

# Management Discussion & Analysis

## 管理層討論及分析

### INDUSTRY OUTLOOK

In 2006, demand worldwide for metal die casting components grew at a healthy rate. With globalization leading to the People's Republic of China (the "PRC") becoming the manufacturing base for the world and production of the automotive industry increasing, the PRC metal die casting industry is expected to see continued robust growth. The market potential for this industry is further heightened when the increasingly important weight-reducing characteristics of die casting automotive parts is coupled with the expected growth of automobile production worldwide. As a result, it is not surprising that according to data from the Hong Kong Productivity Council, global die casting output is expected to increase from about 8 million tons in 2005 to approximately 12 million tons in 2010.

### BUSINESS REVIEW

For the year ended 31st December, 2006, the business growth of United Metals was extremely promising. Turnover increased by 30.1% year-on-year to approximately HK\$242,831,000 while profit for the year surged by 29.9% to HK\$13,416,000, resulting in earnings per share reaching HK6.1 cents as compared to HK4.7 cents in 2005. The remarkable figures across the board were mainly attributable to an aggregate increase in customer orders and further streamlining of the Group's operations.

Aluminium alloy die casting components remain as the core profit contributor of the Group, accounting for approximately 90.5% of the total turnover. Besides aluminium, the zinc and magnesium alloy die casting components of United Metals contributed 7.3% and 2.0% respectively towards total turnover.

By aggressively exploring new business opportunities and diligently implementing a variety of cost-control measures, the Group successfully increased manufacturing efficiency in 2006. To retain its market-leading position in the coming year, United Metals will continue to rely on its proven business model, streamlined production procedures and dedicated workforce in order to implement strategies and production techniques that continue to deliver first-class quality assembled components to its customers.

### 行業展望

於二零零六年，全球金屬壓鑄部件需求呈健康增長，隨著全球化令中華人民共和國（「中國」）逐步成為全球生產基地，加上汽車業產量上升，市場預期中國金屬壓鑄業將保持高速增長。壓鑄汽車部件之輕量化特點日益重要，且全球汽車產量預期增長，進一步加強此行業之市場潛力。因此，根據香港生產力促進局之資料，全球壓鑄產量預期將自二零零五年約8,000,000噸上升至二零一零年約12,000,000噸實屬意料之內。

### 業務回顧

截至二零零六年十二月三十一日止年度，科鑄之業務取得驕人增長。營業額較去年上升30.1%至約港幣242,831,000元，而年內溢利則上升29.9%至港幣13,416,000元。每股盈利由二零零五年之港幣4.7仙升至港幣6.1仙。整體成績驕人全賴客戶訂單總數增加，以及進一步精簡本集團業務。

鋁合金壓鑄部件仍為本集團主要利潤來源，佔總營業額約90.5%。除鋁合金外，科鑄之鋅及鎂合金壓鑄部件分別佔總營業額7.3%及2.0%。

透過積極開拓新商機及致力實施多項成本控制措施，本集團於二零零六年成功提高生產效率。為於來年維持市場領導地位，科鑄將繼續推行其已證實成功之業務模式，簡化生產程序及靈活調配人手，以實行策略及提升生產技術，繼續向客戶提供質量首屈一指的組合部件。

## OPERATIONAL REVIEW

As a globally renowned, fully vertically integrated, PRC-based die caster for both domestic and overseas customers, United Metals was able to impressively increase the Group's total turnover and profit in 2006. With demand worldwide for top quality metal die casting components set to rise unabated in the coming years, the Group has undertaken a number of initiatives to not only fully capture the opportunities arising from this demand but to further expand the business scope of United Metals as well.

### Enhanced production capacity

To cater to the fast-growing demand for automotive parts in PRC, the Group is currently constructing new production facilities in Shanghai for the provision of die casting services to various manufacturers. The new facility was expected to be completed in the first half of 2006, however, the schedule will be postponed as a result of the dispute with the contractor. The Group is in the view that the dispute will be solved through legal action and the facilities will expect to commence operations in 2007.

The Shanghai production facilities are expected to boost the annual production capacity of United Metals by 2,000 metric tons in their first two years of operation. This will be subsequently increased to 5,000 metric tons annually from the third year up to the fifth year. Also, the Group will increase production capacity in the Dongguan factory. The Group is currently in negotiations to secure more substantive customer orders so as to fully utilize this increased production capacity in future. The Group already allocated HK\$12,000,000 for the capital expenditure in 2007.

### Product diversification and technological advancement

United Metals, in line with its position as a leading die caster, is fully committed to providing its extensive customer base with a diverse range of quality product offerings that utilize aluminium, zinc and magnesium alloys. As aluminium alloy die casting components in particular remain widely applicable across a host of industries, they continue to be the core income contributor of the Group, which was also able to increase the sales of molds by 25.0% and secure more orders from its existing clientele in 2006.

To stay ahead of the competition and provide increasingly more value-added services to customers, United Metals also strives for continual technological advancement. In this regard, the Group allocated more resources towards research and development in 2006, achieving prominent results. In addition, product quality has been further improved because of the Group's decision to utilize the latest in vacuum and pressurized die casting technologies.

## 營運回顧

科鑄作為享譽全球、提供縱向整合及以中國為基地的壓鑄公司，致力為本地及海外客戶服務，令集團總營業額及溢利於二零零六年錄得顯著增加。鑑於全球對優質壓鑄部件之需求於未來數年將持續上升，本集團已採取多項措施，以全面爭取該等需求帶來之商機，同時進一步擴展科鑄之業務版圖。

### 提升產能

為配合汽車部件於中國高速增長之需求，本集團現正於上海興建新生產設施，向多個生產商提供壓鑄服務。新設施預期將於二零零六年上半年落成。然而，由於集團與承包商發生糾紛，有關計劃將會延遲。本集團將透過法律行動解決糾紛，生產設施預期將於二零零七年投入運作。

預期上海生產設施將提升科鑄之每年產能，於營運首兩年增加2,000公噸，並於第三年至第五年進一步提升至5,000公噸。此外，本集團將提升東莞廠房之產能。本集團現正與客戶進行磋商，以取得更多大額訂單，以於未來全面使用所增加產能。本集團已調撥港幣12,000,000元作為二零零七年之資本開支。

### 多元化發展產品及引入先進科技

作為壓鑄公司之翹楚，科鑄善用鋁、鋅及鎂合金，致力向其廣闊之顧客基礎提供多元化之高質素產品。由於鋁合金壓鑄部件仍為各行各業廣泛使用，該等部件將繼續成為本集團之核心收入來源，已經令鑄模收入增加25.0%，及於二零零六年爭取更多現有顧客之訂單。

為於競爭對手中突圍而出，及為客戶提供更多增值服務，科鑄亦致力改進技術。為此，本集團於二零零六年已經調配更多資源至研發工作，並取得驕人成績。此外，由於本集團決定善用最新真空及加壓壓鑄技術，產品質素持續提高。

## OPERATIONAL REVIEW (continued)

### Diversified clientele

In addition to substantially increasing orders from existing clientele, the Group is relentlessly pursuing its strategy of enlarging the customer base in terms of both the number of clients and the industry sectors that they represent. To this end, several new contracts from automotive manufacturers and consumer electronics manufacturers have been secured. The Group works closely with automotive manufacturers in particular to jointly develop new products by using the latest technologies available.

### FUTURE STRATEGIES

Looking ahead, it is obvious that United Metals is perfectly positioned to take full advantage of its status as a globally renowned, fully vertically integrated, PRC-based die caster, especially since the PRC is becoming the world's manufacturing base for this industry and global demand for die casting components is growing unabated.

By capitalizing on its geographical advantage and healthy financial position, the Group will continue to implement stringent cost-control measures to minimize any effects caused by high raw material prices. In addition, United Metals will remain focused on diversifying its range of quality products and incorporating the latest in technological advancements in order to attract new clientele and thus further diversify its customer base.

In the long term, the Group fully recognizes that besides further streamlining its operations, it must continue to accelerate its pace of development so as to fully capture the opportunities arising, particularly from the automotive industry and international industrial companies that have manufacturing bases in the PRC.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2006, the Group employed approximately 2,349 full-time employees (At 31st December, 2005: 2,280) of whom 19 were based in Hong Kong (At 31st December, 2005: 20) 2,330 were based in the Group's factories in Dongguan, PRC (At 31st December, 2005: 2,260). Total staff cost incurred during the year amounted to approximately HK\$57,053,000 (2005: HK\$48,365,000).

Remuneration policies and packages for the Group's employees are based on their performance, working experiences and condition prevailing in the industry. In addition to basic salaries, retirement schemes and medical schemes, discretionary share options and performance bonuses to eligible staff are according to the financial results of the Group and the performance of individual employees. To raise work quality and management abilities of its employees, the Group provides job rotation, in-house training and external training courses to employees.

### 營運回顧 (續)

#### 擴闊客戶層面

除現有客戶提升訂單數量，本集團積極推行策略以擴大客戶基礎，包括增加客戶數目及擴大行業覆蓋率。為達到上述目標，本集團與汽車生產商及消費電子產品生產商簽訂多份新合約。本集團現正與汽車生產商緊密聯繫，尤其透過採用最新技術共同發展新產品。

#### 未來策略

展望將來，科鑄將善用其享譽全城、提供縱向整合及以中國為基地的壓鑄公司之地位，尤其於中國已成為此行業之全球生產基地及全球對壓鑄部件需求持續上升之情況下，全面準備就緒爭取佳績。

憑藉其地理優勢及良好財政狀況，本集團將繼續實行嚴格之成本控制措施，以盡量減輕原材料價格高企所帶來影響。此外，科鑄將仍然致力擴展其優質產品組合及融合最新科技，以吸引新客戶及擴闊客戶基礎。

長遠而言，本集團深明除進一步精簡業務外，必須繼續加快發展步伐，以全面抓緊湧現之機遇，尤其來自汽車業及於中國設有生產基地之國際工業公司之商機。

#### 僱員及薪酬政策

於二零零六年十二月三十一日，本集團僱用約2,349名全職員工(於二零零五年十二月三十一日：2,280名)，當中19名駐於香港(於二零零五年十二月三十一日：20名)，另2,330名駐於本集團在中國東莞之廠房(於二零零五年十二月三十一日：2,260名)。年內產生之員工成本總額約為港幣57,053,000元(二零零五年：港幣48,365,000元)。

本集團僱員之薪酬政策及組合乃按照員工之表現、工作經驗及行業狀況釐定。除基本薪金、退休計劃及醫療計劃外，因應本集團財務業績及個別員工之表現，合資格員工亦可獲發酌情購股權及表現花紅。為提高僱員之工作質素及管理能力的，本集團向僱員提供職位調配、內部培訓及外界培訓課程。

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2006, total bank borrowings was HK\$31,466,000 (At 31st December, 2005: HK\$4,700,000), of which HK\$14,000,000 (At 31st December, 2005: HK\$2,640,000) would be due within one year and HK\$17,466,000 (At 31st December, 2005: HK\$2,060,000) would be due after one year. The bank borrowings are denominated in Hong Kong dollars and United States dollars, and bear interest at rates calculated with reference to Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank Offered Rate ("LIBOR") plus basis.

The Group had a net current assets amounting to HK\$85,143,000 (At 31st December, 2005: HK\$72,050,000) and a current liabilities of HK\$45,070,000 as at 31st December, 2006 (At 31st December, 2005: HK\$33,312,000). Stock turnover days decreased to 70 days as at 31st December, 2006 from 77 days as at 31st December, 2005. Debtors' turnover days was decreased from 88 days as at 31st December, 2005 to 78 days as at 31st December, 2006.

Capital expenditures on plant, equipment, leasehold improvements and construction in progress totalled HK\$34,621,000 in 2006 (2005: HK\$18,913,000), of which HK\$18,261,000 (2005: HK\$3,461,000) was related to the construction cost of the new manufacturing plant situated in Shanghai, the PRC. Furthermore, HK\$31,268,000 (At 31st December, 2005: HK\$41,667,000) was committed as at 31st December, 2006 to purchase additional property, plant and equipment, and all was contracted for but not provided in financial statements (2005: HK\$7,629,000 was contracted for but not provided in financial statements and HK\$34,038,000 was authorized but not contracted for).

Net cash generated from operations amounted to HK\$19,694,000 (2005: HK\$19,879,000). The Group's cash on hand and bank balances increased from HK\$18,134,000 as at 31st December, 2005 to HK\$31,348,000 as at 31st December, 2006. The increase was mainly a result of the raising of new bank loan.

Total shareholders' funds increased from HK\$175,354,000 as at 31st December, 2005 to HK\$193,087,000 as at 31st December, 2006, as a result of HK\$13,416,000 of the current year profit being retained.

As at 31st December, 2006, the gearing ratio, in terms of total debts to total assets, increased to 0.25 (At 31st December, 2005: 0.17). The increase was mainly a result of financing the new manufacturing plant construction and expansion of production facilities.

## 流動資金及財務資源

於二零零六年十二月三十一日，銀行借貸合共港幣31,466,000元(於二零零五年十二月三十一日：港幣4,700,000元)，其中港幣14,000,000元(於二零零五年十二月三十一日：港幣2,640,000元)將於一年內到期，而港幣17,466,000元(於二零零五年十二月三十一日：港幣2,060,000元)將於一年後到期。銀行借貸以港幣及美元列值，按參考香港銀行同業拆息及倫敦銀行同業拆息加指定息率計息。

於二零零六年十二月三十一日，本集團流動資產淨值為港幣85,143,000元(於二零零五年十二月三十一日：港幣72,050,000元)，流動負債為港幣45,070,000元(於二零零五年十二月三十一日：港幣33,312,000元)。存貨週轉期由二零零五年十二月三十一日之77天減少至二零零六年十二月三十一日之70天。應收賬款收款期由二零零五年十二月三十一日之88天減少至二零零六年十二月三十一日之78天。

二零零六年之廠房、設備、租賃物業裝修與在建工程之資本開支合共港幣34,621,000元(二零零五年：港幣18,913,000元)，當中港幣18,261,000元(二零零五年：港幣3,461,000元)與位於中國上海之新生產廠房之興建成本有關。此外，於二零零六年十二月三十一日，增購物業、廠房及設備之承擔為港幣31,268,000元(於二零零五年十二月三十一日：港幣41,667,000元)，全部為已訂約，惟並無於財務報表撥備(二零零五年：港幣7,629,000元為已訂約但未於財務報表撥備，而港幣34,038,000元則已批准但未訂約)。

經營業務所得現金淨額為港幣19,694,000元(二零零五年：港幣19,879,000元)。本集團之手頭現金及銀行結餘由二零零五年十二月三十一日之港幣18,134,000元增至二零零六年十二月三十一日之港幣31,348,000元，此乃主要由於新造銀行貸款。

由於本年度溢利港幣13,416,000元予以保留為儲備，股東資金總額由二零零五年十二月三十一日之港幣175,354,000元增至二零零六年十二月三十一日之港幣193,087,000元。

於二零零六年十二月三十一日，資產負債比率(按負債總額相對資產總值計算)增至0.25(二零零五年十二月三十一日：0.17)。有關增幅主要由於撥付興建新生產廠房及擴充生產設施。

### ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisitions and disposals of subsidiaries and associated companies for the year ended 31st December, 2006.

### EXPOSURE TO FOREIGN EXCHANGE RISK

The Group's income and expenditure of raw materials and manufacturing cost are mainly denominated in USD, HKD and RMB. Fluctuations of the exchange rates of RMB against foreign currencies could affect the operating costs of the Group. Currencies other than RMB were relatively stable during the year, the Group did not expose to significant foreign exchange risk. The Group currently does not have a foreign currency hedging policy. However, management will continue to monitor foreign exchange exposure and will take prudence measures to minimize the currency translation risk. The Group will consider hedging significant foreign currency exposure should the need arise.

### CAPITAL STRUCTURE

There has been no material significant change in the capital structure of the Group since 31st December, 2005.

### CHARGE ON ASSETS

There was no charge on the Group's assets for the year ended 31st December, 2006 (2005: Nil).

### CONTINGENT LIABILITIES

A subsidiary has been named as a defendant in a District Court action in the PRC in respect of an alleged breach of contractual undertakings for an amount of HK\$4,074,000. The subsidiary and its legal counsel are strongly resisting this claim and, accordingly, no provision for any potential liability has been made in the consolidated financial statements.

### FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31st December, 2006 (2005: Nil).

### 收購及出售附屬公司及聯營公司

截至二零零六年十二月三十一日止年度，本集團並無任何重大收購及出售附屬公司及聯營公司。

### 外匯風險承擔

本集團收入與原材料開支及製造成本開支主要以美元、港幣及人民幣列值。人民幣兌外幣匯率波動可影響本集團經營成本。人民幣以外之貨幣於年內相對穩定，本集團並無面對重大外匯風險。本集團現時並無外幣對沖政策。然而，管理層將繼續監察外匯風險，並採取審慎措施減低匯兌風險。本集團將於必要時考慮對沖重大外匯風險。

### 資本結構

本集團之資本結構自二零零五年十二月三十一日以來並無重大變動。

### 資產抵押

截至二零零六年十二月三十一日止年度，本集團並無抵押任何資產(二零零五年：無)。

### 或然負債

一家附屬公司於中國地方法院提出之訴訟中成為被告人，被控違反港幣4,074,000元之合約承諾。該附屬公司及其法律顧問就此指控提出強力抗辯，因此並無於綜合財務報表就任何潛在負債作出撥備。

### 末期股息

董事不建議就截至二零零六年十二月三十一日止年度派發末期股息(二零零五年：無)。