

MANAGEMENT DISCUSSION & ANALYSIS

United Metals, a die casting specialist in China offering a full vertically integrated service, is capturing the enormous global demand to become one of the leading market players in the die casting industry.

OVERVIEW OF THE GLOBAL DIE CASTING MARKET

Die castings are amongst the highest volume, mass-produced items manufactured by the metal working industries. With over 3,000 die casters in the world, the global die casting market has witnessed steady growth throughout the years. From 1998 to 2001, the global shipments of die casting increased from 4.6 million tons to 5.1 million tons. The biggest beneficiary from the rising demand of die casting is China, which posted a sustainable 7.8% growth in GDP. Leveraging on its vast business growth, competent and low cost labor force as well as abundant resources, China captures business opportunities from various industries in the world, including the die casting industry.

Since the opening up of the China market in 80's, many Hong Kong and foreign manufacturers have relocated their manufacturing bases to China to increase their cost and operational competitiveness. With the need to purchase die casting parts locally, these companies create a surging demand for quality and efficient die casting services in China.

In order to focus on their core expertise, many manufacturers have chosen to outsource and subcontract partial production processes to professionals who are specialists in these processes. As such, United Metals, renowned for its expertise in die casting and scalable operations, benefited immensely from the vast business opportunities.



As a global manufacturing base with booming domestic consumption market, China recorded an output of die casting in a compounded annual growth rate ("CAGR") of 8% to 12% from 1992 to 2001, with an expected capacity increase of 200% to 300% in volume output in the following five to ten years. It is evident that the die casting industry in China will continue to achieve astounding growth and development.

THE ESSENTIALITY OF DIE CASTING

Die casting has become a necessity in production because it is the only casting method that can achieve all of the following characteristics: mass production, consistent quality, high productivity and cost effectiveness.

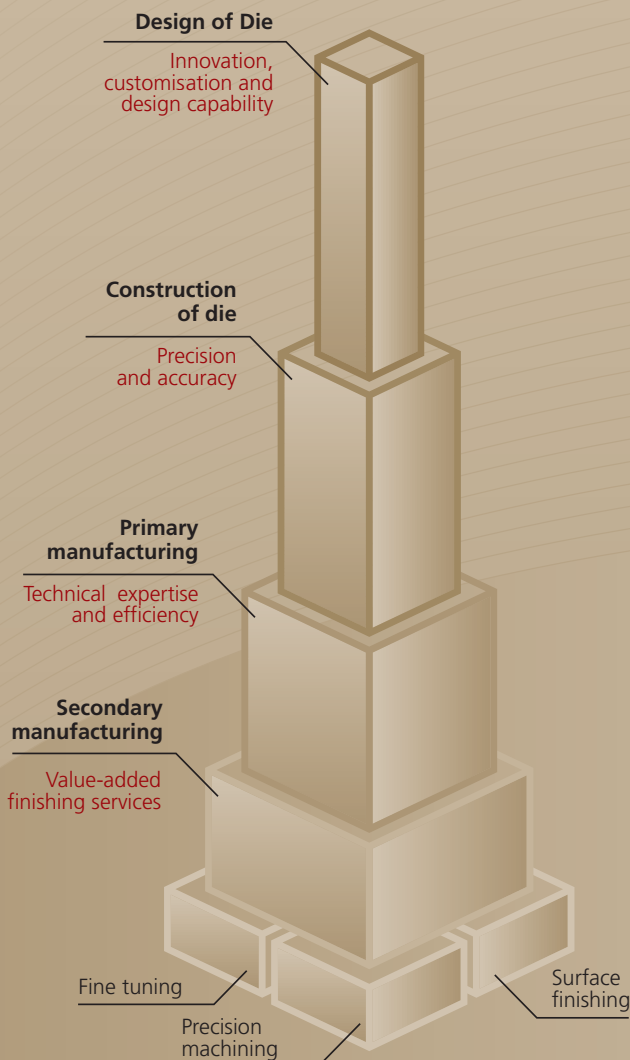
Die casting products are widely applied in various industries such as automotives, automation, power hand tools, communications as well as consumer electronics. According to Equal Parts Ventures, the worldwide die casting shipments by end-user markets, namely automotives, internal combustion engines/motorcycles, industrial and commercial of consumer as well as computer electronics and telecommunications, have exceeded over 5 million tons by 2001, and it is expected to reach 5.5 million tons by 2006.

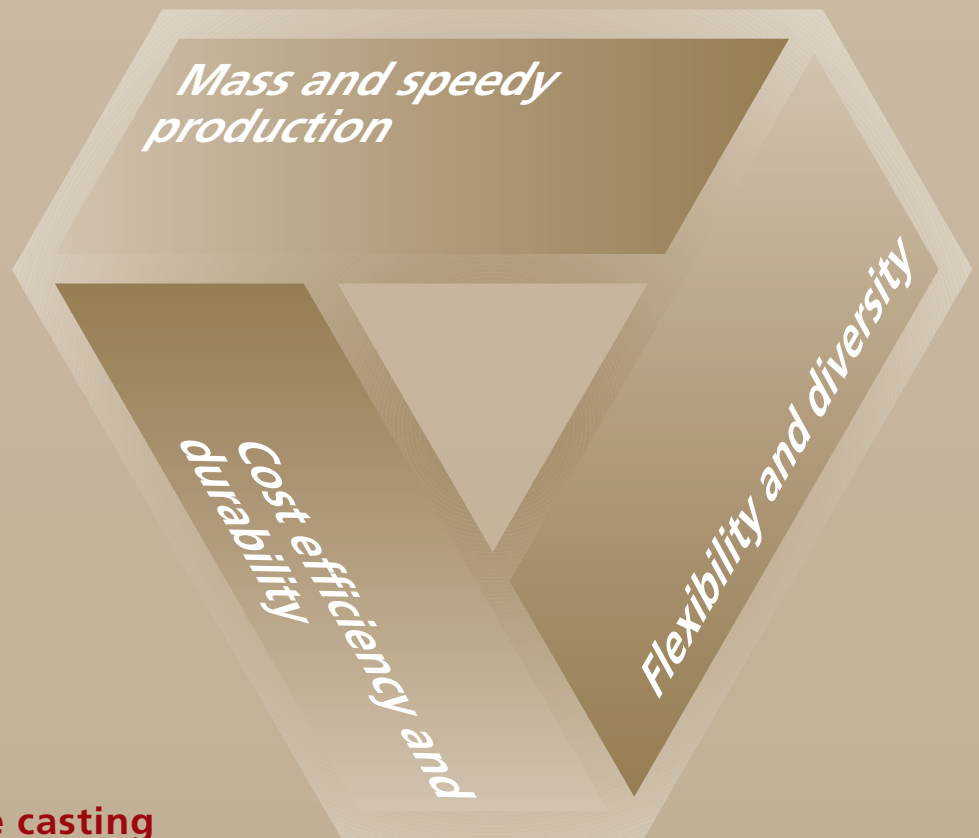


A full vertically integration die casting operation

One of United Metals' most distinctive edges is its ability to provide the complete value chain in die casting, which allows the Company to be involved in the design and manufacturing of dies and secondary finishing processes. These include fine-tuning, precision machining and final surface finishing touch.

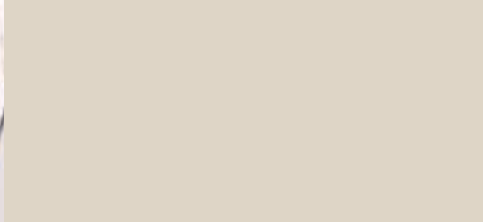
By providing total manufacturing solutions, United Metals is able to offer value-added services like production customisation, technical expertise and design capability to its world renowned clients, underpinning the Company's leading position and boosting profitability. While achieving effective cost and quality controls, full vertical integration also helps enhance capabilities to provide convenient one-stop services to its valuable customers.





The edges of die casting

Given its unrivalled advantages, die casting can be considered as one of the most prevalent technologies among all manufacturing processes for metal castings. The technique is widely recognised and applied in the global manufacturing regime.



Mass and speedy production
 die casting is the most
productive and efficient
 method of manufacturing
 in the metal working industry

METALS IN DIE CASTING

According to statistics report on the worldwide die casting shipments in 2000, aluminium accounted for approximately 86% of the total die casting shipments, followed by zinc with 10%, magnesium with 3% and others with 1%. While aluminium and zinc alloys remain as the most widely used metals for die casting, magnesium will become the future trend because of its light weight, compactness and toughness. The demand of these metal alloys will continue to grow in the future, especially from the automotive industry that is increasingly focused on using lightweight parts to conserve energy.

BUSINESS REVIEW

The Group's sound business growth is conspicuous, as evidenced by the CAGR of 18% in turnover from 1999 to 2002. For the year ended December 31, 2002, the Group achieved an encouraging performance. Turnover increased by approximately 16% to reach HK\$134,163,000 in 2002 (2001:

HK\$115,845,000). Gross profit increased by approximately 27% to reach HK\$43,945,000 in 2002 (2001: HK\$34,598,000). All in all, profit for the year increased by approximately 26%, totaling HK\$28,539,000 (2001: HK\$22,749,000).

The growth in turnover was mainly attributable to the sale of aluminium die casting parts manufactured and processed by the Group which accounted for approximately 83% of the total turnover. The remaining 17% was attributable to approximately 12% from the sale of zinc die casting parts, approximately 4% from the sale of screw machined brass parts purchased from suppliers but processed by the Group and less than 1% from the sale of plastic products which were not manufactured by the Group. The Group has recorded an attractive and increasing profit, thanks to its efficient facilities, stringent cost control and the increase in the depth and scope of its value added die casting services that help to expand market shares.



PRODUCT DIVERSITY

United Metals is renowned for its smooth adoption and swift response to new industry trends. The Group's tailor-made products also offer choice and diversity for leading manufacturers of various industrial sectors to satisfy their ever-changing needs. For the year ended December 31, 2002, automobiles and related products accounted for 44% of the Group's total turnover, followed by 25% from power hand tools, 14% from communications/optics/computer and electronic products, 5% from household appliances/consumer electronics and 12% from others. Evidently, the automotive industry has been the biggest contributor to the Group's turnover, and it is likely that it will continue to play a pivotal role in the future growth and development of the Group's business.

INTERNATIONAL CUSTOMER BASE AND WIDESPREAD GEOGRAPHICAL COVERAGE

The Group's die casting products have attracted

over 50 local and international customers spanning China, Japan, Singapore, North America and Europe. For the year ended December 31, 2002, China is the biggest country of shipment delivery, contributing to over 51% to the Group's total turnover. The second largest place of shipment delivery is North America with 26%, followed by Europe with 20% and others with 3% to the Group's total turnover.

ADVANCED PRODUCTION AND INSPECTION FACILITIES

Situated in Dongguan, China, the Group's production facilities, at a capacity utilisation rate of approximately 70%, occupy a G.F.A. of approximately 16,600 sq.m.. With over 80 sets of advanced production machineries and inspection equipment and abundant labor supply that ensure a quality, flexible and cost effective operation, the Group's production capacity has exceeded 4,500 tons in 2002.



a single die can produce up to a
million pieces
of components
Cost efficiency and durability

STRINGENT QUALITY CONTROL

The Group's stringent quality control equipment include an x-ray radiograph, a spectrometer and three computerised coordinate measuring machines, which are handled besides the quality systems by a team of 35 dedicated staff. Our quality control standards have also earned worldwide accreditations and recognition, as the Group has been awarded ISO 9001:2000 status by TÜV since April 2002.

HUMAN RESOURCES AND MANAGEMENT

As at December 31, 2002, the Group employed over 1,500 employees. Staff cost was 17% of the total turnover (2001: 12%). The Group has committed to providing employees with comprehensive staff training, including new staff training and continual skill development courses. Employees' performance was reviewed on a regular basis and bonuses that averaged to about one-month salary were awarded accordingly. A share option scheme for its directors and eligible employees has also been set up. Due to the short period since its adoption, no share options have been granted.

SUCCESS FACTORS

United Metals has earned a name for itself with competitive advantages, including advanced technologies and economies of scale from its efficient production process and smooth operation flow. Along with stringent quality control and a preventive maintenance program for its state-of-art machineries and equipment, the Group's product quality is guaranteed. In addition, United Metals has also established long term and amicable relationships with its suppliers and achieves a strong bargaining power with its bulk purchases of raw materials.

Most important of all, the Group enjoys a sound financial position under the leadership of its experienced management team and the support of a strong shareholding base. It is the Group's unrivaled management expertise that has made its die casting services unique and outstanding.

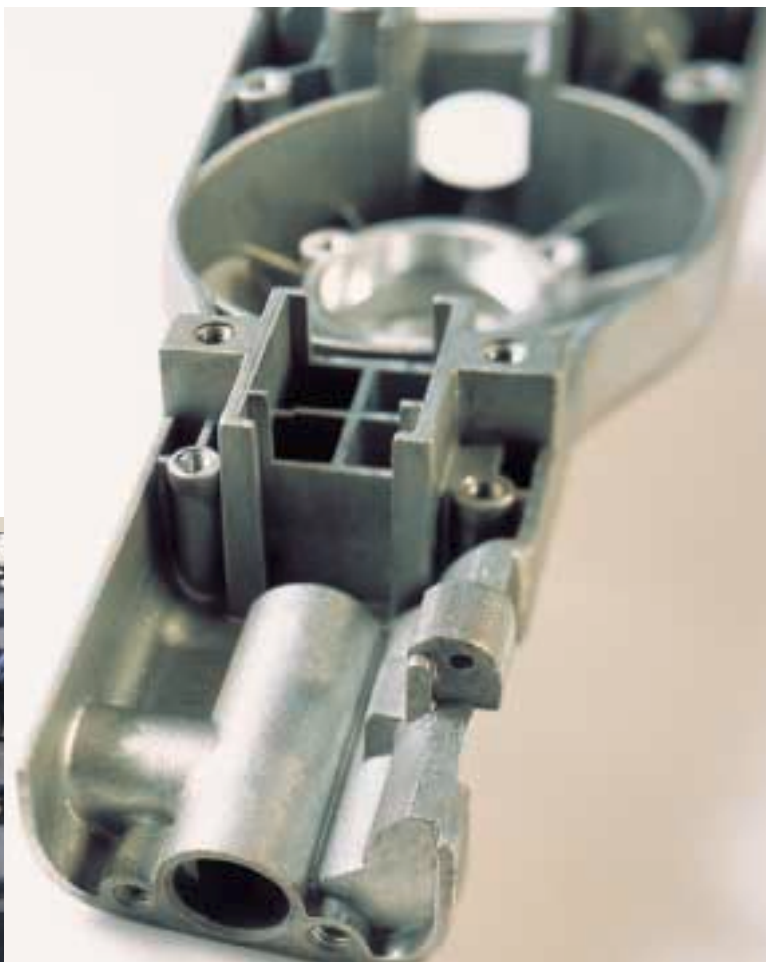
FUTURE STRATEGIES

In view of a booming China economy and its entry into WTO, the die casting market has an

encouraging outlook with vast growth and development potentials. The successful listing on the Main Board of the SEHK in January 2003 is an important milestone for the Group's corporate development and brand building, while the net proceeds enabled the Group to commence its full-fledge expansion plans.

Proven as a success, the Group will continue to strengthen and expand the existing export business by offering better value and quality to both new and existing customers. Meanwhile, the Group has identified two market segments that possess enormous growth potentials and plans to explore these markets in the near future: first, the China automotive industry which is expected to expand tremendously in the following five to ten years, and second, international industrial companies that have, or plan to have manufacturing bases in China. These two segments offer great potentials to the Group, as the outsourcing of parts/components and sub-assemblies from local suppliers will be stimulated.

To capture these market potentials, the Group will first increase its production capacity to prepare itself for the growing demand of die casting services. Secondly, it will commit to further developing applications of magnesium alloys in die casting as well as other types of casting methods to diversify its product and service range. Last but not least, the Group will continue to expand its customer base. One such strategy will be to seek after cooperation opportunities with die-casters in North America and Europe.



Flexibility and diversity

from automotives to power tool, die casting touches
every aspect of our life



Having cemented its market position in China, United Metals is well prepared to achieve equal success in other parts of the world. As continue, the Group will gear itself to serve the developing and robust market with product variety to become the leading world-class die caster of the global market.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generated a net cash inflows of approximately HK\$9,179,000 during the year ended December 31, 2002, which had resulted in a cash on hand and bank balances of approximately HK\$21,734,000 as at the balance sheet date, an increase of approximately 73% over that of the previous year end.

Stock turnover days amounted to 54 days, compared with a yearly average of about 50 days for the previous three years. Debtors' turnover days increased slightly to 74 days, reflecting longer credit terms extended to several significant long-term customers who are well-established or publicly-listed local companies, or internationally renowned industrial companies.

The Group's financial position remained healthy. In respect of its gearing position, which is represented by the ratio of total debts to total assets, the ratio was 6.0% (2001: 1.9%). Moreover, the Group's return on assets was about 22%, which indicated that the Group's assets were employed and utilised efficiently and effectively in 2002.

The working capital of the Group was generally financed by the internally generated cash flows from its operation and its existing banking facilities. As at December 31, 2002, the Group's cash on hand and bank balances amounting to

approximately HK\$21,734,000 and secured bank loan amounting to approximately HK\$7,778,000, of which HK\$2,667,000 was due within one year. The Group had a net current assets amounting to HK\$51,674,000 and a current liabilities of HK\$26,828,000 as at December 31, 2002.

CONTINGENT LIABILITIES

As at December 31, 2002, neither the Group nor the Company had any contingent liabilities.

ACQUISITION OF A SUBSIDIARY

Pursuant to a sale and purchase agreement dated May 30, 2002 entered into between the Company and Mr. Kong Cheuk Luen, Trevor, a director and a shareholder of the Company, and Ms. Wong Kit Yue, spouse of Mr. Kong, the Company acquired the entire issued share capital of Everhope Industrial Limited, which is engaged in the manufacturing and trading of metal products at the consideration of HK\$1,000,000.

DISPOSAL OF INVESTMENT PROPERTY

The Group entered into a sale and purchase agreement dated August 14, 2002 with Mr. Lau Luen Hung, Thomas, a director and a shareholder of the Company, to dispose of the Group's investment property at its net book value of approximately HK\$2,210,000.

EXPOSURE TO FOREIGN EXCHANGE RISKS

Almost all income and expenditure of the Group were denominated in RMB, HKD and USD in year 2002. With relatively stable HKD/USD and RMB/USD exchange rates during the year, the Group did not encounter any occasion in which fluctuations in currency had a material effect on its operations or liquidity.