



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

United Metals
INTERIM REPORT 2004 二零零四年中期報告
Interim Report 2004



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CORPORATE INFORMATION

COMPANY NAME

United Metals Holdings Limited

科鑄技術集團有限公司*

EXECUTIVE DIRECTORS

Thomas Lau, Luen-hung (*Chairman*)

Tsang Chiu Wai

Kong Cheuk Luen, Trevor

NON-EXECUTIVE DIRECTOR

Wong Wing Sing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lee Tho Siem

Wang Jianguo

Loke Hoi Lam

AUDIT COMMITTEE

Lee Tho Siem

Wang Jianguo

Loke Hoi Lam

Wong Wing Sing

COMPANY SECRETARY

Siu Po Sim, Katherine

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

CORPORATE WEBSITE

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

Room 1901-05, 19th Floor

Hopewell Centre, 183 Queen's Road East

Hong Kong

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

With all of last year's critical moments and challenges behind us, the first half of 2004 has seen light at the end of the tunnel after the recovery of the global economy from the terror of war and the impact of Severe Acute Respiratory Syndrome. Led by the revival of the United States economy especially in the second quarter, global consumption demand has once again been stimulated. Driven by the continuous demand for evolving models of automobiles, IT, telecommunications and AV devices, a healthy growth momentum has been maintained for the global die-casting market during the period under review, demonstrating a rise of 3.6% in casting shipments as mentioned in the January 2004 MODERN CASTING.

As for The People's Republic of China (the "PRC"), the global manufacturing hub possessing full demographical advantages and opportunities for die-casting players, the demand for die-casting products has been growing steadily in recent years. With more and more international brand names – especially those in the automotive regime – moving their production base to the PRC so as to enjoy operational efficiencies, there has been a growing demand for high-quality and efficient local die-casting services. In addition, the robust economic growth in the PRC has created a consumption demand that has supported the existence of not only giant international players, but also domestic ones, boosting the demand for die-casting services especially in the Guangdong region.

However, despite the enormous potentials particularly for the PRC's die-casting players, the actual market growth has been substantially hindered during the period under review, due to the potential shortage of energy and natural resources on both global and domestic levels. On the one hand, the cost of metal alloys – the core raw materials of die-casting services – has increased by almost 15% due to the temporary shortage of scrap collection led by the high demand for casting parts. On the other hand, the shortage of electricity has also drastically reduced the production capability and undermined the performance of domestic die-casting manufacturers.

Looking forward, in view of the state government now working in full swing on remedial measures to ensure an adequate power supply for domestic manufacturing plants, the problem of power shortage will hopefully be solved in the second half of 2004.

Seriously affected by the shortage of electricity at the domestic level, the potentials of United Metals Holdings Limited (the "Company") and its subsidiaries (the "Group" or "United Metals") – the fully vertically-integrated die-caster – has, like other manufacturers in the PRC, been hindered inevitably during the period under review.

Business Review

The first half of 2004 has been a critical moment for the Group. For the six months ended June 30, 2004, turnover and gross profit decreased by 4.4% and 42.3% to HK\$67,327,000 and HK\$13,700,000 respectively, while net profit fell 64.4% to HK\$5,484,000. The fall was mainly caused by the severe shortage of electricity in the PRC, which has led to low utilization of its production capacity and thus an under-performance of the Group's entire operation. During the period under review, the Group has also realigned its business segment to focus on self manufacturing items rather than high profit less secure trading products.

Facing the challenges brought about by electricity shortage, United Metals has already purchased three additional sets of electricity generator, effectively minimising the possible impact of power interruption to the Group. In addition, the Group has also been implementing stringent quality control and cost control policies so as to maintain its margin levels. During the period under review, the gross profit margin was successfully maintained at 20.3%, a decrease of 13.4 percentage points as compared with the first half of 2003.

With the operation of the three additional sets of electricity generator, the Group has now been able to operate with its own back up power supply. Production has returned to better scheduling right after June 2004. Given the Group's sound business model, its unique quality and fully vertically-integrated die-casting services that meet international safety and quality standards, and the full support of its extensive and reputable client base, United Metals is fully equipped to regain its growth momentum.

Operational Review

Notwithstanding the shortage of electricity supply, United Metals has continued to demonstrate its core strengths through providing fully vertically-integrated die-casting services to both domestic and international brand clients. In the meantime, it has commenced a number of expansion campaigns to pave the way for future growth.

Enhanced Production Capacity with Advanced Technologies

During the period under review, the Group has successfully secured its domestic sales license by its new production plant in Dongguan. In view of the expected surge in demand from both domestic and overseas markets, the Group has increased its production capacity in order to better satisfy customers' needs and enjoy economies of scale. With the operation of new facilities, production capacity has now reached 400 tonnes per month, indicating a utilisation rate of approximately 70%. In the near future, the Group will further expand its production capacity by establishing United Metal Products (Shanghai) Co. Ltd. and setting up another production plant in Shanghai. The Group has also brought in numerous advanced technologies such as multi-axis machining centre to improve productivity, accuracy and product quality.

Enhanced International Customer Base

The Group's income stream is mainly derived from two aspects: orders for die design and production, which accounts for approximately 8% of turnover, and orders for various kinds of existing products. With the increase of several major international based clients spanning different parts of the world, approximately 18% of the Group's customers are from Europe and the remaining 27% from the North America.

Human Resources and Management

As at June 30, 2004, the Group employed over 2,200 (at December 31, 2003: 2,100) employees. The Group is committed to provide comprehensive staff training, including new staff training and continual skill development courses. Employees' performance are reviewed on a regular basis and bonuses averaged about one month salary are awarded accordingly. The Group has a share option scheme for its eligible employees and directors. For the period under review, no share options has been granted.

Future Strategies

Backed by its solid and unique strengths and competitiveness, the support of its domestic and overseas customers and the enormous potentials in both local and global die-casting markets, the Group is well prepared to speed up its development and consolidate its business growth in the near future.

The Group will further enhance its production capacity to meet the growing demand from both domestic and international players. Establishing United Metal Products (Shanghai) Co. Ltd., the Group has decided to set up another production plant in Shanghai International Automobile City Spare Parts Assembly Industrial Zone (East Area), with an expected site area of approximately 110 Mu, purchased for RMB7,283,000 (HK\$6,860,000). The plant's target production volume is 5,000 tonnes, and phase one of the production will commence in the last quarter of 2005.

Geographically speaking, in light of the PRC's robust economic growth, United Metals will continue to focus on this market, especially upon the approval of domestic sales licenses. The Group will also ride on the momentum of its development as well as the economic integration of the Greater China Region. Amongst the various industries, United Metals has identified the automotive industry as one of its core businesses, given the healthy surge in the PRC's automotive production levels as a result of the country's increasing economic prosperity.

In the future, the Group will further solidify its production platform to capture the enormous domestic demand for die-casting in the fast growing PRC market as well as other well developed markets. United Metals has reaffirmed its market position not only in the PRC but also in other parts of the world, with an aim to becoming the leading die-caster in the global markets and an indispensable die-casting partner for both domestic and international manufacturers in the PRC.

Liquidity and Financial Resources

The cash and cash equivalents of the Group amounted to approximately HK\$38,231,000 (at December 31, 2003: HK\$62,124,000). During the period under review, the Group has generated a net cash outflow of approximately HK\$23,893,000 which was mainly incurred for expansion of production facilities. The secured bank loan amounting to approximately HK\$4,000,000 (at December 31, 2003: HK\$5,111,000) of which HK\$2,667,000 (at December 31, 2003: HK\$2,667,000) is due within one year, is denominated in Hong Kong dollars and charged at fixed interest rate. Therefore, the Group is not exposed to any exchange rate and interest rate risks.

The Group had a net current assets amounting to HK\$86,808,000 (at December 31, 2003: HK\$98,423,000) and a current liabilities of HK\$26,727,000 as at June 30, 2004 (at December 31, 2003: HK\$21,565,000). Stock turnover days increased from 48 days at December 31, 2003 to 83 days at June 30, 2004, resulted from the sharp increased of metal alloys prices to inflate the value of inventories. Debtors' turnover days were slightly increased to 75 days (at December 31, 2003: 72 days). The gearing ratio, in terms of total debts to total assets, stood at 0.15 (at December 31, 2003: 0.13), which has reflected the healthy financial position of the Group.

Charge on Assets

As at June 30, 2004, the Group pledged its investments in securities amounted to approximately HK\$1,380,000 (at December 31, 2003: HK\$1,225,000) to bank to secure banking facilities of HK\$4,000,000 (at December 31, 2003: HK\$5,111,000).

Contingent Liabilities

As at June 30, 2004, neither the Group nor the Company had any contingent liabilities.

SUPPLEMENTARY INFORMATION

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

At June 30, 2004, the interests of the Board of Directors of the Company (the "directors") and the chief executives and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (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 Issuers (the "Model Code"), 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 <i>(Note i)</i>	69,468,000	31.58%
Tsang Chiu Wai	Held by controlled corporation <i>(Note ii)</i>	62,292,000	28.31%
Kong Cheuk Luen, Trevor	Held by controlled corporation <i>(Note iii)</i>	30,856,000	14.03%
		162,616,000	73.92%

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 30,856,000 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 June 30, 2004.

SHARE OPTIONS

Particulars of the Company's share option scheme (the "Scheme") are set out in note 15 to the condensed financial statements. No option was granted under the Scheme since its adoption.

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 June 30, 2004.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the period (six months ended June 30, 2003: HK\$0.02 per ordinary share).

USE OF THE PROCEEDS FROM THE INITIAL PUBLIC OFFER

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 on January 6, 2003 were applied as follows:

- as to approximately HK\$31,500,000 was incurred for the purchase of production facilities, inspection equipments and expansion of sales and marketing activities in order to increase production capacity, strengthen quality checking, expand sales team and participate in trade shows; and
- as to approximately HK\$8,700,000 worth of contracts were under construction in progress for additional production facilities and tooling making facilities.

The Group intends to apply the remaining proceeds as general working capital of the Group.

EXPOSURE TO FOREIGN EXCHANGE RISKS

Almost all income and expenditure of the Group were denominated in RMB, HKD and USD in the period 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended June 30, 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE AND MODEL CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended June 30, 2004, in compliance with the Code of Best Practice (the "Code of Best Practice") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at Annual General Meeting in accordance with the Company's Articles of Association.

The Company had adopted the Model Code as set out in Appendix 10 to the Listing Rules.

AUDIT COMMITTEE

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company set up an audit committee (the "Committee"), for the purpose of reviewing and providing supervision on the financial reporting process and internal control of the Group. The Committee comprises of three independent non-executive directors and one non-executive director. The present members of the Committee are Mr. Lee Tho Siem, Mr. Wang Jianguo, Mr. Loke Hoi Lam and Mr. Wong Wing Sing. This unaudited interim report for the six months ended June 30, 2004 as well as accounting principles and practices have been reviewed by the Committee.

APPRECIATION

I would like to take this opportunity to thank our shareholders, my fellow directors and our staff members for their dedication and support.

On behalf of the Board

Thomas Lau, Luen-hung

Chairman

Hong Kong, September 3, 2004

The directors would like to announce the unaudited condensed consolidated results of the Group for the six months ended June 30, 2004, together with the unaudited comparative figures for the six months ended June 30, 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2004

	<i>Notes</i>	Six months ended June 30,	
		2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>
Turnover	<i>3</i>	67,327	70,435
Cost of sales		(53,627)	(46,671)
Gross profit		13,700	23,764
Other operating income		239	693
Selling and distribution expenses		(2,209)	(1,455)
Administrative expenses		(5,765)	(5,853)
Other operating expenses		(215)	(415)
Profit from operations	<i>4</i>	5,750	16,734
Finance cost	<i>5</i>	(92)	(145)
Profit before taxation		5,658	16,589
Taxation	<i>6</i>	(174)	(1,183)
Profit for the period		5,484	15,406
Interim dividend	<i>7</i>	–	4,400
Earnings per share – basic	<i>8</i>	2.49 cents	7.05 cents

CONDENSED CONSOLIDATED BALANCE SHEET
At June 30, 2004

	<i>Notes</i>	At June 30, 2004 <i>HK\$'000</i> <i>(unaudited)</i>	At December 31, 2003 <i>HK\$'000</i> <i>(audited)</i>
Non-current assets			
Property, plant and equipment	<i>9</i>	74,949	63,853
Goodwill	<i>10</i>	827	968
Investments in securities		1,380	1,225
		77,156	66,046
Current assets			
Inventories		31,053	19,707
Trade and other receivables	<i>11</i>	42,577	36,632
Bills receivable		192	–
Investments in securities		1,456	1,499
Taxation recoverable		26	26
Bank balances and cash		38,231	62,124
		113,535	119,988
Current liabilities			
Trade and other payables	<i>12</i>	20,995	16,627
Taxation payable		3,065	2,271
Secured bank loan – due within one year		2,667	2,667
		26,727	21,565
Net current assets		86,808	98,423
Total assets less current liabilities		163,964	164,469
Non-current liabilities			
Secured bank loan – due after one year		1,333	2,444
Deferred tax liabilities	<i>13</i>	542	834
		1,875	3,278
		162,089	161,191
Capital and reserves			
Share capital	<i>14</i>	2,200	2,200
Reserves		159,889	158,991
		162,089	161,191

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended June 30, 2004

	Share capital	Share premium	Investments revaluation reserve	Non- distributable reserve	Merger reserve	General reserve fund	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>(Note 14)</i>								
At January 1, 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	-	-	25	-	-	-	-	25
Profit for the period	-	-	-	-	-	-	15,406	15,406
At June 30, 2003	2,200	39,352	57	16,584	127	4,832	92,082	155,234
Surplus on revaluation	-	-	9	-	-	-	-	9
Interim dividend paid	-	-	-	-	-	-	(4,400)	(4,400)
Transfer	-	-	-	-	-	805	(805)	-
Profit for the period	-	-	-	-	-	-	10,348	10,348
At December 31, 2003	2,200	39,352	66	16,584	127	5,637	97,225	161,191
Deficit on revaluation	-	-	(186)	-	-	-	-	(186)
Final dividend paid	-	-	-	-	-	-	(4,400)	(4,400)
Profit for the period	-	-	-	-	-	-	5,484	5,484
At June 30, 2004	2,200	39,352	(120)	16,584	127	5,637	98,309	162,089

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended June 30, 2004*

	Six months ended June 30,	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(1,902)	19,939
NET CASH USED IN INVESTING ACTIVITIES	(16,388)	(8,819)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(5,603)	40,074
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(23,893)	51,194
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	62,124	21,734
CASH AND CASH EQUIVALENTS CARRIED FORWARD, represented by bank balances and cash	38,231	72,928

NOTES TO THE CONDENSED FINANCIAL STATEMENTS**1. Basis of preparation of condensed 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 and its shares have been listed on the Stock Exchange since January 6, 2003.

The condensed financial statements have been prepared in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

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

2. Significant accounting policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2003.

3. Segmental information

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.

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.
- Magnesium parts – sale of magnesium die casting parts manufactured and processed by the Group.
- Screw machined brass parts – sale of screw machined brass parts purchased from suppliers but processed by the Group.

	Turnover		Segment Results	
	Six months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Aluminium parts	60,468	59,863	5,487	14,558
Zinc parts	4,634	7,800	477	2,060
Magnesium parts	1,939	1,177	195	150
Screw machined brass parts	286	1,595	7	247
	67,327	70,435	6,166	17,015
Income/(Expenses) from investment				
in securities			66	(30)
Interest income			25	240
Unallocated corporate expenses			(507)	(491)
Profit from operations			5,750	16,734

3. Segmental information (cont'd)

Geographical Segments

The following table provides an analysis of the Group's turnover by geographical markets:

	Turnover		Segment Results	
	Six months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
The PRC, including Hong Kong	33,638	39,318	3,093	9,661
North America	18,030	19,483	1,622	4,634
Europe	11,808	10,365	1,085	2,428
Others	3,851	1,269	366	292
	67,327	70,435	6,166	17,015
Income/(Expenses) from investment in securities			66	(30)
Interest income			25	240
Unallocated corporate expenses			(507)	(491)
Profit from operations			5,750	16,734

4. Profit from operations

Six months ended June 30,	
2004	2003
HK\$'000	HK\$'000
(unaudited)	(unaudited)

Profit from operations has been arrived at after charging/(crediting):

Depreciation	5,085	3,833
Amortisation of goodwill (included in other operating expenses)	141	193
Gain on disposal of investment securities	(84)	–
Unrealised holding losses on listed trading securities	43	31

5. Finance cost

Six months ended June 30,	
2004	2003
HK\$'000	HK\$'000
(unaudited)	(unaudited)

Interest on bank loan repayable within five years	92	145
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6. Taxation

	Six months ended June 30,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax:		
Hong Kong	144	546
Other jurisdictions	322	577
Deferred tax (<i>Note 13</i>)	(292)	60
	<u>174</u>	<u>1,183</u>

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

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

Pursuant to the relevant laws and regulations in the PRC, Dongguan United Metal Products Co., Ltd. 東莞鏗利五金製品有限公司 ("Dongguan United"), a wholly owned subsidiary of the Company, 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 six months ended June 30, 2003.

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.

7. Interim dividend

The directors do not recommend the payment of an interim dividend for the period. (six months ended June 30, 2003: HK\$0.02 per ordinary share).

8. Earnings per share

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

	Six months ended June 30,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Earnings		
Earnings for the purpose of basic earnings per share	<u>5,484</u>	<u>15,406</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>Note</i>)	<u>220,000,000</u>	<u>218,481,000</u>

Note:

No diluted earnings per share has been presented for the six months ended June 30, 2003 and 2004 as there were no potential dilutive ordinary shares in existence for the periods.

9. Additions to property, plant and equipment

During the period, the Group spent approximately HK\$13,505,000 (six months ended June 30, 2003: HK\$8,693,000) on additions to manufacturing plant and equipment in the PRC, in order to upgrade its manufacturing capabilities.

10. Goodwill

	<u>HK\$'000</u>
Cost	
At January 1, 2004 and June 30, 2004	1,417
AMORTISATION	
At January 1, 2004	449
Charge for the period	141
At June 30, 2004	590
NET BOOK VALUE	
At June 30, 2004	827
At December 31, 2003	968

11. 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:

	At June 30, 2004 HK\$'000 (unaudited)	At December 31, 2003 HK\$'000 (audited)
Trade receivables:		
Not yet due	14,987	14,851
Overdue 0 to 30 days	6,126	11,004
Overdue 31 to 60 days	2,823	1,727
Overdue 61 to 90 days	835	955
Overdue 91 to 120 days	1,612	60
Overdue more than 120 days	1,402	947
	27,785	29,544
Other receivables:		
Deposits paid	11,076	3,592
Prepayments	2,673	1,395
Others	1,043	2,101
	14,792	7,088
	42,577	36,632

12. Trade and other payables

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

	At June 30, 2004 HK\$'000 (unaudited)	At December 31, 2003 HK\$'000 (audited)
Trade payables:		
Not yet due	6,082	2,355
Overdue 0 to 30 days	2,023	2,325
Overdue 31 to 60 days	6	19
Overdue 61 to 90 days	-	2
Overdue 91 to 120 days	-	-
Overdue more than 120 days	-	1
	8,111	4,702
Other payables:		
Accruals	9,877	9,732
Deposits received	3,007	2,193
	12,884	11,925
	20,995	16,627

13. Deferred taxation

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

	Accelerated tax depreciation HK\$'000 (unaudited)	Tax losses HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
At January 1, 2004	2,191	(1,357)	834
Charge/(credit) to condensed consolidated income statement	689	(981)	(292)
At June 30, 2004	2,880	(2,338)	542

14. Share capital

	At June 30, 2004 HK\$'000 (unaudited)	At December 31, 2003 HK\$'000 (audited)
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.01 each	<u>10,000</u>	<u>10,000</u>
<i>Issued and fully paid:</i>		
220,000,000 ordinary shares of HK\$0.01 each	<u>2,200</u>	<u>2,200</u>

15. Share option scheme

The Company's share option 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.

Up to the date of approval of this interim report, no options have been granted under the said scheme.

16. Capital commitments

	At June 30, 2004 HK\$'000 (unaudited)	At December 31, 2003 HK\$'000 (audited)
Capital commitment contracted for but not provided in the condensed financial statements in respect of acquisition of property, plant and equipment	<u>10,999</u>	<u>26,658</u>

17. 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:

	At June 30, 2004 HK\$'000 (unaudited)	At December 31, 2003 HK\$'000 (audited)
Within one year	3,375	3,498
In the second to fifth year inclusive	9,992	11,253
Over five years	6,263	7,748
	19,630	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.

18. Pledge of assets

At June 30, 2004, general banking facilities granted by a bank to the Group were secured by the Group's investments in securities amounting to approximately HK\$1,380,000 (At December 31, 2003: HK\$1,225,000).

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

www.unitedmetals.com.hk

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

香港九龍長沙灣
荔枝角道 838 號
勵豐中心 9 樓 901-903 室

電話：(852) 2422 7636

傳真：(852) 2480 4462

電郵： info@unitedmetals.com.hk