

1. 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 25 June, 2002 and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 6 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. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

SSAP 12 (Revised)	Income Taxes
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The adoption of this SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

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. 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 31 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.

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.

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

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.

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, or 20 years, whichever is the shorter
Plant and machinery	9%
Furniture, fixtures and equipment	18% – 25%
Motor vehicles	18% – 25%

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.

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.

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

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.

Management fee income is recognised when management services are rendered.

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.

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 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 profit 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 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. 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 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.

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. |

4. TURNOVER AND SEGMENTAL INFORMATION (cont'd)**For the year ended 31 December, 2003**

	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	129,393	16,293	–	1,616	3,243	150,545
RESULTS						
Segment results	23,444	3,154	–	216	564	27,378
Income from investments in securities						322
Interest income						416
Unallocated corporate expenses						(138)
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
BALANCE SHEET						
ASSETS						
Segment assets	97,030	16,956	–	73	3,281	117,340
Investments in securities						2,724
Unallocated corporate assets						65,970
Consolidated total assets						186,034
LIABILITIES						
Segment liabilities	11,133	4,319	–	–	–	15,452
Secured bank loan						5,111
Unallocated corporate liabilities						4,280
Consolidated total liabilities						24,843
OTHER INFORMATION						
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 31 December, 2003

4. TURNOVER AND SEGMENTAL INFORMATION (cont'd)

For the year ended 31 December, 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
Interest on bank loan repayable within five years						(24)
Profit before taxation						30,367
Taxation						(1,828)
Profit for the year						28,539
BALANCE SHEET						
ASSETS						
Segment assets	78,689	8,487	–	95	2,917	90,188
Investments in securities						2,368
Unallocated corporate assets						37,634
Consolidated total assets						130,190
LIABILITIES						
Segment liabilities	11,817	1,415	–	–	–	13,232
Secured bank loan						7,778
Unallocated corporate liabilities						10,929
Consolidated total liabilities						31,939
OTHER INFORMATION						
Capital additions	18,566	10,156	–	–	–	28,722
Depreciation	4,987	271	–	–	162	5,420

4. TURNOVER AND 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The PRC, including Hong Kong	78,097	68,051	14,284	15,544
North America	38,924	34,595	7,014	7,819
Europe	27,528	27,156	5,007	6,718
Others	5,996	4,361	1,073	1,085
	150,545	134,163	27,378	31,166
Income (expenses) from investments in securities			322	(765)
Interest income			416	127
Unallocated corporate expenses			(138)	(137)
			27,978	30,391

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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The PRC	101,783	73,704	22,336	28,154
Hong Kong	84,225	56,421	191	568
	186,008	130,125	22,527	28,722

Notes to the Financial Statements

For the year ended 31 December, 2003

5. OTHER OPERATING INCOME

	2003	2002
	HK\$'000	HK\$'000
Included in other operating income are the following:		
Dividend income from listed trading securities	37	32
Exchange gain	299	47
Interest income	416	127
Unrealised holding gains on listed trading securities	322	–
Rental income from investment property under an operating lease, net of negligible outgoings	–	60

6. PROFIT FROM OPERATIONS

	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 7)	5,744	2,297
Other staff costs	30,316	21,024
Total staff costs	36,060	23,321
Amortisation of goodwill (included in other operating expenses)	335	114
Auditors' remuneration		
Current year	396	380
Underprovision in previous years	100	–
	496	380
Cost of inventories recognised as expense	43,298	46,864
Depreciation	8,306	5,420
Unrealised holding losses on listed trading securities	–	765
Operating lease charges on land and buildings	2,718	2,210
Retirement benefit schemes contributions (note 28)	408	400

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003	2002
	HK\$'000	HK\$'000
Directors' fees		
Executive directors	200	–
Independent non-executive directors	150	–
Other emoluments		
Executive directors		
Salaries and other benefits	5,370	2,280
Retirement benefit schemes contributions	24	17
Total emoluments	5,744	2,297

	2003	2002
	No. of	No. of
	directors	directors

Emoluments of the directors were within the following bands:

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

Of the five individuals with the highest emoluments in the Group, two individuals (2002: two individuals) were directors of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining three individuals (2002: three individuals) were as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	1,885	1,885
Retirement benefit schemes contributions	18	36
	1,903	1,921

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

	2003	2002
	No. of	No. of
	individuals	individuals
Emoluments of the employees were within the following band:		
Nil to HK\$1,000,000	3	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

	2003	2002
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax		
Current year	593	694
Overprovision in previous years	(128)	(43)
	465	651
Taxation in other jurisdictions	1,098	1,177
	1,563	1,828
Deferred tax (note 20)		
Current year	396	–
Taxation attributable to the Company and its subsidiaries	1,959	1,828

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. The Profits Tax rate has been increased with effect from the 2003/04 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31 December, 2003.

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

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") 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.

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

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	27,713		30,367	
Tax at the PRC income tax rate of 24% (2002: 24%)	6,651	24.0	7,288	24.0
Tax effect of income not taxable for tax purpose	(3,624)	(13.1)	(3,731)	(12.3)
Tax effect of expenses not deductible for tax purpose	58	0.2	72	0.2
Effect of tax exemptions granted to the Company's subsidiaries	(1,259)	(4.5)	(1,344)	(4.4)
Tax effect of tax losses not recognised	262	1.0	45	0.1
Effect of different tax rates of subsidiaries operating in other jurisdictions	(255)	(0.9)	(429)	(1.4)
Others	126	0.4	(73)	(0.2)
Tax effect and effective tax rate for the year	1,959	7.1	1,828	6.0

Notes to the Financial Statements

For the year ended 31 December, 2003

9. DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Interim paid – HK\$0.02 (2002: Nil) per ordinary share	4,400	–
Final, proposed – HK\$0.02 (2002: Nil) per ordinary share	4,400	–
Special, paid – Nil (2002: HK\$850 per ordinary share) (note)	–	14,979
	8,800	14,979

The final dividend HK\$0.02 (2002: Nil) per ordinary share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

Note:

For the year ended 31 December, 2002, the special dividend amounted to HK\$14,979,000 were declared and paid by the Company's wholly-owned subsidiary, United Non-Ferrous (Overseas) Limited ("United Overseas"), to its then shareholders prior to a group reorganisation on 13 December, 2002 (the "Group Reorganisation").

10. EARNINGS PER SHARE

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

	2003	2002
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share	25,754	28,539
Weighted average number of shares for the purpose of basic earnings per share (note)	219,246,575	165,000,000

Note:

The weighted average number of shares for the purpose of basic earnings per share for the year ended 31 December, 2002 was calculated as if the Group Reorganisation and the capitalisation issue as set out in Appendix V to the prospectus dated 19 December, 2002 and in note 21(v) had been effective at the beginning of year.

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

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
COST						
At 1 January, 2003	1,991	5,710	63,829	4,640	1,139	77,309
Additions	–	2,763	18,140	1,331	293	22,527
At 31 December, 2003	1,991	8,473	81,969	5,971	1,432	99,836
DEPRECIATION						
At 1 January, 2003	849	1,407	22,788	1,908	725	27,677
Provided for the year	186	1,034	5,966	909	211	8,306
At 31 December, 2003	1,035	2,441	28,754	2,817	936	35,983
NET BOOK VALUE						
At 31 December, 2003	956	6,032	53,215	3,154	496	63,853
At 31 December, 2002	1,142	4,303	41,041	2,732	414	49,632

12. INVESTMENT IN A SUBSIDIARY

2003 & 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 31 December, 2003 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 (note i)	Principal activity
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 Metals Asset Management Co., Ltd. ("UMAM")	British Virgin Islands	Ordinary US\$1	100%	Inactive
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

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) 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.

13. GOODWILL

	HK\$'000
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COST	
At 1 January, 2003	979
Adjustment to the amount of deferred tax liability of a subsidiary acquired upon adoption of SSAP 12 (Revised)	438
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At 31 December, 2003	1,417
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AMORTISATION	
At 1 January, 2003	114
Charge for the year	335
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At 31 December, 2003	449
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NET BOOK VALUE	
At 31 December, 2003	968
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At 31 December, 2002	865
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The amortisation period adopted for this goodwill is 5 years.

14. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Equity securities		
Non-trading unlisted equity securities	1,225	1,191
Listed Hong Kong equity trading securities	1,499	1,177
	2,724	2,368
Market value of listed securities	1,499	1,177
Carrying amount analysed for reporting purposes as:		
Non-current	1,225	1,191
Current	1,499	1,177
	2,724	2,368

15. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	5,177	3,152
Work-in-progress	10,717	7,858
Finished goods	3,813	2,364
	19,707	13,374

Included above are raw materials of HK\$34,000 (2002: Nil), work-in-progress of HK\$30,000 (2002: Nil) and finished goods of HK\$128,000 (2002: Nil) which are carried at net realisable value.

16. 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:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade receivables		
Not yet due	14,851	10,683
Overdue 0 to 30 days	11,004	8,909
Overdue 31 to 60 days	1,727	5,404
Overdue 61 to 90 days	955	1,177
Overdue 91 to 120 days	60	504
Overdue more than 120 days	947	698
	29,544	27,375
Other receivables		
Deferred share issue expenses	–	9,611
Deposits paid	3,592	2,023
Prepayments	1,395	713
Others	2,101	891
	7,088	13,238
	36,632	40,613

17. AMOUNT DUE FROM A SUBSIDIARY

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

Notes to the Financial Statements

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18. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade payables		
Not yet due	2,355	692
Overdue 0 to 30 days	2,325	2,605
Overdue 31 to 60 days	19	796
Overdue 61 to 90 days	2	762
Overdue 91 to 120 days	–	51
Overdue more than 120 days	1	10
	4,702	4,916
Other payables		
Accruals for deferred share issue expenses	–	6,411
Accruals	9,732	8,488
Deposits received	2,193	1,354
Others	–	491
	11,925	16,744
	16,627	21,660

19. SECURED BANK LOAN

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
The secured bank loan is repayable as follows:		
Within one year	2,667	2,667
More than one year, but not exceeding two years	2,444	2,667
More than two years, but not exceeding five years	–	2,444
	5,111	7,778
Less: Amount due within one year and shown under current liabilities	(2,667)	(2,667)
Amount due after one year	2,444	5,111

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 income for the year	1,466	(1,070)	396
At 31 December, 2003	2,191	(1,357)	834

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 31 December, 2002 and 2003	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
Issued and fully paid capital at 31 December, 2002	19,224	192
Issue of shares on placing and public offer (Note (iv))	55,000,000	550,000
Capitalisation of share premium (Note (v))	164,980,776	1,649,808
Issued and fully paid capital at 31 December, 2003	220,000,000	2,200,000

21. SHARE CAPITAL (cont'd)

Notes:

- (i) The Company was incorporated on 25 June, 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 29 July, 2002.
- (ii) The Company allotted and issued 1,601 new ordinary shares of HK\$0.01 each in the Company on 29 July, 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 11 December, 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 shares; 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.
- (iv) On 5 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.
- (v) Pursuant to the written resolution passed by the shareholders of the Company on 11 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 16 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.

22. SHARE OPTION SCHEME

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

22. SHARE OPTION SCHEME *(cont'd)*

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 6 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 issue 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.

23. RESERVES

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
THE COMPANY					
Reserve arising on acquisition of subsidiaries	–	–	98,291	–	98,291
Loss for the period	–	–	–	(40)	(40)
At 31 December, 2002	–	–	98,291	(40)	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)
Interim dividend paid	–	–	–	(4,400)	(4,400)
Loss for the year	–	–	–	(1,280)	(1,280)
At 31 December, 2003	2,200	39,352	98,291	(5,720)	134,123

THE GROUP

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**

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\$131,923,000 (2002: 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 30 May, 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:

	2003	2002
	HK\$'000	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 ended 31 December, 2002 contributed approximately HK\$19 million to the Group's turnover, and approximately HK\$2 million to the Group's profit from operations.

Notes to the Financial Statements

For the year ended 31 December, 2003

25. CAPITAL COMMITMENTS

	2003	2002
	HK\$'000	HK\$'000
Capital commitment contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	26,658	891

26. 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:

	2003	2002
	HK\$'000	HK\$'000
Within one year	3,498	2,922
In the second to fifth year inclusive	11,253	10,534
Over five years	7,748	9,628
	22,499	23,084

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.

27. PLEDGE OF ASSETS

As 31 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 (2002: HK\$1,191,000).

28. RETIREMENT BENEFIT SCHEMES

Effective from 1 December, 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:

	2003	2002
	HK\$'000	HK\$'000
MPF Scheme	141	176
State Pension	267	224
	408	400

29. 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	2003	2002
			HK\$'000	HK\$'000
Allied Metal Industries Limited ("Allied Metal")	Purchase of inventories	(i)&(iv)	-	1,245
Everhope	Purchase of inventories	(ii)&(iv)	-	4,226
	Sales commission	(ii)&(v)	-	348
	Sale of goods	(ii)&(iv)	-	11,949
Kong Cheuk Luen, Trevor	Acquisition of Everhope	(ii)&(vi)	-	500
Wong Kit Yue	Acquisition of Everhope	(ii)&(vi)	-	500
Thomas Lau, Luen-hung	Disposal of investment property	(iii)&(vii)	-	2,210

29. RELATED PARTY DISCLOSURES *(cont'd)*

(a) Related party transactions *(cont'd)*

Notes:

- (i) Mr. Tsang Chiu Wai, a director and a shareholder of the Company, had beneficial interest in Allied Metal until 30 May, 2002, on which date, his entire interest in Allied Metal was disposed of to an independent third party.
- (ii) Mr. Kong Cheuk Luen, Trevor, a director and a shareholder of the Company, and Ms. Wong Kit Yue, spouse of Mr. Kong Cheuk Luen, Trevor, had beneficial interests in Everhope until 30 May, 2002, on which date, they disposed of their entire interests in Everhope to United Malaysia.
- (iii) Mr. Thomas Lau, Luen-hung is a director and a shareholder of the Company.
- (iv) The price of the purchase of inventories and sale of goods were mutually agreed between the Group and the related parties.
- (v) The provision of sales commission was determined in accordance with the contracts entered into between the Group and the related party.
- (vi) The consideration for the acquisition of Everhope from Mr. Kong Cheuk Luen, Trevor and Ms. Wong Kit Yue was determined at an amount mutually agreed between the Group and the related parties.
- (vii) The consideration for the disposal of investment property was mutually agreed between the Group and Mr. Thomas Lau, Luen-hung.

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

(b) Bank facilities

In addition to the pledge of the Group's assets as set out in note 27, certain of the Group's banking facilities as at 31 December, 2002 were also secured by the personal guarantee given by Mr. Tsang Chiu Wai to the extent of HK\$40,000,000. The personal guarantee was released on 31 March, 2003.

30. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date:

- (a) Pursuant to an announcement dated 12 December, 2003, UMAM submitted an application to the PRC government for an establishment of a wholly-owned foreign enterprise, United Metal Products (Shanghai) Co. Ltd. 科鑄金屬制品(上海)有限公司 (“UMSH”) under the laws of the PRC for the purpose of establishing and operating a new factory and production premises located in Shanghai. UMSH was established on 17 January, 2004.
- (b) On 12 December, 2003, UMAM entered into an agreement with Shanghai Anting Economic Development Centre 上海安亭經濟發展中心 (“Shanghai Anting”), an independent third party (the “Agreement”). Pursuant to the Agreement, UMAM agreed to acquire land use rights of a piece of land situated at Shanghai (the “Land”) for a total consideration of approximately RMB7,283,000 (equivalent to approximately HK\$6,860,000). Subsequent to the date of the Agreement, UMAM paid US\$275,000 (equivalent to approximately HK\$2,145,000) to Shanghai Anting.
- (c) Subsequent to 31 December, 2003, a wholly-owned foreign enterprise, United Castings (Dongguan) Co. Ltd 東莞科鑄金屬制品有限公司 (“UCDG”) was established. UCDG was established on 14 January, 2004.