

# 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	<b>85,851</b>	78,097	<b>5,083</b>	14,284
North America	<b>26,545</b>	38,924	<b>1,644</b>	7,014
Europe	<b>30,176</b>	27,528	<b>1,784</b>	5,007
Others	<b>12,012</b>	5,996	<b>642</b>	1,073
	<b>154,584</b>	150,545	<b>9,153</b>	27,378
Income from investments in securities			<b>513</b>	359
Interest income			<b>40</b>	416
Unallocated corporate expenses			<b>(144)</b>	(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	<b>130,104</b>	101,783	<b>31,941</b>	22,336
Hong Kong	<b>69,920</b>	84,225	<b>25</b>	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. 科鑄金屬制品(上海)有限公司 ("United Shanghai") and United Castings (Dongguan) Co., Ltd. 東莞科鑄金屬制品有限公司 ("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>
Amounts due after one year	<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).