

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2002

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on June 25, 2002.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group (the "Group") on December 13, 2002.

The Group Reorganisation principally involved the exchange of fully-paid shares of the Company with all the issued shares of United Non-Ferrous (Overseas) Limited ("United Overseas").

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on merger basis in accordance with Statement of Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants.

Details of the Group Reorganisation are set out in the prospectus (the "Prospectus") issued by the Company dated December 19, 2002.

The shares of the Company have been listed on the Stock Exchange since January 6, 2003.

2. 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. 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 December 31 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

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

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.

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
Plant and machinery	9%
Furniture, fixtures and equipment	18% - 25%
Motor vehicles	18% - 25%

Investment property

An investment property is a completed property which is held for its investment potential, any rental income being negotiated at arm's length. It is stated at cost. No depreciation is provided on investment property except where the unexpired term, including the renewal period, of the relevant lease is 20 years or less.

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. Any discount or premium on the acquisition of a held-to-maturity debt 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.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss 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 net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment (cont'd)

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.

Turnover

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

Revenue recognition

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

Rental income from properties under operating leases is recognised on a straight-line basis over the term of the relevant leases.

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.

Management fee income is recognised when management services are rendered.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

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. Profits and losses arising on exchange are dealt with in the net profit or loss for the period.

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.

Retirement benefits costs

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

3. SEGMENTAL INFORMATION

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.

Principal activities are as follows:

- Aluminium parts - sale of aluminium die casting parts manufactured and processed by the Group.
- Manufactured zinc parts - sale of zinc die casting parts manufactured and processed by the Group.
- Processed zinc parts - sale of zinc die casting parts purchased from a supplier but processed by the Group.
- Screw machined brass parts - sale of screw machined brass parts purchased from suppliers but processed by the Group.

For the year ended December 31, 2002

	Aluminium parts HK\$'000	Manufactured zinc parts HK\$'000	Processed zinc parts HK\$'000	Screw machined brass parts HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER	111,209	11,231	5,042	6,232	449	134,163
RESULTS						
Segment results	27,825	1,938	273	1,111	19	31,166
Expenses from investments in securities						(765)
Interest income						127
Unallocated corporate expenses						(137)
Profit from operations						30,391
Finance costs						(24)
Profit before taxation						30,367
Taxation						(1,828)
Profit for the year						<u>28,539</u>
BALANCE SHEET						
ASSETS						
Segment assets	36,783	3,678	-	95	-	40,556
Investments in securities						2,368
Unallocated corporate assets						87,266
Consolidated total assets						<u>130,190</u>
LIABILITIES						
Segment liabilities	11,817	1,415	-	-	-	13,232
Secured bank loan						7,778
Unallocated corporate liabilities						10,929
Consolidated total liabilities						<u>31,939</u>
OTHER INFORMATION						
Capital additions						28,722
Depreciation						5,420

3. SEGMENTAL INFORMATION (cont'd)*For the year ended December 31, 2001*

	Aluminium parts HK\$'000	Manufactured zinc parts HK\$'000	Processed zinc parts HK\$'000	Screw machined brass parts HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER	81,910	-	10,042	22,527	1,366	115,845
RESULTS						
Segment results	21,378	-	64	3,422	97	24,961
Expenses from investments in securities						(498)
Interest income						116
Unallocated corporate income						65
Profit from operations						24,644
Finance costs						(23)
Profit before taxation						24,621
Taxation						(1,872)
Profit for the year						<u>22,749</u>
BALANCE SHEET						
ASSETS						
Segment assets	25,632	-	5,489	13,821	143	45,085
Investments in securities						3,060
Unallocated corporate assets						<u>49,168</u>
Consolidated total assets						<u>97,313</u>
LIABILITIES						
Segment liabilities	3,883	-	94	-	-	3,977
Unallocated corporate liabilities						<u>8,718</u>
Consolidated total liabilities						<u>12,695</u>
OTHER INFORMATION						
Capital additions						7,627
Depreciation						3,866

3. SEGMENTAL INFORMATION (cont'd)**Geographical segments**

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

	Sales revenue by geographical market		Contribution to profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The People's Republic of China (the "PRC")	68,051	49,013	15,544	11,563
North America	34,595	41,112	7,819	7,173
Europe	27,156	23,095	6,718	5,539
Others	4,361	2,625	1,085	686
	134,163	115,845	31,166	24,961
Expenses from investments in securities			(765)	(498)
Interest income			127	116
Unallocated corporate (expenses) income			(137)	65
			30,391	24,644

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:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Geographical region				
The PRC	73,704	43,229	28,154	7,393
Hong Kong	56,486	54,084	568	234
	130,190	97,313	28,722	7,627

4. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Included in other operating income are the following:		
Dividend income from listed trading securities	32	32
Exchange gain	47	125
Interest income	127	116
Rental income from investment property under an operating lease, net of negligible outgoings	60	105

5. PROFIT FROM OPERATIONS

	2002	2001
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 6)	2,297	1,242
Other staff costs	20,516	12,833
Total staff costs	22,813	14,075
Amortisation of goodwill (included in other operating expenses)	114	-
Auditors' remuneration	380	300
Depreciation	5,420	3,866
Loss on disposal of property, plant and equipment	-	5
Net realised and unrealised holding losses on listed trading securities	765	530
Operating lease charges on land and buildings	2,210	1,810
Retirement benefits schemes contributions	400	286

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002	2001
	HK\$'000	HK\$'000
Directors' fees	-	-
Other emoluments:		
Executive directors		
Salaries and other benefits	2,280	1,230
Retirement benefits scheme contributions	17	12
Total emoluments	2,297	1,242

	2002	2001
	No. of directors	No. of directors
Emoluments of the directors were within the following bands:		
Nil to HK\$1,000,000	5	5
HK\$1,000,001 to HK\$1,500,000	1	1

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (cont'd)

Of the five individuals with the highest emoluments in the Group, two individuals (2001: one individual) were directors of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining three individuals (2001: four individuals) were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	1,885	2,317
Retirement benefits scheme contributions	36	48
	1,921	2,365

	2002 No. of individuals	2001 No. of individuals
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Emoluments of the employees were within the following band:

Nil to HK\$1,000,000	3	4
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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.

7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank	24	11
Other	-	12
	24	23

8. TAXATION

	2002	2001
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	694	644
Overprovision in previous years	(43)	(3)
Other jurisdictions	651	641
	1,177	1,231
	1,828	1,872

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Taxation in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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") is entitled to an exemption from the PRC enterprise income tax for two years commencing from its first profit-making year of operation and thereafter, Dongguan United is entitled to a 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, provision for the PRC enterprise income tax has been provided for after taking account of these tax incentives during the year.

Details of the unprovided deferred taxation for the year are set out in note 25.

9. DIVIDEND

The dividends were declared and paid by the Company's wholly-owned subsidiary, United Overseas, to its then shareholders prior to the Group Reorganisation.

The directors do not recommend the payment of a dividend by the Company for the year.

10. EARNINGS PER SHARE

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

	2002	2001
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share	28,539	22,749
Weighted average number of shares for the purpose of basic earnings per share (note)	165,000,000	165,000,000

Note:

The weighted average number of shares for the purpose of basic earnings per share for the year is calculated as if the Group Reorganisation and the capitalisation issue as set out in Appendix V to the Prospectus had been effective at the beginning of the year.

11. INVESTMENT PROPERTY

The property, which is located in Hong Kong and held under a medium-term lease, was disposed of to Thomas Lau, Luen-hung, a director and a shareholder of the Company, at its carrying amount.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold	Plant	Furniture,	Motor	Total
	HK\$'000	improvements	and	fixtures and	vehicles	HK\$'000
	HK\$'000	HK\$'000	machinery	equipment	HK\$'000	HK\$'000
COST						
At January 1, 2002	1,991	3,089	34,543	3,343	1,139	44,105
Acquisition of a subsidiary (note 24)	-	746	13,134	171	-	14,051
Additions	-	1,875	16,152	1,126	-	19,153
At December 31, 2002	1,991	5,710	63,829	4,640	1,139	77,309
DEPRECIATION						
At January 1, 2002	664	773	14,677	1,181	480	17,775
Acquisition of a subsidiary (note 24)	-	129	4,310	43	-	4,482
Provided for the year	185	505	3,801	684	245	5,420
At December 31, 2002	849	1,407	22,788	1,908	725	27,677
NET BOOK VALUE						
At December 31, 2002	1,142	4,303	41,041	2,732	414	49,632
At December 31, 2001	1,327	2,316	19,866	2,162	659	26,330

13. INVESTMENT IN A SUBSIDIARY**2002
HK\$'000**

Unlisted shares, at cost	98,291
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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.

Particulars of the Company's subsidiaries as at December 31, 2002 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 activity
			(note i)	
Dongguan United	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 ("UMCL")	Hong Kong	Ordinary HK\$1,602	100%	Trading of metal products
United Non-Ferrous (H.K.) Limited	Hong Kong	Ordinary HK\$1,602	100%	Provision of administrative services
United Overseas	British Virgin Islands	Ordinary US\$17,622	100%	Investment holding
United Non-Ferrous Sdn. Bhd. ("United Malaysia")	Malaysia	Ordinary RM2	100%	Investment holding and trading of metal products

Notes:

- (i) Other than United Overseas which is held directly by the Company, all subsidiaries shown above are held indirectly by the Company.
- (ii) None of the subsidiaries had any debt securities outstanding at the end of the year or any time during the year.
- (iii) Dongguan United is established in the PRC as a wholly foreign owned enterprise.

14. GOODWILL

	HK\$'000
COST	
Arising on acquisition of Everhope and at December 31, 2002	979
AMORTISATION	
Charge for the year and at December 31, 2002	(114)
NET BOOK VALUE	
At December 31, 2002	865

The amortisation period adopted for this goodwill is 5 years.

15. INVESTMENTS IN SECURITIES

	2002 HK\$'000	2001 HK\$'000
Equity securities		
Non-trading unlisted equity securities	1,191	1,118
Listed Hong Kong equity trading securities	1,177	1,942
	2,368	3,060
Market value of listed securities	1,177	1,942
Carrying amount analysed for reporting purposes as:		
Non-Current	1,191	1,118
Current	1,177	1,942
	2,368	3,060

16. INVENTORIES

	2002 HK\$'000	2001 HK\$'000
Raw materials	3,152	3,555
Work in progress	7,858	3,976
Finished goods	2,364	3,189
	13,374	10,720

17. TRADE AND OTHER RECEIVABLES

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

	2002	2001
	HK\$'000	HK\$'000
Trade receivables:		
Not yet due	10,683	6,694
Overdue 0 to 30 days	8,909	6,004
Overdue 31 to 60 days	5,404	5,564
Overdue 61 to 90 days	1,177	951
Overdue 91 to 120 days	504	260
Overdue more than 120 days	698	155
	27,375	19,628
Other receivables:		
Deferred share issue expenses	9,611	-
Deposits paid	2,023	1,787
Prepayments	713	660
Others	891	216
	13,238	2,663
	40,613	22,291

18. AMOUNTS DUE FROM (TO) RELATED PARTIES

	2002	2001
	HK\$'000	HK\$'000
Name of related party		
Allied Metal Industries Limited ("Allied Metal") (note i)	-	(1,859)
Everhope (note ii)	-	13,324
Thomas Lau, Luen-hung (note iii)	-	2,136
Tsang Chiu Wai (note i)	-	4,687
	-	18,288
Less: Amounts shown under current assets	-	(20,147)
Amounts shown under current liabilities	-	(1,859)

18. AMOUNTS DUE FROM (TO) RELATED PARTIES (cont'd)

	2002 HK\$'000	2001 HK\$'000
Maximum debit balance outstanding during the year:		
Allied Metal	-	-
Everhope	22,039	27,556
Thomas Lau, Luen-hung	7,136	2,136
Tsang Chiu Wai	4,819	4,687

Notes:

- (i) Tsang Chiu Wai, a director and a shareholder of the Company, had beneficial interest in Allied Metal until May 30, 2002, on which date, his entire interest in Allied Metal was disposed of to an independent third party. The amount was fully settled on July 8, 2002.
- (ii) Kong Cheuk Luen, Trevor, a director and a shareholder of the Company, and Wong Kit Yue, spouse of Kong Cheuk Luen, Trevor, had beneficial interests in Everhope until May 30, 2002, on which date, they disposed of their entire interests in Everhope to United Malaysia.
- (iii) Thomas Lau, Luen-hung is a director and a shareholder of the Company. The amount was fully settled on July 8, 2002.
- (iv) All the above amounts were unsecured and non-interest bearing.

19. TRADE AND OTHER PAYABLES

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

	2002 HK\$'000	2001 HK\$'000
Trade payables:		
Not yet due	692	1,055
Overdue 0 to 30 days	2,605	1,372
Overdue 31 to 60 days	796	481
Overdue 61 to 90 days	762	1
Overdue 91 to 120 days	51	4
Overdue more than 120 days	10	-
	4,916	2,913
Other payables:		
Accruals for deferred share issue expenses	6,411	-
Accruals	8,488	3,997
Deposits received	1,354	2,274
Others	491	34
	16,744	6,305
	21,660	9,218

20. SECURED BANK LOAN

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
The secured bank loan is repayable as follows:		
Within one year	2,667	-
More than one year, but not exceeding two years	2,667	-
More than two years, but not exceeding five years	2,444	-
	7,778	-
Less: Amount due within one year and shown under current liabilities	(2,667)	-
Amount due after one year	5,111	-

21. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$
Authorised:		
Ordinary shares of HK\$0.01 each		
At the date of incorporation (note (i))	35,000,000	350,000
Increase during the period (note (iii))	965,000,000	9,650,000
At December 31, 2002	1,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
Issue of share to initial subscriber (note (i))	1	-
Issue of shares (note (ii))	1,601	16
Issue of shares on acquisition of subsidiaries (note (iii))	17,622	176
At December 31, 2002	19,224	192

Details of the changes in the Company's share capital for the year ended December 31, 2002 are as follows:

- (i) The Company was incorporated on June 25, 2002 with an authorised share capital of HK\$350,000 divided into 35,000,000 shares of HK\$0.01 each. One share was allotted and issued to the initial subscriber of the Company on July 29, 2002.
- (ii) The Company allotted and issued 1,601 new ordinary shares of HK\$0.01 each in the Company on July 29, 2002. These new shares rank pari passu in all respects with the existing share.
- (iii) Pursuant to the written resolution passed by the shareholders of the Company on December 11, 2002:
 - (a) the authorised share capital of the Company was increased from HK\$350,000 to HK\$10,000,000 by the creation of an additional 965,000,000 shares. These new shares rank pari passu in all respects with the existing share; and
 - (b) The Company issued a total of 17,622 new ordinary shares of HK\$0.01 each for the acquisition of subsidiaries pursuant to the Group Reorganisation as set out in note 1.

22. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted for a period of ten years commencing from December 11, 2002 pursuant to a written resolution of all shareholders passed on December 11, 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 January 6, 2003.
- (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 the Scheme was adopted.

23. RESERVES

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 non-distributable reserve represents the aggregate amount of the share premiums 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, Dongguan United is 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 Dongguan United's 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 Dongguan United annually and is not less than 10% of the net profit after taxation of Dongguan United for that year. The general reserve fund can be used for expanding the capital base of the Dongguan United by means of capitalisation issue.

23. RESERVES (cont'd)

The Company's reserves available for distribution to its shareholders comprise, contributed surplus and accumulated profits which in aggregate amounted to approximately HK\$98,251,000. 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 must be able to pay its debts as they fall due in the ordinary course of business immediately following the distribution or dividend.

24. ACQUISITION OF A SUBSIDIARY

On May 30, 2002, the Group acquired the entire equity interest in Everhope at a consideration of HK\$1,000,000.

The acquisition has been accounted for using the acquisition method and particulars of the acquisition are:

	2002 HK\$'000	2001 HK\$'000
Net assets acquired		
Property, plant and equipment	9,569	-
Inventories	1,604	-
Trade and other receivables	1,703	-
Bills receivable	822	-
Amount due from a fellow subsidiary	25,812	-
Taxation recoverable	65	-
Bank balances and cash	2,823	-
Trade and other payables	(3,055)	-
Amount due to a fellow subsidiary	(39,322)	-
	21	-
Goodwill	979	-
Total consideration	1,000	-
Satisfied by:		
Cash	1,000	-
Net inflow of cash and cash equivalents arising on acquisition:		
Cash consideration	(1,000)	-
Bank balances and cash acquired	2,823	-
	1,823	-

The subsidiary acquired during the year contributed approximately HK\$19 million to the Group's turnover, and approximately HK\$2 million to the Group's profit from operations.

25. UNPROVIDED DEFERRED TAXATION

At December 31, 2002, the unprovided deferred taxation asset of the Group amounted to approximately HK\$634,000 representing the tax effect of tax losses relating to a subsidiary acquired by the Group on May 30, 2002. The unrecognised deferred taxation credit for the year amounted to approximately HK\$258,000.

The deferred taxation asset has not been recognised in the financial statements as it is not certain that the tax losses will be utilised in the foreseeable future.

There was no other material unprovided deferred taxation during the year or at the balance sheet date.

26. CAPITAL COMMITMENTS

	2002 HK\$'000	2001 HK\$'000
Capital commitment contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	891	164

27. OPERATING LEASE ARRANGEMENTS

At December 31, 2001, the Group had minimum lease receipts amounting to approximately HK\$69,000 for its investment property under a non-cancellable operating lease due within one year.

28. 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:

	2002 HK\$'000	2001 HK\$'000
Within one year	2,922	1,974
In the second to fifth year inclusive	10,534	6,944
Over five years	9,628	11,156
	23,084	20,074

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.

29. PLEDGE OF ASSETS

As December 31, 2002, general banking facilities granted by a bank to the Group were secured by the Group's investments in securities amounting to approximately HK\$1,191,000.

At December 31, 2001, general banking and credit facilities granted by a bank and a securities broker to the Group were secured by Group's investment property and investments in securities amounting to approximately HK\$2,210,000 and HK\$1,983,000, respectively.

30. RETIREMENT BENEFITS SCHEMES

Effective from December 1, 2000, the Group has participated in a Mandatory Provident Fund Scheme ("MPF Scheme") for all its 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 salaries of the employees of Dongguan United and Everhope. 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:

	2002	2001
	HK\$'000	HK\$'000
MPF Scheme	176	144
State Pension	224	142
	400	286

31. RELATED PARTY DISCLOSURES**(a) Related party transactions**

During the year, the Group had significant transactions with the following related parties:

Name of related party	Nature of transaction	Notes	2002	2001
			HK\$'000	HK\$'000
Allied Metal	Purchase of inventories	(i)	1,245	8,078
Everhope	Purchase of inventories	(i)	4,226	10,546
	Management fee income	(ii)	-	156
	Sales commission	(ii)	348	1,093
	Sale of goods	(i)	11,949	38,127
Kong Cheuk Luen, Trevor	Acquisition of Everhope	(iii)	500	-
Wong Kit Yue	Acquisition of Everhope	(iii)	500	-
Thomas Lau, Luen-hung	Disposal of investment property	(iv)	2,210	-

Notes:

- (i) The purchase of inventories and sale of goods were mutually agreed between the Group and the related parties.
- (ii) The provision of management services and sales commission were determined in accordance with the contracts entered into between the Group and the related parties.

31. RELATED PARTY DISCLOSURES (cont'd)**(a) Related party transactions** (cont'd)

- (iii) The consideration for the acquisition of Everhope from Kong Cheuk Luen, Trevor and Wong Kit Yue was determined at an amount mutually agreed between the Group and the related parties.
- (iv) The consideration for the disposal of investment property was mutually agreed between the Group and Thomas Lau, Luen-hung.

Furthermore, as Allied Metal ceased to be a related company and Everhope became a subsidiary of the Group on May 30, 2002, transactions with these two companies subsequent to May 30, 2002 are not regarded as related party transactions.

(b) Related party balances

Details of the Group's outstanding balances with related parties are set out on the balance sheet and in note 18.

(c) Bank facilities

In addition to the pledge of the Group's assets as set out in note 29, certain of the Group's banking facilities as at the balance sheet date were also secured by the personal guarantee given by Tsang Chiu Wai to the extent of HK\$40,000,000 (2001: HK\$5,000,000).

32. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date:

- (a) Pursuant to the Prospectus, the Company issued 55,000,000 new ordinary shares of HK\$0.01 each at HK\$0.93 per share and raised net proceeds of approximately HK\$41.6 million.
- (b) The personal guarantee given by Tsang Chiu Wai as mentioned in note 31(c) above was released subsequent to the balance sheet date.