



**United Metals Holdings Limited**  
科鑄技術集團有限公司



ANNUAL REPORT **2004** 年報

# Contents

<b>01</b>	Corporate Information
<b>02</b>	Financial Highlights
<b>04</b>	Chairman's Statement
<b>07</b>	Management Discussion & Analysis
<b>15</b>	Profiles of Directors and Senior Management
<b>18</b>	Directors' Report
<b>23</b>	Auditors' Report
<b>24</b>	Consolidated Income Statement
<b>25</b>	Consolidated Balance Sheet
<b>26</b>	Balance Sheet
<b>27</b>	Consolidated Statement of Changes in Equity
<b>28</b>	Consolidated Cash Flow Statement
<b>29</b>	Notes to the Financial Statements
<b>54</b>	Financial Summary

# 目錄

<b>01</b>	公司資料
<b>02</b>	財務摘要
<b>04</b>	主席報告書
<b>07</b>	管理層討論及分析
<b>15</b>	董事及高級管理層簡介
<b>18</b>	董事會報告書
<b>23</b>	核數師報告書
<b>24</b>	綜合收益表
<b>25</b>	綜合資產負債表
<b>26</b>	資產負債表
<b>27</b>	綜合資本變動表
<b>28</b>	綜合現金流量表
<b>29</b>	財務報表附註
<b>54</b>	財務概要



## United Metals Holdings Limited

科鑄技術集團有限公司 \*

(incorporated in the Cayman Islands with limited liability)

### EXECUTIVE DIRECTORS

**Thomas Lau, Luen-hung** (Chairman)

**Tsang Chiu Wai**

**Kong Cheuk Luen, Trevor**

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Lee Tho Siem**

**Wang Jianguo**

**Loke Yu alias Loke Hoi Lam**

### NON-EXECUTIVE DIRECTOR

**Wong Wing Sing**

### AUDIT COMMITTEE

**Lee Tho Siem**

**Wang Jianguo**

**Loke Yu alias Loke Hoi Lam**

**Wong Wing Sing**

### COMPANY SECRETARY

**Siu Po Sim, Katherine**

### QUALIFIED ACCOUNTANT

**Chan Sai Hung**

### REGISTERED OFFICE

P.O. Box 309GT

Ugland House

South Church Street

Grand Cayman

Cayman Islands

### HEAD OFFICE AND

### PRINCIPAL PLACE OF BUSINESS

Unit 901-903, 9th Floor

Laford Centre, 838 Lai Chi Kok Road

Cheung Sha Wan, Kowloon

Hong Kong

Tel : (852) 2422 7636

Fax : (852) 2480 4462

Email: [info@unitedmetals.com.hk](mailto:info@unitedmetals.com.hk)

### CORPORATE WEBSITE

[www.unitedmetals.com.hk](http://www.unitedmetals.com.hk)

### SHARE LISTING AND STOCK CODE

**The Stock Exchange of Hong Kong Limited**

Stock Code: 2302

### SOLICITORS

**Sit, Fung, Kwong & Shum**

### AUDITORS

**Deloitte Touche Tohmatsu**

### PRINCIPAL BANKER

**Hang Seng Bank Limited**

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

**Computershare Hong Kong**

**Investor Services Limited**

46th Floor

Hopewell Centre, 183 Queen's Road East

Hong Kong

\* For identification purpose only

## Financial Highlights

### THREE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

For the year ended 31st December,	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	<b>154,584</b>	150,545	134,163
Gross profit	<b>25,685</b>	42,676	46,950
EBITDA	<b>20,986</b>	36,619	35,925
Profit for the year	<b>8,414</b>	25,754	28,539
Net cash (outflow) inflow	<b>(25,453)</b>	40,390	9,179
Earnings per share – basic (HK cents)	<b>3.82</b>	11.75	17.30
Current ratio	<b>3.84</b>	5.56	2.93
Debt/Equity ratio (%)	<b>5.93</b>	3.17	7.92

### FIVE-YEAR SUMMARY OF FINANCIAL PERFORMANCE

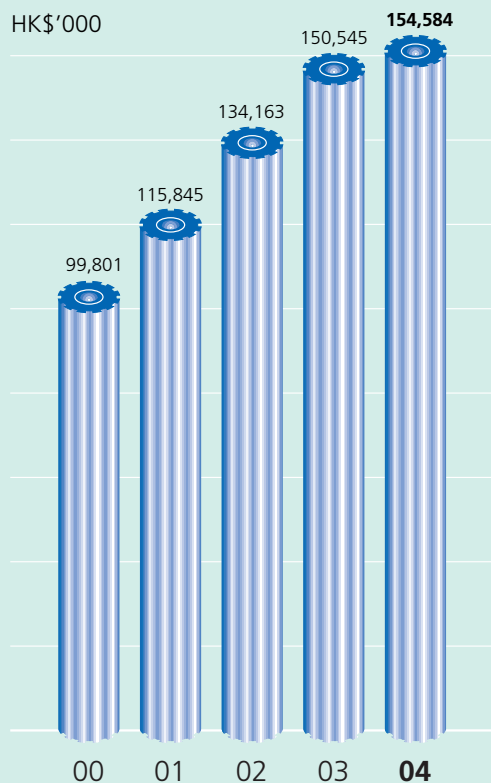
For the year ended 31st December,	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<b>154,584</b>	150,545	134,163	115,845	99,801
Operating costs	<b>(17,951)</b>	(16,889)	(11,421)	(7,927)	(9,205)
EBITDA	<b>20,986</b>	36,619	35,925	28,510	20,887
Other operating income	<b>1,828</b>	2,191	872	861	2,174
Finance costs	<b>(191)</b>	(265)	(24)	(23)	(39)
Profit for the year	<b>8,414</b>	25,754	28,539	22,749	18,398

### FIVE-YEAR SUMMARY OF FINANCIAL POSITION

For the year ended 31st December,	2004	2003	2002	2001	2000
Total assets (HK\$'000)	<b>200,377</b>	186,034	130,190	97,313	78,524
Total liabilities (HK\$'000)	<b>(35,289)</b>	(24,843)	(31,939)	(12,695)	(16,614)
Shareholders' equity (HK\$'000)	<b>165,088</b>	161,191	98,251	84,618	61,910
Current liabilities/Shareholders' equity (%)	<b>18</b>	13	27	15	27
EBITDA/Finance costs (Times)	<b>110</b>	138	1,497	1,240	536
Current liabilities/EBITDA (Times)	<b>1.42</b>	0.59	0.75	0.45	0.80
Return on equity (%)	<b>5</b>	16	29	27	30

Certain comparative figures for prior years have been restated to reflect the effect in reclassification of part of other staff cost, where applicable, as mentioned in note 6 to the financial statements.

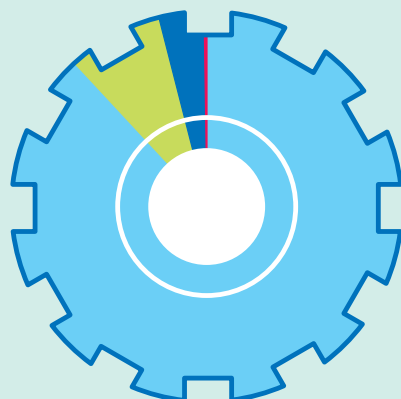
### TURNOVER



### SHAREHOLDERS' EQUITY

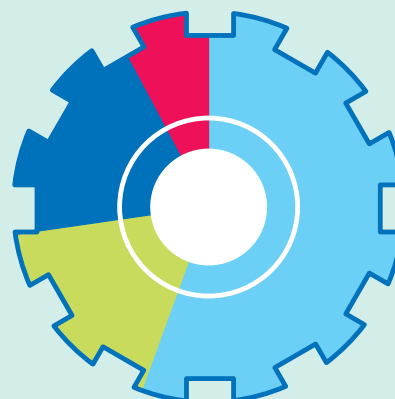


### TURNOVER BREAKDOWN BY BUSINESS 2004



88.14%		Aluminium parts
7.90%		Zinc parts
3.72%		Magnesium parts
0.24%		Others

### TURNOVER BREAKDOWN BY GEOGRAPHICAL AREA 2004



55.54%		The PRC, including Hong Kong
17.17%		North America
19.52%		Europe
7.77%		Others



To our shareholders,

I am pleased to present the annual report of United Metals Holdings Limited ("United Metals" or the "Group") for the year ended 31st December, 2004.

During the year under review, the global economy appeared to shake off the effects of the prolonged economic recession. As a result, the GDP of The People's Republic of China ("the PRC") grew by approximately 8.5%, thus creating enormous market demand within the die-casting market. However, the increased demand was off set by a number of factors in the market environment that to a certain degree affected the performance of the majority of manufacturers in the PRC. Market competition among the PRC manufacturers continued to be very keen and there were global surges in raw material and energy prices, particularly the price of petroleum. In addition to this, manufacturers, especially those in the southern part of the PRC, faced electricity and labour shortages. All of these factors affected the Group's overall business performance.



# United Metals

## to solidify its position as A World Class Company

However, as a world class die-caster in the PRC, United Metals leveraged on its in-depth expertise, prudent management philosophy and dedication for excellence to sustain its leading position and continue to record profitable results during 2004. For the year under review, the Group's turnover increased to HK\$154,584,000 (2003: HK\$150,545,000). Profit attributable to shareholders was HK\$8,414,000 (2003: HK\$25,754,000) and earnings per share was HK 3.8 cents (2003: HK 11.7 cents).

To maintain its market leadership, the Group further implemented a number of unique and well-planned strategies during the year to meet the current and future market challenges. United Metals is confident that the successful implementation of these strategies will greatly benefit the Group's overall business performance.

In 2004, the Group strengthened its vertically-integrated service capability in order to better serve its loyal clientele and to attract and capture business opportunities as a one-stop die-casting service provider. As part of this strategy, United Metals purchased precision machinery during the year under review and will continue to procure such items in 2005 to provide more value-adding technologies with its services that include top quality surface finishing and paint spraying.

Furthermore, to alleviate the problem of electricity shortages, the Group has decided to expand its electricity generating capability. With the additional generators in place, the Group will be able to minimize the impact of future electricity shortages. The Group has also been making use of different die-casting technologies to continue its product advancement for its aluminium, zinc and magnesium-based products, which will allow the Group to position itself for new customers and contracts in the coming years. To supplement these efforts the Group is committed to the continual recruitment of qualified design engineers and professional die-casting experts.

During 2003, the Group entered into an agreement to set up new production facilities in Shanghai. The move was to facilitate the provision of die-casting services. The facilities are currently under construction and are expected to commence operation during the first half of 2006. Upon their establishment, these new facilities will boost the Group's production capacity in three folds, thereby allowing the Group to cope with the ever-increasing demand of die-casting parts from its customers. The Group is confident in its goal of solidifying its position as a world-class company both in terms of the scale of production and quality of services rendered.

Looking ahead into 2005, the die-casting industry, particularly in the PRC, will continue to grow. The PRC's booming economy, its unrivalled geographical strengths and the advantage of cost effectiveness will continue to provide fresh momentum for foreign manufacturers to invest and produce within the country, a new manufacturing hub. The management believe these favorable market factors will definitely contribute to the continual success of the Group.

We take this opportunity to thank our customers, suppliers and shareholders, and all those who have contributed to the accomplishments of United Metals in the past year. With your unfaltering support and confidence, the Group will continue to move forward and grow.

**Thomas Lau, Luen-hung**

*Chairman*

Hong Kong, 8th April, 2005



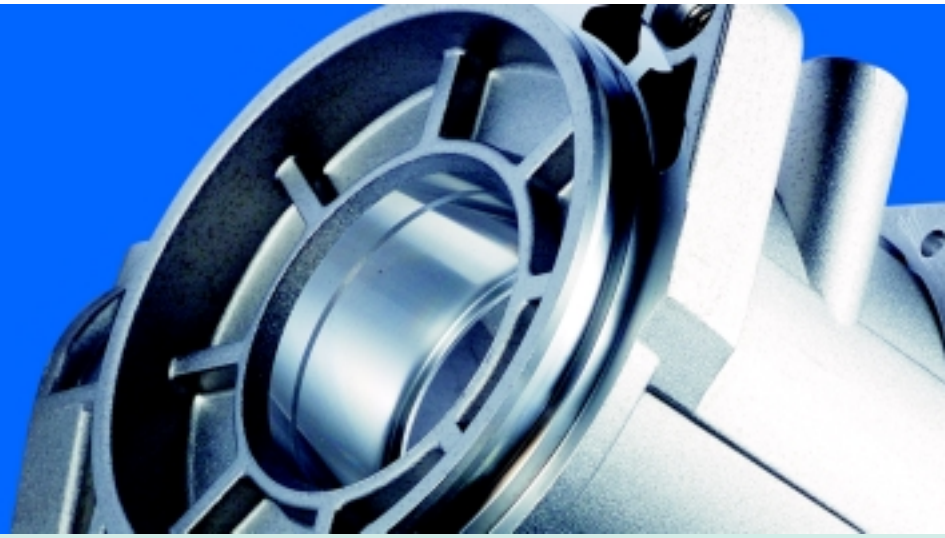


## INDUSTRY OUTLOOK

The Gross Domestic Product ("GDP") growth rate of the PRC exceeded 8% in the last three years. The State Information Centre of the PRC has forecasted the national economy to maintain a growth rate of approximately 8.5% in 2005. According to June 2004 issue of Diecasting World, the PRC's total die-casting output in 2002 reached 624,000 tonnes and the projected figures for 2003 and 2004 were 698,000 tonnes and approximately 800,000 tonnes respectively. It is widely expected that the growth of the economy will drive the demand for die casting products.

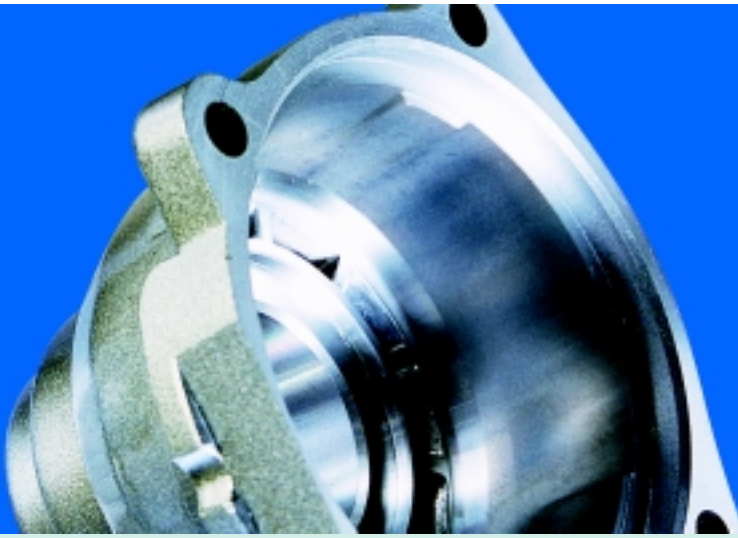


United Metals  
is well positioned to capture  
the upcoming opportunities

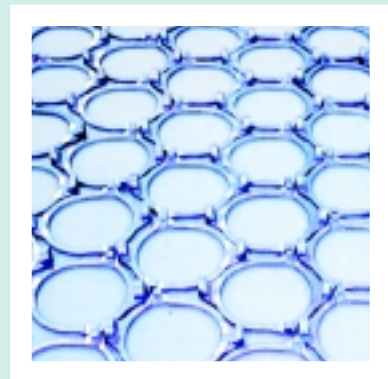


### In-depth expertise, a prudent management philosophy and dedication to excellence sustains its leading position

The automotive sector continues to be the most important market for the world die-casting industry, constituting about two-thirds of the total market for die-casting manufacturers in most industrialized countries. Although the expansion rate of the global automotive industry has remained modest, the adoption of aluminium and magnesium parts in automobiles has increased robustly. This coupled with the increased GDP-driven demand for automobiles in the PRC means that the future of the global die-casting market is very bright. In accordance, The North American Die Casting Association reports that, some international automotive industry leaders have expressed their plans to purchase automobile spare parts, components, and whole vehicles from the PRC within the next five years. This shows that there is a continuously enlarging demand for die-castings parts in the automotive industry, which ultimately benefits manufacturers in PRC.

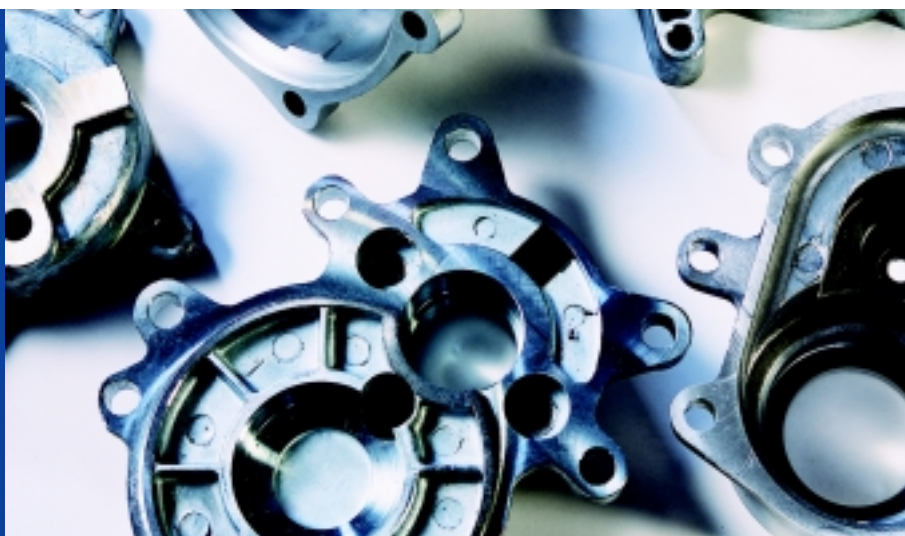


Expansion in  
technology for product  
advancement.  
Dedication to new facilities  
to expedite  
full market potential



Along with the increasing living standards in the PRC, an improvement in domestic housing conditions is required. The demand for die-casting parts from the construction industry has also begun to accelerate with high speed. It is forecasted that more development and reconstruction programs in housing will also take place. As a result of the increasing need of construction hardware, family hardware, household equipment and household electric appliances, the die-casting industry is provided with vigorous growth.

Furthermore, many die-casting buyers are now requiring services like machining, heat treatment and surface finishing, and some even demand fully assembled components from die-casting manufacturers. This growing phenomenon will continue to benefit quality die-casting service providers, especially those with fully vertically-integrated production facilities. As such, United Metals, a fully vertically-integrated die-caster for both domestic and overseas customers, is well positioned to capture the opportunities that will arise in the die-casting markets, both locally and internationally.



### **BUSINESS REVIEW**

For the year ended 31st December, 2004, the Group's turnover slightly increased from HK\$150,545,000 in 2003 to HK\$154,584,000 in 2004, with the Group's aluminium die casting parts continuing to act as its major product category, accounting for 88% of the Group's turnover, followed by zinc parts, accounting for 8% of the Group's turnover. However, due to a number of factors, namely keen market competition, global surges in raw material costs, particularly the prices of petroleum and the alloys required for the production of the Group's various products, and shortages in both electricity and labour, profit attributable to shareholders was affected from HK\$25,754,000 in 2003 to HK\$8,414,000 in 2004.

The Group managed to minimize the negative impacts brought about by the abovementioned factors and continued to achieve profitable results by leveraging on its sound and flexible business model, as well as its dedication to enhancing production capacity and improving product quality. In accordance with the global die-casting market, the Group was able to expand both its client base and sales orders. In addition, the Group increased its operational efficiency through process automation by deploying more Computerized Numerical Control ("CNC") machinery and thus reducing the negative factors faced by the Group in 2004. The Group has implemented a number of strategies in delivering more sophisticated assembled components to its customers that will allow it to maintain its market-leading position in the coming year.

The Group is extremely confident that with the commencement of new production facilities in Shanghai by the first-half of 2006, further economies of scale will be realized and growth in revenue is expected to resume in future.

## OPERATIONAL REVIEW

2004 marked a year of challenges for the Group, the fully vertically-integrated die-caster for domestic and international clients. Despite the challenges, the Group was able to slightly increase its total turnover and solidify its production platform. To counter the factors adversely affecting the present market situation, the Group has been devising and implementing a number of prudent and well-planned strategies, both internally and externally, with the aim to pave the way for United Metals to capture the enormous market potentials ahead.

### Machinery advancement

To fulfill the continually increasing global and domestic demand for die-casting services, the Group invested HK\$27,026,000 for the advancement of its machinery during the year under review. As part of the investment made for advancement, the Group purchased CNC-related and precision-related machines. The Group also further enhanced its post-production finishing equipment, installing semi-auto surface treatment line, to provide more value-added services to its customers. In addition, to combat electricity shortages faced during the year under review, the Group purchased three additional generators to ensure a stable electricity supply and prevent manufacturing stoppages.

By increasing advanced CNC machineries to 80 sets, at the utilization rate of approximately 55%, the Group benefited from greater economies of scale and was able to accept orders for more higher-margin products.

### Product diversification

The Group strived to provide a comprehensive range of product offerings with the aim to offer choices and diversity for leading manufacturers. While aluminium remained the most widely applicable metal alloy and the core income contribution for the Group, representing 88% of the Group's total sales volume in the year under review, zinc and magnesium parts represented 8% and 4% respectively of the Group's total sales volume in 2004 and the demand for these products are continuing to increase. The Group expects that the demand for magnesium die-casting products, in particular, will surge as the need for light-weight products grows.

### Stringent cost control

Raw material prices rose by approximately 15% in 2004 and this trend is expected to continue into the coming year. As such, the Group plans to closely monitor price fluctuations to take advantage of lower prices as and when they do occur. In addition, the Group will stringently review product pricing and production planning strategies so as to lower production costs and improve margins.

### Diversified clientele with new orders received

During the year under review, the Group further enlarged its client base by gaining new customers from Germany, United States, and within the automotive industry. Turnover generated from the first five customers reduced from 56% to 45%, in keeping with the Group's strategy of lowering risk through diversification. With over 90 clients spanning across the PRC, Japan, Singapore, North America and Europe, the PRC remained the largest shipment delivery country, amounting to 56% of total turnover.



Captured potentials in the automotive market in the PRC

Although market competition was very keen during the year under review and is expected to remain keen in the year to come, the Group is extremely optimistic. This is because the market potential for the die-casting industry is enormous, especially as the demand for automotive die-casting products gains momentum in the PRC. In view of this rising demand, the Group has been constructing new production facilities in the PRC that will commence operation in the first half of 2006 and bring forth great benefits to the Group's overall business.

### **FUTURE STRATEGIES**

Looking forward, the market potentials for the die-casting industry, especially in the PRC market, will continue to be enormous. Capitalizing on its geographical advantage, together with the implementation of a number of sound strategies by the senior management in 2004, the Group has fully positioned itself for future business growth.

In order to cope with the business growth, the Group has been focusing its efforts on the timely completion of its new two-phase production facilities in Shanghai for the provision of automotive parts die-casting services. The facilities will incorporate heavy tonnage machines, suitable for the production of larger die-cast parts. The Group expects that Phase I of the production facilities will be in operation and providing an additional 5,000 tons of productivity during the first half of 2006. United Metal Products (Shanghai) Co., Ltd., the wholly foreign owned enterprise and wholly-owned subsidiary of United Metals, will not only operate the production facilities but also carry out export sales as well as domestic sales in the PRC of the facilities' products. To ensure the high utilization of the manufacturing line and that stringent cost control measures are adhered to in the coming years, the Group is rigorously training an autonomous management team and carefully developing an effective workforce.

To further develop the Group's automotive industry market segment in the coming years, United Metals aims to be certified by the later part of 2005 to fully apply and operate the TS16949 system. The quality system will optimize the Group's production planning for this segment and the resulting reduction in errors and waste will help to increase cost control. The Group will periodically delegate its engineers to ensure that the system maintains optimization.

By the end of September 2005, the Group plans to have Enterprise Resource Planning management software completely installed across all levels. This installation will lead to a host of positive effects, such as improved communication for faster market response, greater work flow efficiency due to more accurate data, better control and competitiveness because of waste reduction, and ultimately higher profit margins and better returns on investments. Furthermore, the management software will allow for more efficient management as it will provide greater operational visibility.

In the coming years, the Group will continue to leverage on its competitive edges by offering one-stop die-casting services and total solutions to its varied clientele. In addition, to increase its orders for higher-margin products, it will improve the tolerance requirements for its products through the use of higher precision machinery.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2004, the Group had about 2,100 employees (at 31st December, 2003: 2,100) of whom 20 were based in Hong Kong (at 31st December, 2003: 20), 2,080 was based in the Group factories in Dongguan PRC (at 31st December, 2003: 2,080).

Remuneration policies and packages for the Group's employees are based on their performance, working experiences and condition prevailing in the industry. In addition to basic salaries, retirement schemes and medical scheme, discretionary share options and performance bonuses to eligible staff are according to the financial results of the Group and the performance of individual employees. To raise work quality and management abilities of its employees, the Group provides job rotation, in-house training and external training courses to employees.

## FINANCIAL REVIEW

### Liquidity and financial resources

As at 31st December, 2004, total bank borrowings was HK\$9,784,000 (at 31st December, 2003: HK\$5,111,000), of which HK\$5,084,000 (at 31st December, 2003: HK\$2,667,000) would be due within one year and HK\$4,700,000 (at 31st December, 2003: HK\$2,444,000) would be due after one year. The increase was mainly due to a new bank loan of HK\$8,000,000 raised for business expansion purpose during the year under review. The bank borrowings are denominated in Hong Kong dollars and bear interest at rates calculated with reference to Hong Kong Interbank Offered Rate ("HIBOR") plus basis.

In view of the coming capital expenditure requirement of the Shanghai Project, the Group intends to employ additional bank borrowings in the near future. The directors believe that the Group has the capacity to utilize much more bank borrowings while keeping the gearing ratio at a very safe and reasonable level. As at 31st December, 2004, the gearing ratio, in terms of total debts to total assets, stood at 0.18 (at 31st December, 2003: 0.13).

The Group had a net current assets amounting to HK\$84,387,000 (at 31st December, 2003: HK\$98,423,000) and a current liabilities of HK\$29,696,000 as at 31st December, 2004 (at 31st December, 2003: HK\$21,565,000). Stock turnover days increased from 48 days at 31st December 2003 to 70 days at 31st December, 2004, resulted from the sharp increase of metal alloys prices and a longer turn-around time due to additional and more complicated value-added jobs. Debtors' turnover days was 80 days as at 31st December, 2004 versus 72 days as at 31st December, 2003.

Capital expenditures on plant and equipment and leasehold improvements totaled HK\$30,339,000 (2003: HK\$22,234,000) in 2004. Furthermore, about HK\$9,978,000 (at 31st December 2003: HK\$26,658,000) was committed as at 31st December, 2004 to purchase additional property, plant and equipment.

Net cash generated from operations amounted to HK\$5,896,000. The Group's cash on hand and bank balances decreased from HK\$62,124,000 as at 31st December 2003 to HK\$36,671,000 as at 31st December 2004. The decrease was mainly a result of financing the new plant construction and expansion of production facilities.

Total shareholders' funds increased from HK\$161,191,000 as at 31st December, 2003 to HK\$165,088,000 as at 31st December, 2004, as a result of HK\$8,414,000 of the current year profit being retained.

#### Exposure to foreign exchange risk

Almost all income and expenditure of the Group were denominated in RMB, HKD and USD in the year under review. With relatively stable HKD/USD and HKD/RMB exchange rates, the Group did not encounter any occasion in which fluctuations in currency had a material effect on its operations or liquidity.

#### Acquisition and disposal

The Group did not have any material acquisition or disposal of subsidiary and associated company during the year.

#### Pledge of assets

As at 31st December, 2003, general banking facilities granted by a bank to the Group were secured by the Group's investments in securities amounting to approximately HK\$1,225,000. The security was released during the year ended 31st December, 2004.

#### Contingent liabilities

The Company has given guarantees to a bank in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st December, 2004 amounted to approximately HK\$9,784,000 (2003: Nil).

#### **USE OF THE PROCEEDS FROM THE INITIAL PUBLIC OFFERING**

Up to 31st December, 2004, the net proceeds of approximately HK\$41,600,000 from the Company's issue of new shares at the time of its listing on Main Board of The Stock Exchange of Hong Kong Limited on 6th January, 2003, has been used for the purchase of production facilities, inspection equipments, tooling making facilities as well as expansion of sales and marketing activities in order to increase production capacity, strengthen quality checking and expand sales team.

#### **DIVIDEND**

The directors did not declare any interim dividend for the six months ended 30th June, 2004 (2003: HK\$0.02 per share).

The directors do not recommend the payment of a final dividend for the year ended 31st December, 2004 (2003: HK\$0.02 per share).



## BOARD OF DIRECTORS

### Executive Directors

**Mr. Thomas Lau, Luen-hung**, aged 51, is an executive director and chairman of the Group. Mr. Lau holds a Bachelor's degree and a Master's degree in Business Administration. Mr. Lau joined the Group since its establishment in 1993 and is responsible for the overall strategic planning and business development of the Group. He is also the chairman and executive director of Chinese Estates Holdings Limited and Chi Cheung Investment Company, Limited ("Chi Cheung"), all of which are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lau is the managing director of Lifestyle International Holdings Limited whose shares are listed on the Stock Exchange. He has over 27 years of successful entrepreneurial experience in manufacturing, corporate finance, property investment and development and technology industry. Furthermore, Mr. Lau is an investor of Gemstar-TV Guide International Group Inc., a NASDAQ listed multimedia company and was its co-founder and had involved in its early years of strategic planning.

**Mr. Tsang Chiu Wai**, aged 54, is an executive director, president and chief executive officer of the Group. Mr. Tsang started to work in the metal working industry in Hong Kong in 1981 and joined the Group in 1993. He is responsible for the overall management and corporate strategies on production and technical know-how of the Group. Mr. Tsang graduated from the University of Hong Kong with a Bachelor of Science Degree in 1974. After completion of his Master of Business Administration Degree in the University of Windsor, Canada, in 1977, Mr. Tsang joined an international oil company in Hong Kong and gained valuable experience in corporate planning and finance. Mr. Tsang is also a member of the North American Die Casting Association.

**Mr. Kong Cheuk Luen, Trevor**, aged 49, is an executive director and chief operating officer of the Group. Mr. Kong invested in the Group through Winchase Limited since 1993 and became the executive director and chief operating officer of the Company in September 2002. He is responsible for the overall management of the financial and sales and marketing functions of the Group. Mr. Kong graduated from University of Saskatchewan, Canada in 1980 with a Bachelor of Commerce Degree. Before Mr. Kong became the executive director and chief operating officer of the Group, he was the General Manager of InfoChain Express division, an information technology business unit at Avery Dennison Corporation, a Fortune 500 US based company, and has over twenty years of manufacturing management experience. During his past years of experience, he had successfully deployed several key projects such as computerization of production system, certification of ISO 9001 quality system, construction of new 150,000 square feet plant facility and restructuring of a world class manufacturing team.

# Profiles of Directors and Senior Management

## Independent Non-executive Directors

**Mr. Lee Tho Siem**, aged 65, is an independent non-executive director of the Group. Mr. Lee joined the Group in September 2002. He studied at University of Hangzhou between 1957 to 1961 and joined Hua Chiao Commercial Ltd. (formerly known as Hua Chiao Commercial Bank Ltd.) in September 1963 and was appointed as director and acting general manager in 2000. Mr. Lee has over 39 years of experience in the banking industry. He is currently a director of Hua Chiao Commercial Ltd., an independent director of Ningbo Commercial Bank and is also a member of the Hong Kong Securities Institute.

**Mr. Wang Jianguo**, aged 58, is an independent non-executive director of the Group. Mr. Wang joined the Group in December 2002. He graduated from Harbin Engineering Institute and is an economist. He is an independent non-executive director of Chi Cheung, a company listed on the Stock Exchange. He is currently the executive director of Shanghai Multi Luck Real Estates Development Limited and the chairman of the board of Shanghai Ding Duo Investment Management Limited. He was previously the general manager of Xian Shanghai Economic Coordination Corporation and the deputy general manager of Shanghai Shenda (Group) Company. Mr. Wang has over 20 years of experience in property and corporate development and investment.

**Mr. Loke Yu alias Loke Hoi Lam**, aged 56, is an independent non-executive director of the Group. Mr. Loke joined the Group in July 2004. He has over 30 years of experience in accounting and auditing for private and public companies, consultancy and corporate management. He holds a MBA degree in Techno-entrepreneurship from Universiti Teknologi Malaysia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; The Hong Kong Institute of Certified Public Accountants (the "HKICPA") and The Hong Kong Institute of Directors. He is also an Associate member of The Institute of Chartered Secretaries and Administrators (the "ICSA") and a member of The Malaysian Institute of Accountants. He also serves as an independent non-executive director of Shandong Molong Petroleum Machinery Company Limited, New Chinese Medicine Holdings Limited and Matrix Holdings Limited, companies listed on the Stock Exchange.

## Non-executive Director

**Mr. Wong Wing Sing**, aged 33, is a non-executive director of the Group. Mr. Wong is a partner of Sit, Fung, Kwong & Shum, Solicitors. He joined the Group in September 2002 as an independent non-executive director and was redesignated as a non-executive director with effect from September 2004. He has been practising law in Hong Kong since 1996 and his main areas of practice are corporate, securities and commercial law. He obtained his Bachelor of Law and Master of Law degrees from the University of Hong Kong in 1993 and 1997 respectively. He was admitted as a solicitor in Hong Kong in 1996 and a solicitor of England and Wales in 1997.

## SENIOR MANAGEMENT

**Mr. Lee Yuk Kwan**, aged 51, is the general manager of Dongguan United Metal Products Co., Ltd.. He is responsible for the overall production, materials control and operations of the factory. He joined the Group in 1993 and has over ten years senior management experience in the metal working industry. Prior to joining the Group, Mr. Lee gained extensive training and practical experience in the metal working, mechanical and structural engineering business.

**Mr. Kwok Mok Kwan**, aged 44, is the general manager of United Castings (Dongguan) Co., Ltd.. He is responsible for the procurement of general manufacturing supplies, factory administration and the supervision of the Group's processing factory. Mr. Kwok joined the Group in 1993 and has over ten years of experience in the die-casting operations, specializing in the secondary processes, such as Computerized Numerical Control machining and surface finishing.

**Mr. Lam Pek Vu**, aged 38, is the quality manager of the Group. He is responsible for the overall quality assurance function of the Group's factories. He joined the Group in April 1998 and has over 10 years experience in quality management.

**Mr. Chan Sai Hung**, aged 43, is the financial controller of the Group. He is responsible for the overall financial management of the Group. He joined the Group in July 2004 and is a Certified Public Accountant of the HKICPA, a Fellow member of Association of Chartered Certified Accountants and an Associate member of Certified General Accountants (Canada). Mr. Chan has over 18 years solid experience in auditing, accounting, merger & acquisition, general management and financial control. Prior to joining the Group, he worked in the accounting department of various corporations, including public bodies, bank, trading and manufacturing companies both in Hong Kong and Canada.

## COMPANY SECRETARY

**Ms. Siu Po Sim, Katherine**, aged 48, is the company secretary of the Group. Ms. Siu graduated from the Department of Accountancy of The Hong Kong Polytechnic University (formerly Hong Kong Polytechnic) in Company Secretaryship and Administration; she holds a Master's degree in Business Administration major in Finance. She is also an Associate member of the ICSA. She has over 17 years of professional experience in compliance, corporate & commercial and company secretarial matters in Hong Kong. She joined the Group in May 2004 and is responsible for the company secretarial affairs of the Group.

The directors present their annual report and the audited financial statements for the year ended 31st December, 2004.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 12 to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 24.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

## **SEGMENTAL INFORMATION**

An analysis of the Group's turnover and segmental information is set out in note 4 to the financial statements.

## **FINANCIAL SUMMARY**

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 54.

## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group spent approximately HK\$27 million on plant and machinery to expand and upgrade its manufacturing facilities.

Details of this and other movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

## **SHARE CAPITAL**

Details of movements in the share capital of the Company during the year are set out in note 21 to the financial statements.

## **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 27 and in note 23 to the financial statements respectively.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

*Executive directors*

Thomas Lau, Luen-hung

Tsang Chiu Wai

Kong Cheuk Luen, Trevor

*Independent non-executive directors*

Lee Tho Siem

Wang Jianguo

Loke Yu alias Loke Hoi Lam (appointed on 12th July, 2004)

*Non-executive director*

Wong Wing Sing (redesignated from independent non-executive director to non-executive director on 1st September, 2004)

In accordance with Article 95 of the Company's Articles of Association, Mr. Loke Yu alias Loke Hoi Lam will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with Article 112 of the Company's Articles of Association, Messrs. Thomas Lau, Luen-hung and Kong Cheuk Luen, Trevor will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing 1st December, 2002 which shall continue thereafter until terminated by either party giving to the other party not less than six months prior written notice, such notice not to be given earlier than 1st December, 2003.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each of the independent non-executive directors and non-executive director is the period from his appointment to the time of retirement by rotation in accordance with the Company's Articles of Association.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31st December, 2004, the interests of the directors and the chief executives and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### Long positions

#### Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Thomas Lau, Luen-hung	Held by controlled corporation (Note i)	69,468,000	31.58%
Tsang Chiu Wai	Held by controlled corporation (Note ii)	62,292,000	28.31%
Kong Cheuk Luen, Trevor	Held by controlled corporation (Note iii)	31,716,000	14.42%
		163,476,000	74.31%

Notes:

- (i) These securities are registered in the name of and beneficially owned by Shine Top Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Shine Top Limited is beneficially owned by Mr. Thomas Lau, Luen-hung. Accordingly, Mr. Thomas Lau, Luen-hung is deemed to be interested in 69,468,000 shares held by Shine Top Limited under the SFO.
- (ii) These securities are registered in the name of and beneficially owned by Standard Beyond Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Standard Beyond Limited is beneficially owned by Mr. Tsang Chiu Wai. Accordingly, Mr. Tsang Chiu Wai is deemed to be interested in 62,292,000 shares held by Standard Beyond Limited under the SFO.
- (iii) These securities are registered in the name of and beneficially owned by Absolute Above Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Absolute Above Limited is beneficially owned by Mr. Kong Cheuk Luen, Trevor. Accordingly, Mr. Kong Cheuk Luen, Trevor is deemed to be interested in 31,716,000 shares held by Absolute Above Limited under the SFO.

Other than as disclosed above, none of the directors, chief executives, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2004.

## SHARE OPTIONS

Particulars of the Company's share option scheme (the "Scheme") are set out in note 22 to the financial statements. No option was granted under the Scheme since its adoption.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

Other than as disclosed under the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES", the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 31st December, 2004.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## CONNECTED TRANSACTIONS

During the year, there were no discloseable connected transactions.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 45.0% of the turnover of the Group and the largest customer accounted for approximately 15.3% of the total turnover of the Group.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 79.2% of the total purchases of the Group and the largest supplier accounted for approximately 35.2% of the total purchases of the Group.

At no time during the year did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the directors owns more than 5% of the Company's issued share capital, have an interest in any of the five largest customers and suppliers of the Group.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## AUDIT COMMITTEE

An audit committee (the "Committee") has been established by the Company for the purpose of reviewing and providing supervision on the financial reporting process and internal control of the Group. The Committee comprises three independent non-executive directors and one non-executive director. The present members are Messrs. Lee Tho Siem, Wang Jianguo, Loke Yu alias Loke Hoi Lam and Wong Wing Sing. The Group's annual and interim reports for the year ended 31st December, 2004 as well as the accounting principles and practices have been reviewed by the Committee.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2004, with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except that the non-executive director and independent non-executive directors were not appointed for a fixed term but are subject to retirement and rotation in accordance with the Company's Articles of Association.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

## AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Thomas Lau, Luen-hung**

*Chairman*

Hong Kong, 8th April, 2005





TO THE MEMBERS OF UNITED METALS HOLDINGS LIMITED  
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
8th April, 2005

# Consolidated Income Statement

For the year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000 (Restated)
<b>Turnover</b>	4	<b>154,584</b>	150,545
<b>Cost of sales</b>		<b>(128,899)</b>	(107,869)
<b>Gross profit</b>		<b>25,685</b>	42,676
<b>Other operating income</b>	5	<b>1,828</b>	2,191
<b>Selling and distribution expenses</b>		<b>(4,999)</b>	(4,420)
<b>Administrative expenses</b>		<b>(12,451)</b>	(11,802)
<b>Other operating expenses</b>		<b>(501)</b>	(667)
<b>Profit from operations</b>	6	<b>9,562</b>	27,978
<b>Interest on bank loans repayable within five years</b>		<b>(191)</b>	(265)
<b>Profit before taxation</b>		<b>9,371</b>	27,713
<b>Taxation</b>	8	<b>(957)</b>	(1,959)
<b>Profit for the year</b>		<b>8,414</b>	25,754
<b>Dividends</b>	9	–	8,800
<b>Earnings per share – basic</b>	10	<b>3.8 cents</b>	11.7 cents

# Consolidated Balance Sheet

At 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	11	84,160	63,853
Goodwill	13	685	968
Investments in securities	14	1,449	1,225
		<b>86,294</b>	66,046
<b>Current assets</b>			
Inventories	15	29,834	19,707
Trade and other receivables	16	45,349	36,632
Investments in securities	14	1,876	1,499
Taxation recoverable		353	26
Bank balances and cash		36,671	62,124
		<b>114,083</b>	119,988
<b>Current liabilities</b>			
Trade and other payables	18	22,869	16,627
Taxation payable		1,743	2,271
Bank loans – due within one year	19	5,084	2,667
		<b>29,696</b>	21,565
<b>Net current assets</b>		<b>84,387</b>	98,423
<b>Total assets less current liabilities</b>		<b>170,681</b>	164,469
<b>Non-current liabilities</b>			
Bank loans – due after one year	19	4,700	2,444
Deferred tax liabilities	20	893	834
		<b>5,593</b>	3,278
		<b>165,088</b>	161,191
<b>Capital and reserves</b>			
Share capital	21	2,200	2,200
Reserves		162,888	158,991
		<b>165,088</b>	161,191

The financial statements on pages 24 to 53 were approved and authorised for issue by the Board of Directors on 8th April, 2005 and are signed on its behalf by:

**Tsang Chiu Wai**  
DIRECTOR

**Kong Cheuk Luen, Trevor**  
DIRECTOR

# Balance Sheet

At 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Non-current asset</b>			
Investment in a subsidiary	12	98,291	98,291
<b>Current assets</b>			
Prepayments		145	145
Amount due from a subsidiary	17	30,419	41,199
		<b>30,564</b>	41,344
<b>Current liabilities</b>			
Accruals		594	453
Amounts due to subsidiaries		–	5,059
		<b>594</b>	5,512
<b>Net current assets</b>			
		<b>29,970</b>	35,832
		<b>128,261</b>	134,123
<b>Capital and reserves</b>			
Share capital	21	2,200	2,200
Reserves	23	126,061	131,923
		<b>128,261</b>	134,123

**Tsang Chiu Wai**  
DIRECTOR

**Kong Cheuk Luen, Trevor**  
DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2004

	Share capital HK\$'000	Share premium HK\$'000	Investments revaluation reserve HK\$'000	Non- distributable reserve HK\$'000	Merger reserve HK\$'000	General reserve fund HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
	(Note 21)			(Note 23)	(Note 23)	(Note 23)		
<b>THE GROUP</b>								
At 1st January, 2003	–	–	32	16,584	127	4,832	76,676	98,251
Issue of shares on placing and public offer	550	50,600	–	–	–	–	–	51,150
Capitalisation of share premium	1,650	(1,650)	–	–	–	–	–	–
Expenses incurred in connection with issue of shares	–	(9,598)	–	–	–	–	–	(9,598)
Surplus on revaluation and net gain not recognised in the income statement	–	–	34	–	–	–	–	34
Dividends paid	–	–	–	–	–	–	(4,400)	(4,400)
Transfer	–	–	–	–	–	805	(805)	–
Profit for the year	–	–	–	–	–	–	25,754	25,754
At 31st December, 2003	2,200	39,352	66	16,584	127	5,637	97,225	161,191
Deficit on revaluation and net loss not recognised in the income statement	–	–	(51)	–	–	–	–	(51)
Gain realised on disposal of non-trading unlisted equity securities	–	–	(66)	–	–	–	–	(66)
Dividends paid	–	–	–	–	–	–	(4,400)	(4,400)
Transfer	–	–	–	–	–	208	(208)	–
Profit for the year	–	–	–	–	–	–	8,414	8,414
	–	–	(117)	–	–	208	3,806	3,897
At 31st December, 2004	2,200	39,352	(51)	16,584	127	5,845	101,031	165,088

# Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	2004 HK\$'000	2003 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit from operations	9,562	27,978
Adjustments for:		
Dividend income	(52)	(37)
Gain on disposal of unlisted equity securities	(84)	–
Gain on disposal of property, plant and equipment	(182)	–
Interest income	(40)	(416)
Unrealised holding gains on listed trading securities	(377)	(322)
Amortisation of goodwill	283	335
Depreciation	11,141	8,306
Operating cash flows before movements in working capital	20,251	35,844
Increase in inventories	(10,127)	(6,333)
(Increase) decrease in trade and other receivables	(8,717)	3,981
Decrease in bills receivable	–	1,539
Increase (decrease) in trade and other payables	6,242	(5,033)
Cash generated from operations	7,649	29,998
Hong Kong Profits Tax paid	(569)	(519)
Taxation in other jurisdictions paid	(1,184)	(1,235)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>5,896</b>	<b>28,244</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(31,966)	(22,527)
Purchase of unlisted equity securities	(1,500)	–
Proceeds from disposal of unlisted equity securities	1,243	–
Proceeds from disposal of property, plant and equipment	700	–
Interest received	40	416
Dividends received	52	37
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(31,431)</b>	<b>(22,074)</b>
<b>FINANCING ACTIVITIES</b>		
New bank loan raised	8,000	–
Net proceeds from issue of shares on placing and public offer	–	41,552
Interest paid	(191)	(265)
Repayment of bank loans	(3,327)	(2,667)
Dividends paid	(4,400)	(4,400)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>82</b>	<b>34,220</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(25,453)</b>	<b>40,390</b>
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	<b>62,124</b>	<b>21,734</b>
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD, represented by bank balances and cash</b>	<b>36,671</b>	<b>62,124</b>

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 25th June, 2002 and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 6th January, 2003.

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 12 to the financial statements.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities, and in accordance with accounting principles generally accepted in Hong Kong.

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

The principal accounting policies adopted are set out below:

### Basis of consolidation

The consolidated financial statements incorporated the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill arising on acquisition is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	Over the term of the lease, or 20 years, whichever is the shorter
Leasehold improvements	Over the term of the lease, or 20 years, whichever is the shorter
Plant and machinery	9%
Furniture, fixtures and equipment	18% – 25%
Motor vehicles	18% – 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each year represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.



### 3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

#### **Investments in securities** *(cont'd)*

Where securities are held for trading purposes, unrealised gains and losses are included in the income statement for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the year.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Taxation (cont'd)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### Operating leases

Rental payables on properties under operating leases are charged to the income statement on a straight-line basis over the term of the relevant leases.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

#### Retirement benefit costs

Payments to retirement benefit schemes are charged as an expense as they fall due.

### 4. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the gross amount received and receivable for goods sold, net of returns, to outsiders during the year.

#### Business segments

For management purposes, the Group's business is currently organised into four operating divisions which are the basis on which the Group reports its primary segment information. Due to the change in product mix of the Group, the primary business segments were re-categorised during the year for a better understanding on the Group's operation. Comparatives were restated to conform with the changes in the presentation.

Principal activities are as follows:

Aluminium parts	–	sale of aluminium die casting parts manufactured and processed by the Group.
Zinc parts	–	sale of zinc die casting parts manufactured and processed by the Group and zinc die casting parts purchased from suppliers but processed by the Group.
Magnesium parts	–	sale of magnesium die casting parts manufactured and processed by the Group.
Others	–	sale of screw machined brass parts and other castings purchased from suppliers but processed by the Group.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 4. TURNOVER AND SEGMENTAL INFORMATION (cont'd)

### Business segments (cont'd)

For the year ended 31st December, 2004

	Aluminium parts HK\$'000	Zinc parts HK\$'000	Magnesium parts HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>	136,249	12,205	5,754	376	154,584
<b>RESULTS</b>					
Segment results	8,075	807	264	7	9,153
Income from investments in securities					513
Interest income					40
Unallocated corporate expenses					(144)
Profit from operations					9,562
Interest on bank loans repayable within five years					(191)
Profit before taxation					9,371
Taxation					(957)
Profit for the year					8,414
<b>BALANCE SHEET</b>					
<b>ASSETS</b>					
Segment assets	130,587	18,809	4,509	107	154,012
Investments in securities					3,325
Unallocated corporate assets					43,040
Consolidated total assets					200,377
<b>LIABILITIES</b>					
Segment liabilities	14,834	4,966	–	–	19,800
Unsecured bank loans					9,784
Unallocated corporate liabilities					5,705
Consolidated total liabilities					35,289
<b>OTHER INFORMATION</b>					
Capital additions	28,262	3,704	–	–	31,966
Depreciation	9,284	1,638	219	–	11,141

**4. TURNOVER AND SEGMENTAL INFORMATION** (cont'd)**Business segments** (cont'd)

For the year ended 31st December, 2003 (Restated)

	Aluminium parts HK\$'000	Zinc parts HK\$'000	Magnesium parts HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>	129,393	16,293	3,243	1,616	150,545
<b>RESULTS</b>					
Segment results	23,444	3,154	564	216	27,378
Income from investments in securities					359
Interest income					416
Unallocated corporate expenses					(175)
Profit from operations					27,978
Interest on bank loan repayable within five years					(265)
Profit before taxation					27,713
Taxation					(1,959)
Profit for the year					25,754
<b>BALANCE SHEET</b>					
<b>ASSETS</b>					
Segment assets	97,030	16,956	3,281	73	117,340
Investments in securities					2,724
Unallocated corporate assets					65,970
Consolidated total assets					186,034
<b>LIABILITIES</b>					
Segment liabilities	11,133	4,319	–	–	15,452
Secured bank loan					5,111
Unallocated corporate liabilities					4,280
Consolidated total liabilities					24,843
<b>OTHER INFORMATION</b>					
Capital additions	18,133	4,394	–	–	22,527
Depreciation	6,946	1,083	277	–	8,306

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 4. TURNOVER AND SEGMENTAL INFORMATION (cont'd)

### Geographical segments

The following tables provide an analysis of the Group's sales by geographical markets, irrespective of the origin of the goods:

	Sales revenue by geographical market		Contribution to profit from operations	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China (the "PRC"), including Hong Kong	85,851	78,097	5,083	14,284
North America	26,545	38,924	1,644	7,014
Europe	30,176	27,528	1,784	5,007
Others	12,012	5,996	642	1,073
	<b>154,584</b>	150,545	<b>9,153</b>	27,378
Income from investments in securities			513	359
Interest income			40	416
Unallocated corporate expenses			(144)	(175)
			<b>9,562</b>	27,978

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

Geographical region	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	130,104	101,783	31,941	22,336
Hong Kong	69,920	84,225	25	191
	<b>200,024</b>	186,008	<b>31,966</b>	22,527

**5. OTHER OPERATING INCOME**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Included in other operating income are the following:		
Dividend income from listed trading securities	<b>52</b>	37
Exchange gain	<b>203</b>	299
Gain on disposal of unlisted equity securities	<b>84</b>	–
Gain on disposal of property, plant and equipment	<b>182</b>	–
Interest income	<b>40</b>	416
Unrealised holding gains on listed trading securities	<b>377</b>	322

**6. PROFIT FROM OPERATIONS**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (Note 7)	<b>6,089</b>	5,744
Other staff costs (Note)	<b>37,242</b>	30,316
Total staff costs	<b>43,331</b>	36,060
Amortisation of goodwill (included in other operating expenses)	<b>283</b>	335
Auditors' remuneration		
Current year	<b>491</b>	396
Underprovision in previous years	<b>–</b>	100
	<b>491</b>	496
Cost of inventories recognised as expense	<b>49,096</b>	43,298
Depreciation	<b>11,141</b>	8,306
Operating lease charges on land and buildings	<b>2,875</b>	2,718
Retirement benefit schemes contributions (Note 27)	<b>592</b>	408

Note: During the year, the directors of the Company conducted a review of the classification of other staff costs and concluded that part of other staff costs should be reclassified from administrative expenses to cost of sales and selling and distribution expenses in order to present a more realistic financial position of the Group. Accordingly, other staff costs for the year ended 31st December, 2003 amounted to approximately HK\$4,071,000 and HK\$1,132,000 which were previously included in the administrative expenses were reclassified to cost of sales and selling and distribution expenses, respectively.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Directors' fees		
Executive director	50	50
Independent non-executive directors	125	150
Non-executive director	50	–
Other emoluments:		
Executive directors		
Salaries and other benefits	5,690	5,370
Discretionary bonuses	150	150
Retirement benefit schemes contributions	24	24
<b>Total emoluments</b>	<b>6,089</b>	<b>5,744</b>

	2004 No. of directors	2003 No. of directors
Emoluments of the directors were within the following bands:		

Nil to HK\$1,000,000	5	4
HK\$2,000,001 to HK\$2,500,000	2	2

Of the five individuals with the highest emoluments in the Group, two individuals (2003: two individuals) were directors of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining three individuals (2003: three individuals) were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,885	1,885
Retirement benefit schemes contributions	12	18
	<b>1,897</b>	<b>1,903</b>



**7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS** (cont'd)

	<b>2004</b>	2003
	<b>No. of</b>	No. of
	<b>individuals</b>	individuals
Emoluments of the employees were within the following band:		
Nil to HK\$1,000,000	<b>3</b>	3

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

**8. TAXATION**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current tax:		
Hong Kong Profits Tax		
Current year	<b>241</b>	593
Under (over) provision in previous years	<b>1</b>	(128)
	<b>242</b>	465
Taxation in other jurisdictions	<b>656</b>	1,098
	<b>898</b>	1,563
Deferred tax (Note 20):		
Current year	<b>59</b>	396
Taxation attributable to the Company and its subsidiaries	<b>957</b>	1,959

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 8. TAXATION (cont'd)

Pursuant to the relevant laws and regulations in the PRC, Dongguan United Metal Products Co., Ltd. 東莞鏗利五金制品有限公司 ("Dongguan United"), United Metal Products (Shanghai) Co., Ltd. 科鑄金屬製品(上海)有限公司 ("United Shanghai") and United Castings (Dongguan) Co., Ltd. 東莞科鑄金屬製品有限公司 ("United Castings") are entitled to exemption from the PRC enterprise income tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to 50% relief from the PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is 12%.

Dongguan United's first profit-making year is the year of 1999. Accordingly, tax relief expired in the year of 2003 and the tax rate thereafter is 24%.

No provision for taxation has been made for United Shanghai and United Castings as these two companies had no assessable profit for the year.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<b>9,371</b>	27,713
Tax at the PRC income tax rate of 24% (2003: 24%)	<b>2,249</b>	6,651
Tax effect of income not taxable for tax purpose	<b>(1,874)</b>	(3,624)
Tax effect of expenses not deductible for tax purpose	<b>510</b>	320
Effect of tax exemptions granted to the Company's subsidiaries	<b>(59)</b>	(1,259)
Tax effect of tax losses not recognised	<b>203</b>	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(107)</b>	(255)
Others	<b>34</b>	254
Under (over) provision in previous years	<b>1</b>	(128)
Tax charge for the year	<b>957</b>	1,959

**9. DIVIDENDS**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interim paid – Nil (2003: HK\$0.02) per ordinary share	–	4,400
Final, proposed – Nil (2003: HK\$0.02) per ordinary share	–	4,400
	–	<u>8,800</u>

The directors do not recommend the payment of a dividend for the year ended 31st December, 2004.

**10. EARNINGS PER SHARE**

The calculation of the basic earnings per share for the year is based on the following data:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Earnings for the purpose of basic earnings per share	<b>8,414</b>	25,754
Weighted average number of shares for the purpose of basic earnings per share	<b>220,000,000</b>	219,246,575

No diluted earnings per share has been presented as there were no potential dilutive ordinary shares outstanding during the year.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 11. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
<b>COST</b>						
At 1st January, 2004	1,991	8,473	81,969	5,971	1,432	99,836
Additions	1,563	1,436	27,026	1,877	64	31,966
Disposals	–	–	(1,000)	(6)	–	(1,006)
At 31st December, 2004	3,554	9,909	107,995	7,842	1,496	130,796
<b>DEPRECIATION</b>						
At 1st January, 2004	1,035	2,441	28,754	2,817	936	35,983
Provided for the year	375	1,421	7,982	1,173	190	11,141
Eliminated on disposals	–	–	(485)	(3)	–	(488)
At 31st December, 2004	1,410	3,862	36,251	3,987	1,126	46,636
<b>NET BOOK VALUE</b>						
<b>At 31st December, 2004</b>	<b>2,144</b>	<b>6,047</b>	<b>71,744</b>	<b>3,855</b>	<b>370</b>	<b>84,160</b>
At 31st December, 2003	956	6,032	53,215	3,154	496	63,853

## 12. INVESTMENT IN A SUBSIDIARY

	<b>2004 &amp; 2003</b>
	<b>HK\$'000</b>
Unlisted shares, at cost	98,291

The cost of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries attributable to the Group on the date of the group reorganisation effected on 13th December, 2002 (the "Group Reorganisation").

**12. INVESTMENT IN A SUBSIDIARY** (cont'd)

Particulars of the Company's subsidiaries as at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share/ registered capital	Proportion of nominal value of issued/registered capital held by the Company	Principal activities
			(Note i)	
Dongguan United (Note ii)	PRC	Registered capital HK\$15,000,000	100%	Die casting and trading of metal products
Everhope Industrial Limited ("Everhope")	Hong Kong	Ordinary HK\$2	100%	Die casting and trading of metal products
United Metals Company Limited	Hong Kong	Ordinary HK\$1,602	100%	Trading of metal products
United Metals Asset Management Co., Ltd.	British Virgin Islands	Ordinary US\$1	100%	Investment holding
United Non-Ferrous (H.K.) Limited	Hong Kong	Ordinary HK\$1,602	100%	Provision of administrative services
United Non-Ferrous (Overseas) Limited ("United Overseas")	British Virgin Islands	Ordinary US\$17,622	100%	Investment holding
United Non-Ferrous Sdn. Bhd.	Malaysia	Ordinary RM2	100%	Investment holding and trading of metal products
United Shanghai (Note ii)	PRC	Registered capital US\$12,000,000 (Note iii)	100%	Inactive
United Castings (Note ii)	PRC	Registered capital HK\$8,000,000 (Note iii)	100%	Die casting and trading of metal products

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 12. INVESTMENT IN A SUBSIDIARY (cont'd)

Notes:

- (i) Other than United Overseas which is held directly by the Company, all subsidiaries shown above are held indirectly by the Company.
- (ii) Dongguan United, United Shanghai and United Castings are established in the PRC as wholly foreign owned enterprises.
- (iii) As at 31st December, 2004, the capital of United Shanghai and United Castings were paid up as to US\$1,800,000 and HK\$7,375,000, respectively.
- (iv) None of the subsidiaries had any debt securities outstanding at the end of the year or any time during the year.

## 13. GOODWILL

	HK\$'000
<b>COST</b>	
At 1st January, 2004 and 31st December, 2004	1,417
<b>AMORTISATION</b>	
At 1st January, 2004	449
Charge for the year	283
At 31st December, 2004	732
<b>NET BOOK VALUE</b>	
<b>At 31st December, 2004</b>	<b>685</b>
At 31st December, 2003	968

The amortisation period adopted for this goodwill is 5 years.

**14. INVESTMENTS IN SECURITIES**

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Equity securities</b>		
Non-trading unlisted equity securities	<b>1,449</b>	1,225
Listed Hong Kong equity trading securities	<b>1,876</b>	1,499
	<b>3,325</b>	2,724
Market value of listed securities	<b>1,876</b>	1,499
Carrying amount analysed for reporting purposes as:		
Non-current	<b>1,449</b>	1,225
Current	<b>1,876</b>	1,499
	<b>3,325</b>	2,724

**15. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>10,248</b>	5,177
Work-in-progress	<b>12,608</b>	10,717
Finished goods	<b>6,978</b>	3,813
	<b>29,834</b>	19,707

Included above are raw materials of HK\$70,000 (2003: HK\$34,000), work-in-progress of HK\$85,000 (2003: HK\$30,000) and finished goods of HK\$546,000 (2003: HK\$128,000) which were carried at net realisable value.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 16. TRADE AND OTHER RECEIVABLES

The Group generally allows a credit period of 30 to 90 days to its trade customers. An aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade receivables		
Not yet due	18,125	14,851
Overdue 0 to 30 days	11,301	11,004
Overdue 31 to 60 days	2,977	1,727
Overdue 61 to 90 days	630	955
Overdue 91 to 120 days	342	60
Overdue more than 120 days	367	947
	<b>33,742</b>	29,544
Other receivables		
Deposits paid	10,043	3,592
Prepayments	262	1,395
Others	1,302	2,101
	<b>11,607</b>	7,088
	<b>45,349</b>	36,632

## 17. AMOUNT DUE FROM A SUBSIDIARY

The amount is unsecured, interest free and has no fixed terms of repayment.



**18. TRADE AND OTHER PAYABLES**

An aged analysis of trade payables at the balance sheet date is as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Trade payables		
Not yet due	<b>5,092</b>	2,355
Overdue 0 to 30 days	<b>1,397</b>	2,325
Overdue 31 to 60 days	<b>13</b>	19
Overdue 61 to 90 days	–	2
Overdue 91 to 120 days	–	–
Overdue more than 120 days	<b>17</b>	1
	<b>6,519</b>	4,702
Other payables		
Accruals	<b>13,218</b>	9,732
Deposits received	<b>3,132</b>	2,193
	<b>16,350</b>	11,925
	<b>22,869</b>	16,627

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 19. BANK LOANS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Secured	–	5,111
Unsecured	9,784	–
	<b>9,784</b>	<b>5,111</b>

The bank loans are repayable as follows:

Within one year	5,084	2,667
More than one year, but not exceeding two years	2,640	2,444
More than two years, but not exceeding five years	2,060	–
	<b>9,784</b>	<b>5,111</b>
Less: Amounts due within one year and shown under current liabilities	<b>(5,084)</b>	<b>(2,667)</b>
	<b>4,700</b>	<b>2,444</b>

## 20. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods:

### THE GROUP

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
Adjustment to the net deferred tax liability of a subsidiary acquired upon adoption of SSAP 12 (Revised)	725	(287)	438
Charge (credit) to the income statement for the year	1,466	(1,070)	396
At 31st December, 2003	2,191	(1,357)	834
Charge (credit) to the income statement for the year	789	(730)	59
At 31st December, 2004	<b>2,980</b>	<b>(2,087)</b>	<b>893</b>

**20. DEFERRED TAXATION** (*cont'd*)

At the balance sheet date, the Group had unused tax losses of approximately HK\$12,773,000 (2003: HK\$7,752,000) available for offset against future profits. An amount of approximately HK\$11,925,000 (2003: HK\$7,752,000) of such losses has been utilised to set off other deferred tax liabilities. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$848,000 (2003: Nil) due to the unpredictability of future profits streams. These unrecognised tax losses will expire in the year of 2009.

**21. SHARE CAPITAL**

	Number of ordinary shares	Amount HK\$
Authorised:		
Ordinary shares of HK\$0.01 each		
At 1st January, 2003, 31st December, 2003 and 2004	1,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
Issued and fully paid capital at 1st January, 2003	19,224	192
Issue of shares on placing and public offer (Note i)	55,000,000	550,000
Capitalisation of share premium (Note ii)	164,980,776	1,649,808
Issued and fully paid capital at 31st December, 2003 and 2004	220,000,000	2,200,000

## Notes:

- (i) On 5th January, 2003, the Company issued and allotted a total of 55,000,000 new ordinary shares of HK\$0.01 each in the Company at an offer price of HK\$0.93 per share for placing and public offer (the "Share Offer"). These new shares ranked *pari passu* in all respects with the then existing shares.
- (ii) Pursuant to the written resolution passed by the shareholders of the Company on 11th December, 2002, the share premium account of the Company was credited as a result of the Share Offer. The Company allotted and issued a total of 164,980,776 new ordinary shares of HK\$0.01 each in the Company credited as fully paid at par to and amongst the shareholders whose names appeared on the register of members of the Company (or as such members of the Company may direct) as at the close of business on 16th December, 2002 in proportion (as nearly as possible without involving fractions) to their then respective shareholdings in the Company by way of capitalisation of the sum of HK\$1,649,808 standing to the credit of the share premium account of the Company. These new shares ranked *pari passu* in all respects with the then existing shares.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 22. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted for a period of ten years commencing from 11th December, 2002 pursuant to a written resolution of all shareholders passed on 11th December, 2002 for the primary purpose of providing incentives or rewards to directors and eligible employees. Under the Scheme, the Company may grant options to eligible employees and directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside eligible advisors and consultants to the Company and its subsidiaries at the discretion of the board of directors.

The number of shares which may be issued under the Scheme is subject to the following limits:

- (i) the maximum number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Company must not in aggregate exceed 30% of the total number of issued shares of the Company from time to time;
- (ii) without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme and any other share option scheme is not permitted to exceed 22,000,000 shares, representing 10% of the issued share capital of the Company at 6th January, 2003; and
- (iii) the number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the issued share capital of the Company as at the date of such grant.

A nominal consideration of HK\$1 is payable upon acceptance of the grant of the option. The exercise price is determined by the directors of the Company and will be at least the higher of (i) the average of the closing prices of the ordinary shares of the Company for the five trading days immediately preceding the date of the grant; (ii) the closing price of the ordinary shares of the Company on the date of the grant; and (iii) the nominal value of the ordinary shares of the Company.

Any options granted under the Scheme must be exercised during such option period as may be determined and notified by the directors of the Company, which shall not exceed 10 years from the date of acceptance of the option.

No options have been granted under the Scheme since its adoption.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 23. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At 1st January, 2003	–	98,291	(40)	98,251
Issue of shares on the Share Offer	50,600	–	–	50,600
Capitalisation of share premium	(1,650)	–	–	(1,650)
Expenses incurred in connection with issue of shares	(9,598)	–	–	(9,598)
Dividends paid	–	–	(4,400)	(4,400)
Loss for the year	–	–	(1,280)	(1,280)
At 31st December, 2003	39,352	98,291	(5,720)	131,923
Dividends paid	–	–	(4,400)	(4,400)
Loss for the year	–	–	(1,462)	(1,462)
At 31st December, 2004	39,352	98,291	(11,582)	126,061

### THE GROUP

The non-distributable reserve represents the aggregate amount of the share premium of the subsidiaries.

The merger reserve represents the difference between the aggregate nominal amount of the share capital of the subsidiaries and the nominal amount of the Company's shares issued in exchange thereof pursuant to the Group Reorganisation.

As stipulated by the relevant laws and regulations in the PRC, the subsidiaries established in the PRC (the "PRC subsidiaries") are required to maintain a general reserve fund which is non-distributable. Appropriations to this reserve fund is made out of net profit after taxation of the PRC subsidiaries' PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC. The amount and allocation basis are decided by the board of directors of the PRC subsidiaries annually and is not less than 10% of the net profit after taxation of the PRC subsidiaries for that year. The general reserve fund can be used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 23. RESERVES (cont'd)

### THE COMPANY

The contributed surplus represents the difference between the net assets of the subsidiaries and the nominal amount of the Company's shares issued in exchange thereof pursuant to the Group Reorganisation.

The Company's reserves available for distribution to its shareholders comprise contributed surplus, share premium and accumulated losses which in aggregate amounted to approximately HK\$126,061,000 (2003: HK\$131,923,000). In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company and under the Companies Law (Revised) of the Cayman Islands, the Company cannot pay a dividend unless it is able to pay its debts as they fall due in the ordinary course of business immediately following the distribution of dividend.

## 24. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	9,978	26,658

## 25. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases for rented premises which fall due as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	3,146	3,498
In the second to fifth year inclusive	9,655	11,253
Over five years	5,416	7,748
	18,217	22,499

Operating lease payments represent rentals payable by the Group for certain of its office properties and factory land and buildings. The average lease term is 13 years. Rentals are fixed and no arrangements have been entered into for contingent rental payments.

**26. PLEDGE OF ASSETS**

As at 31st December, 2003, general banking facilities granted by a bank to the Group were secured by the Group's investments in securities amounting to approximately HK\$1,225,000. The security was released during the year ended 31st December, 2004.

**27. RETIREMENT BENEFIT SCHEMES**

Effective from 1st December, 2000, the Group has participated in a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its eligible employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contribution payable in the future years.

The Group is also required to make contributions to state pension schemes in the PRC based on a certain percentage of the monthly payroll costs of the employees of Dongguan United, Everhope and United Castings. The Group has no other obligations under the state pension schemes in the PRC other than the contribution payments.

During the year, the total amount contributed by the Group to the relevant retirement benefits schemes are as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
MPF Scheme	<b>154</b>	141
State pension schemes	<b>438</b>	267
	<b>592</b>	408

**28. CONTINGENT LIABILITIES**

The Company has given guarantees to a bank in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st December, 2004 amounted to approximately HK\$9,784,000 (2003: Nil).

# Financial Summary

Set out below is a financial summary of the Group for five years ended 31st December, 2004:

## RESULTS

	For the year ended 31st December,				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover	99,801	115,845	134,163	150,545	<b>154,584</b>
Profit from operations	18,697	24,644	30,391	27,978	<b>9,562</b>
Finance costs	(39)	(23)	(24)	(265)	<b>(191)</b>
Profit before taxation	18,658	24,621	30,367	27,713	<b>9,371</b>
Taxation	(260)	(1,872)	(1,828)	(1,959)	<b>(957)</b>
Profit for the year	18,398	22,749	28,539	25,754	<b>8,414</b>
Earnings per share – basic	13.8 cents	13.8 cents	17.3 cents	11.7 cents	<b>3.8 cents</b>

## ASSETS AND LIABILITIES

	As at 31st December,				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Total assets	78,524	97,313	130,190	186,034	<b>200,377</b>
Total liabilities	(16,614)	(12,695)	(31,939)	(24,843)	<b>(35,289)</b>
Shareholders' funds	61,910	84,618	98,251	161,191	<b>165,088</b>