757	20,355	1,549	21,904
Transferred to statutory reserve	-	-	-	2,272	-	-	-	(2,272)	-	-	-
Interim dividends approved in respect of current financial year (note 15(a))	-	-	-	-	-	-	-	(5,796)	(5,796)	-	(5,796)
Equity settled share-based transaction (note 13)	-	-	-	-	-	400	-	-	400	-	400
Balance at 31 December 2011	<u>1,291</u>	<u>43,484</u>	<u>42</u>	<u>16,176</u>	<u>37,666</u>	<u>723</u>	<u>18,036</u>	<u>154,277</u>	<u>271,695</u>	<u>7,897</u>	<u>279,592</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012 - UNAUDITED (CONTINUED)

(Expressed in United States dollars)

	Attributable to equity shareholders of the Company										
	Share capital \$'000	Share premium \$'000	Capital redemption reserve \$'000	Statutory surplus reserve \$'000	Exchange fluctuation reserve \$'000	Capital reserve-share option \$'000	Other reserve \$'000	Retained profits \$'000	Sub-total \$'000	Non-controlling interests \$'000	Total \$'000
Balance at 1 January 2012	1,291	43,484	42	16,176	37,666	723	18,036	154,277	271,695	7,897	279,592
Changes in equity for the six months ended 30 June 2012:											
Total comprehensive income for the period	-	-	-	-	(1,372)	-	-	14,500	13,128	1,615	14,743
Final dividends approved in respect of previous financial year (note 15(b))	-	-	-	-	-	-	-	(5,629)	(5,629)	-	(5,629)
Equity settled share-based transaction (note 13)	-	-	-	-	-	330	-	-	330	-	330
Balance at 30 June 2012	<u>1,291</u>	<u>43,484</u>	<u>42</u>	<u>16,176</u>	<u>36,294</u>	<u>1,053</u>	<u>18,036</u>	<u>163,148</u>	<u>279,524</u>	<u>9,512</u>	<u>289,036</u>

The notes on pages 11 to 27 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012 – UNAUDITED

(Expressed in United States dollars)

		Six months ended 30 June	
		2012	2011
		\$'000	\$'000
	Note		
Cash generated from operations		22,036	7,387
Net income tax paid		(1,355)	(2,043)
Net cash generated from operating activities		20,681	5,344
Net cash used in investing activities		(23,268)	(9,056)
Net cash provided in financing activities		8,633	467
Net increase/(decrease) in cash and cash equivalents		6,046	(3,245)
Cash and cash equivalents at 1 January	10	25,989	21,620
Effect of foreign exchange rate changes		(97)	309
Cash and cash equivalents at 30 June	10	31,938	18,684

The notes on pages 11 to 27 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in United States dollars unless otherwise indicated)

1 Basis of preparation

China Metal International Holdings Inc. (the “Company”) is a company incorporated in Cayman Islands with limited liability. The interim financial report of the Company for the six months ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the “Group”).

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 (the “Stock Exchange”) (the “Listing Rules”), 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 issue on 28 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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 2011 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 and by the Company’s auditor, KPMG, 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 HKICPA. KPMG’s independent review report to the board of directors is included on page 28.

The financial information relating to the financial year ended 31 December 2011 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 2011 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those financial statements in its report dated 28 March 2012.

The functional currencies of the Company, its subsidiaries in the People’s Republic of China (the “PRC”) and a subsidiary in Hong Kong are United States dollars, Renminbi (“RMB”) and Hong Kong dollars respectively. For the purposes of presenting the consolidated financial statements, the Group adopted United States dollars as its presentation currency.

2 Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company.

None of the amendments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Segment reporting

The Group manages its businesses according to the manufacturing source of its products, i.e. its operating subsidiaries in the PRC, which are engaged in the design, development, manufacture and sale of customised metal casting. The Group has identified four reportable segments, namely, products manufactured by Tianjin CMT Industry Company Limited ("CMT"), Suzhou CMS Machinery Company Limited ("CMS"), CMW (Tianjin) Industry Company Limited ("CMWT") and Suzhou CMB Machinery Company Limited ("CMB") respectively.

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, lease prepayments and current assets with the exception of corporate assets. Segment liabilities include trade and other payables attributable to the operating activities of the segment and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "earnings after taxation". To arrive at reportable segment profit, the Group's earnings are further adjusted for items not specially attributed to individual segments, such as directors' and auditor's remuneration and other head office or corporate administrative costs.

In addition to receiving segment information concerning earnings after taxation, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the respective segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

3 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	CMT		CMS		CMWT		CMB		Total	
	2012 \$'000	2011 \$'000								
<i>For the six months ended</i>										
Revenue from external customers	29,456	39,684	60,718	61,465	65,490	52,143	688	1,929	156,352	155,221
Inter-segment revenue	579	431	703	1,826	377	6,324	1,520	1,478	3,179	10,059
Reportable segment revenue	30,035	40,115	61,421	63,291	65,867	58,467	2,208	3,407	159,531	165,280
Reportable segment profit (earnings after taxation)	961	710	8,585	10,304	3,400	4,869	3,653	836	16,599	16,719
Interest income from bank deposits	44	21	71	32	16	25	18	23	149	101
Depreciation and amortisation during the period	(1,772)	(2,569)	(2,848)	(3,217)	(4,928)	(4,243)	(972)	(308)	(10,520)	(10,337)
<i>As at 30 June/31 December</i>										
Additions to non-current segment assets during the period	402	1,031	1,315	5,500	891	13,879	14,561	229	17,169	20,639
Reportable segment assets	73,846	79,605	108,166	97,217	180,543	176,238	28,870	24,860	391,425	377,920
Reportable segment liabilities	9,530	12,386	24,969	19,203	37,332	32,719	4,523	4,584	76,354	68,892

3 Segment Reporting (continued)**(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities**

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
Revenue		
Reportable segment revenue	159,531	165,280
Elimination of inter-segment revenue	(3,179)	(10,059)
	<hr/>	<hr/>
Consolidated turnover	156,352	155,221
	<hr/> <hr/>	<hr/> <hr/>
Depreciation and amortisation		
Reportable segment depreciation and amortisation	(10,520)	(10,337)
Elimination of depreciation related to inter-segment fixed assets transfer	413	785
	<hr/>	<hr/>
Consolidated depreciation and amortisation	(10,107)	(9,552)
	<hr/> <hr/>	<hr/> <hr/>
Profit		
Reportable segment profit	16,599	16,719
Elimination of depreciation related to inter-segment fixed assets transfer	413	785
Elimination of inter-segment profit	(682)	(330)
	<hr/>	<hr/>
Reportable segment profit derived from the Group's external customers	16,330	17,174
Unallocated head office and corporate expenses	(104)	(144)
	<hr/>	<hr/>
Consolidated profit after taxation	16,226	17,030
	<hr/> <hr/>	<hr/> <hr/>

3 Segment Reporting (continued)

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (continued)

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Assets		
Reportable segment assets	391,425	377,920
Elimination of inter-segment receivables	(2,268)	(4,623)
	389,157	373,297
Non-current financial assets	72	112
Unallocated head office and corporate assets	12,620	4,501
Consolidated total assets	401,849	377,910
Liabilities		
Reportable segment liabilities	76,354	68,892
Elimination of inter-segment payables	(2,268)	(4,623)
	74,086	64,269
Unallocated head office and corporate liabilities	38,727	34,049
Consolidated total liabilities	112,813	98,318

3 Segment Reporting (continued)

(c) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods delivered.

	Revenue from external customers	
	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
The PRC	74,771	79,069
United States	55,154	50,410
Japan	14,663	14,318
Other countries	11,764	11,424
	<hr/>	<hr/>
Total	156,352	<u>155,221</u>

Most of the Group's fixed assets and construction in progress ("Specified Non-Current Assets") are located in the PRC. Accordingly, no geographical segment analysis based on the location of Specified Non-Current Assets is presented.

4 Seasonality of operations

The Group's operations are not subject to significant seasonality or cyclicity factors.

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

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
(a) Finance costs:		
Interest expense on bank loans	<u>383</u>	<u>201</u>
(b) Other items:		
Amortisation of lease prepayments	368	69
Depreciation	9,739	9,483
Interest income	(149)	(101)
Carrying amount of inventories sold	126,146	119,642
Loss/(gain) on disposal of fixed assets	<u>2</u>	<u>(5)</u>

6 Income tax

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
Current tax		
Provision for PRC corporate income tax for the period	2,289	2,453
Over-provision in respect of prior year	(7)	(19)
	<u>2,282</u>	<u>2,434</u>
Deferred tax		
Origination and reversal of temporary differences	<u>-</u>	<u>-</u>
	<u>2,282</u>	<u>2,434</u>

- (i) *Overseas income tax*
Pursuant to the rules and regulations of the Cayman Islands, the Company, CMW (Cayman Islands) Co., Ltd. ("CMW(CI)") is not subject to any income tax in the Cayman Islands.
- (ii) *Hong Kong Profits Tax*
No provision for Hong Kong Profits Tax is made for the period as the Group did not generate any income subject to Hong Kong Profits Tax during the periods presented.

6 Income tax (continued)

(iii) PRC Corporate Income Tax

Pursuant to the income tax rules and regulations of the PRC, the provision for Corporate Income Tax ("CIT") of the Group is calculated based on the following rates:

	Note	2012	2011
CMT	(1)	15%	15%
CMS	(1)	15%	15%
CMWT		25%	12%
CMB	(2)	12.5%	12.5%

Notes:

- (1) In December 2008, CMT and CMS were granted the status of "High and New Technology Enterprise" that entitled them to a preferential CIT rate of 15% for the period ended 30 June 2012.
- (2) Pursuant to the income tax rules and regulations of the PRC, CMB is eligible for the tax holiday. The current period is the fifth year of the tax holiday for CMB and the income tax rate is 12.5% for the period ended 30 June 2012.

In addition, pursuant to the CIT Law effective on 1 January 2008 and the Implementation Rules to the CIT 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, CMT and CMS are established in Hong Kong, and therefore, provided these companies meet the criteria for "beneficial owner" set out in the relevant PRC tax circular, dividends payable by CMB, CMT and CMS 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.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to the equity shareholders of the Company of \$14,500,000 (six months ended 30 June 2011: \$16,632,000) and the weighted average number of 1,004,332,000 ordinary shares (six months ended 30 June 2011: 1,004,332,000) in issue during the period.

(b) Diluted earnings per share

There were no dilutive potential shares during the six months ended 30 June 2012 and 2011, and diluted earnings per share are the same as basic earnings per share for the share options granted by the Company (note 13) as the average market price of ordinary shares is below the exercise price of the share options during the six months ended 30 June 2012, the share options are not considered as dilutive potential ordinary shares at 30 June 2012.

8 Property, plant and equipment

During the six months ended 30 June 2012, the Group acquired items of plant and machinery with a cost of \$619,000 (six months ended 30 June 2011: \$1,068,000) and transferred items from construction in progress with a cost of \$679,000 (six months ended 30 June 2011: \$601,000). Items of plant and machinery with a net book value of \$54,000 were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: \$97,000) with a loss of \$2,000 on disposal (six months ended 30 June 2011: a gain of \$5,000).

Pursuant to CMB's relocation plan as disclosed in the Company's 2011 annual report, CMB will return its current land use right to the government and relocate to a new land for continuous production. The government agreed to grant an aggregate amount of RMB103,742,264 to CMB as compensation for the relocation. The compensation shall be payable to CMB depending on the stage of CMB's relocation. During the six months period ended 30 June 2012, CMB recognised and received government grant of RMB25,935,566 in other revenue.

Management estimate the relocation will be completed by the end of June 2013 and the remaining useful life of CMB's land use right, buildings and non-moveable machinery should be shortened to thirty months starting from signing of the agreement.

9 Trade and other receivables

Included in trade and other receivables are trade receivables and bills receivable (net of allowance for doubtful debts) with the following ageing analysis:

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Current and less than 3 months past due	108,677	100,109
3 to 12 months past due	6,635	3,382
More than 12 months but less than 24 months past due	256	148
Over 24 months	15	179
	<hr/>	<hr/>
Total trade receivables and bills receivables, net of allowance for doubtful debts	115,583	103,818
Other receivables, deposits and prepayments	14,982	9,638
	<hr/>	<hr/>
	130,565	113,456
	<hr/> <hr/>	<hr/> <hr/>

Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 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 \$3,348,000 (31 December 2011: \$1,990,000), details of which are disclosed in note 17(b).

10 Cash and cash equivalents

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Cash at bank and in hand	30,364	25,989
Deposits with banks	1,574	-
	<hr/>	<hr/>
	31,938	25,989
	<hr/> <hr/>	<hr/> <hr/>

11 Trade and other payables

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

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Due within 1 month or on demand	17,462	14,633
Due after 1 month but within 3 months	16,606	20,512
Due after 3 months but within 6 months	8,404	6,130
Due after 6 months or more	292	793
	<hr/>	<hr/>
Total trade payables and bills payable	42,764	42,608
Other payables	14,336	16,232
	<hr/>	<hr/>
	57,100	58,300
	<hr/> <hr/>	<hr/> <hr/>

Bills payable of \$9,947,000 (31 December 2011: \$8,826,000) as at 30 June 2012 were secured by bank deposits of \$3,526,000 (31 December 2011: \$3,030,000).

12 Bank loans

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Bank loans repayable within 1 year or on demand	18,049	13,170
	<hr/>	<hr/>
After 1 year but within 2 years	17,700	–
After 2 years but within 5 years	12,300	20,000
	<hr/>	<hr/>
	30,000	20,000
	<hr/> <hr/>	<hr/> <hr/>

At 30 June 2012, the Group had banking facilities totalling \$129,401,822 (31 December 2011: \$51,349,000) which were utilised to the extent of \$48,049,000 (31 December 2011: \$37,772,000).

13 Equity settled share-based transactions

The Company granted to eligible participants on 3 January 2011 a total of 22,300,000 share options to subscribe for ordinary shares of nominal value of HK\$0.01 each in the share capital of the Company under the share option scheme (the "Share Option Scheme") adopted by the Company on 8 December 2004.

(a) The terms and conditions of the grants are as follows:

	Number of share involved in the option	Vesting conditions	Contractual life of options
Options granted to directors:			
- on 3 January 2011	4,800,000	(i) 40% on the third anniversary of the date of grant; (ii) 30% on the fourth anniversary of the date of grant; and (iii) 30% on the fifth anniversary of the date of grant	10 years
Options granted to employees:			
- on 3 January 2011	17,500,000	(i) 40% on the third anniversary of the date of grant; (ii) 30% on the fourth anniversary of the date of grant; and (iii) 30% on the fifth anniversary of the date of grant	10 years
	<hr/>		
Total share options	<u>22,300,000</u>		

13 Equity settled share-based transactions

(b) The number and weighted average exercise prices of share options are as follows:

	Six months ended 30 June 2012	Number of options
	Weighted average exercise price	(thousand)
Outstanding at the beginning of the period	HK\$2.52	19,800
Lapsed during the period	HK\$2.52	<u>(2,300)</u>
Outstanding at the end of the period	HK\$2.52	<u><u>17,500</u></u>
Exercisable at the end of the period	HK\$2.52	<u><u>–</u></u>

(c) Fair value of share options and assumptions:

All options are to be settled by physical delivery of shares.

The fair value of services received in return for share options granted is based on the fair value of share options at grant date, measured using the binomial model, with following inputs:

Fair value at grant date	HK \$1.02
Share price at grant date	HK \$2.52
Exercise price	HK \$2.52
Volatility	55.83%
Option life	10 years
Expected dividend yield	3.477%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes Rate)	2.821%

Expected volatility is estimated taking into account historic average share price volatility. Expected dividend yield is based on the Company's historical dividend yield in 2010.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

An expense of \$330,000 (2011: 323,234) was charged to administrative expenses in profit or loss for the six months ended 30 June 2012.

14 Share capital**Authorised and issued share capital**

	At 30 June 2012		At 31 December 2011	
	Number of shares (thousand)	\$'000	Number of shares (thousand)	\$'000
<i>Authorised:</i>				
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>
Ordinary shares, issued and fully paid:				
	<u>1,004,332</u>	<u>1,291</u>	<u>1,004,332</u>	<u>1,291</u>

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

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
Interim dividend declared and payable after the interim period of 0.54 cent per share (six months ended 30 June 2011: 0.58 cent per share)	<u>5,423</u>	<u>5,796</u>

The interim dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
Final dividend in respect of previous financial year, approved and paid during the interim period of 0.56 cent per share (six months ended 30 June 2011: 0.68 cent per share)	<u>5,629</u>	<u>6,829</u>

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

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Contracted for	52,821	8,937
Authorised but not contracted for	2,574	1,391
	55,395	<u>10,328</u>

17 Material related party transactions

During the six months ended 30 June 2012, transactions with the following parties are considered as related party transactions.

Name of party

China Metal Products Company Limited ("CMP")
 TRAS Shokai Co., Ltd. ("TRAS")
 Dairitsu Industry Company Limited ("Dairitsu")
 Vald. Birn A/S ("Birn")
 Yanmar Diesel Engine Co., Ltd. ("Yanmar")
 China Metal Japan Company Limited ("CMJ")
 China Metal Automotive International Co., Limited
 ("CMAI")

Relationship

Shareholder of the Company
 Affiliated company
 Affiliated company

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

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

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
Sales of goods to		
– Yanmar	10,500	11,464
– Birn	478	618
– TRAS	171	331
	11,149	12,413
Logistics service fees to		
– CMAI	503	737
– CMJ	242	238
	745	975
Reimbursement of expenses to		
– CMAI	3,200	4,421
– CMP	135	100
	3,335	4,521

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 \$75,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: \$43,000). 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.

The remuneration for key management personnel, including amounts paid to the Company's directors, is disclosed as follows:

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
Employee benefits	1,758	1,633
Equity-settled share-based transactions	330	323
	2,088	1,956

17 Material related party transactions (continued)
(b) Amounts due from related companies

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Trade		
– Yanmar	2,716	1,968
– Birn	508	–
– TRAS	124	22
	<hr/> 3,348	<hr/> 1,990
Non-trade		
– CMAI	1,873	2,293
	<hr/> 5,221	<hr/> 4,283

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 2012.

(c) Amounts due to related companies

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Non-trade		
– CMP	22	21
– CMJ	78	183
– Dairitsu	71	71
– Birn	3,800	3,800
	<hr/> 3,971	<hr/> 4,075

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

18 Non-adjusting post balance sheet event

After the end of the reporting period, the directors proposed an interim dividend. Further details are disclosed in note 15(a).



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

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 4 to 27 which comprises the consolidated statement of financial position of China Metal International Holdings Inc. (the "Company") as at 30 June 2012 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated statement 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 2012 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 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's recorded turnover and profit attributable to equity shareholders for the six months ended 30 June 2012 amounted to US\$156,352,000 and US\$14,500,000 respectively (six months ended 30 June 2011: US\$155,221,000 and US\$16,632,000 respectively). Gross profit for the six months ended 30 June 2012 amounted to approximately US\$30,206,000 (six months ended 30 June 2011: US\$35,579,000), representing a gross profit margin of approximately 19.3% (six months ended 30 June 2011: 22.9%). Operating profit for the six months ended 30 June 2012 was approximately US\$18,891,000 (six months ended 30 June 2011: US\$19,665,000) or 12.1% (six months ended 30 June 2011: 12.7%) of recorded turnover. Net profit for the six months ended 30 June 2012 was approximately US\$16,226,000 (six months ended 30 June 2011: US\$17,030,000) or 10.4% (six months ended 30 June 2011: 11%) of recorded turnover.

Liquidity and financial resources

As at 30 June 2012, the Group had outstanding bank borrowings amounting to US\$48,049,000 (31 December 2011: US\$33,170,000), among which an amount of US\$18,049,000 is repayable within one year and the remaining amount of US\$30,000,000 is repayable after one year but within five years. The Group's cash and cash equivalents amounted to US\$31,938,000 (31 December 2011: US\$25,989,000). The Group's current ratio and the gearing ratio (a ratio of total liabilities to total assets) is 2.6 (31 December 2011: 2.5) and 28.1% (31 December 2011: 26%) respectively.

Capital structure

The Company's issued share capital as at 30 June 2012 is HK\$10,043,320 divided into 1,004,332,000 shares of HK\$0.01 each.

Significant investments

As at 30 June 2012, the Group held unlisted equity securities outside Hong Kong of US\$72,000 (31 December 2011: US\$112,000).

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 2012 are set out in note 3 above.

Employee benefits

The remuneration policy of the Company is reviewed annually by the Remuneration Committee of the Company so as to keep the policy in line with the prevailing market practice.

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\$75,000 (six months ended 30 June 2011: US\$43,000) 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 2012, bank deposits amounting to US\$3,526,000 (31 December 2011: US\$3,030,000) were pledged to secure banking facilities granted to the Group.

Future plans for material investments or capital assets

For the year of 2012, in addition to putting efforts in maintaining the existing level of business, the management team is also adopting active and conservative approach to continue the sourcing and exploration of new clients and new products. Orders for new larger castings have been received and production scale may be further expanded to cope with the future business needs in order to maximize the operation results of the Group. Despite the adverse economic environment, the Group won confidence to explore new products to suit the needs of existing and potential customers so as to maintain and improve the performance of the Group.

Foreign currency exposure

The Group's sales are mostly denominated in RMB 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 RMB currently is not a freely convertible currency. A portion of the Group's RMB 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 2012, no contingent liabilities were noted by the Directors.

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES UNDERLYING SHARES AND DEBENTURES

At 30 June 2012, the interests or short position of the Directors in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV 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 or short position in shares and underlying shares of the Company

Name of Directors	Type of Interests	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the issued ordinary share capital of the Company
Mr. TSAO Ming-Hong	Beneficial interest	Long position	7,373,766 (Note 1)	0.73%
	Family interest	Long position	166,386 (Note 2)	0.02%
Mr. WU Cheng-Tao	Beneficial interest	Long position	6,931,435 (Note 3)	0.69%
	Family interest	Long position	783,193 (Note 4)	0.08%
Mr. Christian Odgaard PEDERSEN	Beneficial interest	Long position	1,800,000 (Note 5)	0.18%
Dr. WONG Tin Yau, Kelvin	Beneficial interest	Long position	1,300,000 (Note 5)	0.13%
Mrs. CHIU LIN Mei-Yu	Beneficial interest	Long position	300,000 (Note 5)	0.03%
Mr. CHEN Pou-Tsang	Beneficial interest	Long position	212,000	0.02%

Notes:

1. Included interest in 1,000,000 shares derived from the share options granted by the Company, details are set out in the section headed "Share Option Scheme".
2. Pursuant to section 316 of the SFO, Mr. Tsao Ming-Hong is deemed to be interested in 166,386 shares held by his spouse, Ms. Lin Hsiu Man.
3. Included interest in 600,000 shares derived from the share options granted by the Company, details are set out in the section headed "Share Option Scheme".
4. 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.
5. The interest in 300,000 shares are derived from the share options granted by the Company, details are set out in the section headed "Share Option Scheme".

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

At 30 June 2012, so far as is known to the Directors and chief executives of the Company, the interests or short position 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 or short position 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	502,648,059	50.05%
United Elite Agents Limited ("UEA") <i>(Note)</i>	Beneficial interest	Long position	502,648,059	50.05%
Vald Birns Holding A/S	Beneficial interest	Long position	102,298,922	10.19%
Delta Lloyd Asset Management NV	Investment manager	Long position	65,202,000	6.49%

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 position in the shares or underlying shares of the Company as at 30 June 2012.

Share option scheme

The Company adopted the Share Option Scheme on 8 December 2004. The purpose of the Share Option Scheme is to enable the Board to grant options to the selected eligible participants (as defined in the prospectus of the Company dated 20 December 2004), 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 movement in the share options granted under the Share Option Scheme during the six months ended 30 June 2012 are as follows:–

Grantee	Date of grant of share options	Exercisable period	Exercise price of share options (HK\$)	Balance at 1 January 2012	Lapsed during the period	Outstanding at 30 June 2012
Directors						
Mr. TSAO Ming-Hong	03.01.2011	03.01.2014 to 02.01.2021	2.52	1,000,000	–	1,000,000
Mr. WU Cheng-Tao	03.01.2011	03.01.2014 to 02.01.2021	2.52	600,000	–	600,000
Mr. Christian Odgaard PEDERSEN	03.01.2011	03.01.2014 to 02.01.2021	2.52	300,000	–	300,000
Dr. WONG Tin Yau, Kelvin	03.01.2011	03.01.2014 to 02.01.2021	2.52	300,000	–	300,000
Mrs. CHIU LIN Mei-Yu	03.01.2011	03.01.2014 to 02.01.2021	2.52	300,000	–	300,000
Sub-total				2,500,000	–	2,500,000
Employees						
In aggregate	03.01.2011	03.01.2014 to 02.01.2021	2.52	17,300,000	(2,300,000)	15,000,000
Total				<u>19,800,000</u>	<u>(2,300,000)</u>	<u>17,500,000</u>

Note: 40% of the above share options are exercisable from 3 January 2014; 30% of the share options are exercisable from 3 January 2015; and the remaining 30% of the share options are exercisable from 3 January 2016.

No options were granted during the six months ended 30 June 2012.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors.

The Company confirms that, having made specific enquiry of all Directors, all Directors have complied with the required standards as set out in the Model Code for the six months ended 30 June 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions of the Code on Corporate Governance Practices (the "Former CG Code") contained in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005 and was recently revised and renamed as Corporate Governance Code and Corporate Governance Report (the "New CG Code") with effect from 1 April 2012.

During the six months ended 30 June 2012, the Company was in compliance with the code provisions set out in the Former CG Code except for the following:—

- under code provision A.2.1 of the Former CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual, but the Company has not appointed a chief executive officer and the role and functions of the chief executive officer have been performed by all the executive Directors, including the Chairman, of the Company collectively.
- under code provision A.4.1 of the Former CG Code, the non-executive director should be appointed for a specific term and subject to re-election. Non-executive Directors of the Company are not appointed for a specific term except Mr. Chen Pou-Tsang, who was appointed as an independent non-executive Director of the Company on 15 May 2012, but all the non-executive Director and independent non-executive Directors of the Company are subject to the retirement by rotation at least once in every three years in accordance with the articles of association of the Company (the "Articles").

During the period from 1 April 2012 to 30 June 2012, the Company has also complied with the code provisions set out in the New CG Code except for the following:-

- under code provision A.6.7 of the New CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mrs. Chiu Lin Mei-Yu, an independent non-executive Director of the Company, and Mr. Hsu Shan-Ko, the former independent non-executive Director of the Company retired at the annual general meeting of the Company held on 15 May 2012 ("2012 AGM"), did not attend the 2012 AGM due to their engagement in their own official business.
- under code provision D.1.4 of the New CG Code, the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors except Mr. Chen Pou-Tsang, who was appointed as an independent non-executive Director of the Company on 15 May 2012. However, all Directors shall be subject to retirement in accordance with the Articles. In addition, the Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors. Besides, the Directors are also required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the Former CG Code and the New CG Code during the six months ended 30 June 2012.

AUDIT COMMITTEE

The Company established the Audit Committee on 8 December 2004 with written terms of reference in compliance with the Former CG Code and was revised on 28 March 2012 to comply with the New 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 of the Company, namely Dr. Wong Tin-Yau, Kelvin (as chairman), Mrs. Chiu Lin Mei-Yu and Mr. Chen Pou-Tsang. The Audit Committee has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2012.

On behalf of the Board
China Metal International Holdings Inc.
King Fong-Tien
Chairman

Hong Kong, 28 August 2012