Financial and Operations Review

The following sets out the financial highlights for the year ended 31st March, 2005, with the comparative figures for the corresponding period in 2004

	2005 HK$'million	2004 HK$'million	Change HK$'million	Change %
Turnover	**392.1**	338.4	53.7	16%
Earnings before interest, taxation, depreciation & amortisation	**29.0**	24.1	4.9	20%
Depreciation & amortisation	**(12.2)**	(11.8)	0.4	3%
Net interest expenses	**(1.3)**	(0.4)	0.9	225%
Adjusted operating profit	**15.5**	11.9	3.6	30%
Other non-operating items	**—**	(5.2)	5.2	100%
Profit before taxation	**15.5**	6.7	8.8	131%
Taxation				
- tax provision for the current year	**(2.5)**	(2.0)	0.5	25%
- underprovisions for the years of assessment from 1997/98 to 2001/02	**—**	(11.4)	11.4	100%
- tax penalty	**—**	(7.0)	7.0	100%
Net profit (loss) for the year	**13.0**	(13.7)	26.7	N/A

Group Overview

The Group continued to perform well despite overcapacity in electronic/electrical manufacturing services (EMS) industry and severe competition in the electronics industry.

Net Profit generated for the year was up by HK$26.7 million to HK$13.0 million, a turnaround from a net loss of HK$13.7 million in 2003/2004.

We achieved an increase in profit before taxation by 131% from HK$6.7 million to HK$15.5 million.

Turnover for the Group increased by approximately 16% to HK$392.1 million (2004: HK$338.4 million).

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") for the year ended 31st March, 2005 was HK$29.0 million, a notable growth of 20% from prior year.

We were pleased with our strong performance in 2004/2005 that was mainly attributable to the increasing orders from certain major customers, the continued stringent cost control measures and diligent adherence to financial budgets adopted by the Group.

There were no "other non-operating items" in the year ended 31st March, 2005, compared to the corresponding year when the Company incurred an expense of HK$5.2 million which represented the compensation payment made to directors in respect of management changes.

In May 2003, a tax audit was commenced by the Hong Kong Inland Revenue Department (the "IRD") on certain subsidiaries of the Company in respect of the years of assessment from 1997/98 to 2001/02. Pursuant to a settlement agreement, without the directors admitting any liability, the Company agreed to pay the additional assessments of HK$11.4 million for the years of assessment from 1997/98 to 2001/02 together with a compound tax penalty of HK$7.0 million. As at the date of this report, the tax liabilities arising from the tax audit were fully settled.

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As at 31st March, 2005, the Group had a bank and cash balance of HK$35.3 million with certain trade debt and bank borrowings amounting to HK$31.1 million (a net cash balance of HK$4.2 million), while the Group's net assets value was HK$156.7 million, with a relatively healthy current ratio of 211% and a gearing ratio of nil balance (ratio of net bank debt to net assets value). The Group has adequate liquidity to meet its expected working capital requirements.

Business Review and Prospects

Voltage Converters and Rechargeable Battery Business Segments

During the year under review, the business environment relating to voltage converters, coils, and components and rechargeable battery segments was generally affected by the following factors:

- Rise in materials costs, particularly of plastics, metal and electronics components;
- Tight components supply;
- Severe downward pressure from customer on prices; and
- Change in the ordering pattern of customers, resulting in shorter product life cycle.

The Group moved to address these issues by improving production efficiency, streamlining operations, optimizing the financial resources through on-going cost cutting and financial control measures wherever possible in order to maximize shareholders' value.

The Group's revenue growth momentum continues to be strong. The business returned to profitability from a net loss of HK$ 13.7 million (after tax provisions and tax expenses) in the last year under review to a net profit of HK$ 13.0 million, reflecting an increase of HK$26.7 million.

In response to changing trends, the product demands in the electronics and telecommunications industry, we are progressively enhancing our competitiveness in the field of linear-mode power supply and switch-mode power supply products, expanding our manufacturing scope from OEM (original equipment manufacturer) manufacturing of electrical or electronic home and personal appliances to ODM (original design manufacturer) and OBM (own brand manufacturer) work while increasing the sale volume of our power-tools products, chargers and related products (i.e. components, tooling and finished products). We remain optimistic that we can effectively compete with the main suppliers of power supply products, both for the high-end and the low-end market segments for the present.

To fulfill our mission of providing broad solutions to our customers, we continued to strengthen the management team and build our undoubted strengths in tooling, molding, plastic injection and coil winding. We are well-equipped to offer our customers a one-stop, complete manufacturing package that would enable our customers to have all components of their electrical/electronic products designed, manufactured, assembled, quality-checked and packaged at our facilities, and then shipped directly to them. Our focus is on rebuilding the profitability of the business through a series of important measures, some of which have already been started and have helped the Group to improve its financial performance. They include:

- Strengthening the sales effort and opening up new opportunities for growth;
- Expanding the customer base, maintaining a close working relationship with existing customers and being highly responsive to customers' requirements throughout the design, manufacturing and distribution process;
- Making considerable efforts to reduce costs and streamline operations; and
- Continuing to diversify products and services sector.

Our management team is confident that such measures and controls will continue to help the Group to grow.

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The Year Ahead

- Barring unforeseen circumstances, UPI plans to adopt various strategies that will further increase our sales and improve our efficiency in order to assist our profitability.
- We will continue to move from being an ODM (Original Design Manufacturer) and OBM (Own Brand Manufacturer) work while continuing to offer attractive pricing policy, service and quality for our traditional customers.
- To succeed in a competitive environment, our management team is focusing on improving our operational efficiencies and financial control measures while investing prudently in R&D production technology to remain competitive in the long term.
- We are confident that our Group will enter a new era of growth when the momentum of recovery of the world economy is in full swing.

Liquidity and Capital Resources

The net cash (debt) position as at 31st March, 2005 and corresponding gearing ratio are shown as follows:

	2005 HK$' million
Cash	35.3
Less: trade debt and bank borrowings	(31.1)
Net cash position	4.2
Shareholders' funds	156.7
Trade debt and bank borrowings to shareholders' funds	19.8%
Net debt to shareholders' funds	—

The Group follows a policy of prudence in managing its cash balance, and maintains a high level of liquidity to ensure the Group is well placed to take advantage of growth opportunities for the business. As at 31st March, 2005, cash and bank balances amounted to HK$35.3 million with certain trade debt and bank borrowings amounting to HK$31.1 million (net cash of HK$4.2 million), while the Group's net asset value as at 31st March, 2005 was HK$156.7 million.

The working capital position of the Group remains healthy. As at 31st March, 2005, the liquidity ratio (ratio of current assets to current liabilities) was 211%. (2004: 223%) and a gearing ratio of nil balance (ratio of net bank debt to net assets value). It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure.

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Cash Flow from Operating Activities

The Group's main source of liquidity continued to be the net cash from operating activities. With the continuous implementation of prudent cash control measures, cash generated from operating activities was a positive of HK$4.5 million, though the Group reported a net profit after tax for the year of HK$13.0 million. The reconciliation of profit before taxation to net cash inflow from operating activities is shown as follows:

	2005
	HK$' million
Profit before taxation	15.5
Depreciation & amortisation	12.2
Change in working capital	(14.3)
Net interest expenses	1.3
Profit tax paid	(10.2)
Net cash inflow from operating activities	4.5

Cash Flow from Financing Activities

The net cash used in financing activities for the year amounted to HK$7.9 million, which mainly included dividend payment of HK$11.1 million, net payment of HK$1.8 million, being repayment of obligation under finance leases and interest incurred on trade financing after setting off net cash inflow from trade loans of HK$5.0 million.

The dividend payment of HK$11.1 million represented a payment of the prior year's final dividend of HK$0.02 per share.

Capital Expenditure and Corporate Activities

The Group had made a capex investment of HK$8.5 million in the year under review. This was mainly financed by cash internally generated from operations. With the capital expenditure, the Group would be able to further increase its production capacity, improve quality and expand product variety, which will lay the foundation for the Group's future development.

Treasury Management

During the year, there was no material change in the Group's funding and treasury policy. On 31st March, 2005, the Group had a sufficient level of banking facilities from our major bankers to finance the working capital requirements. For exchange risk management, the Group adopted cautious financial measures to manage and minimize the exchange risk exposure, and in this regard, the Group endeavored to match the currencies of sales with those of purchase in order to neutralize the effect of currency exposure. Furthermore, the Group also took appropriate financial actions to ensure that the Group borrowings were primarily denominated in Hong Kong dollars, while the non-Hong Kong dollar loans were either directly tied in with the Group's businesses in the countries of the currencies concerned or such loans were balanced by assets in the same currencies.

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Major Customers and Major Suppliers

For the year under review, sales to the largest customer and the five major customers accounted for 24% and 50%, respectively, of total sales for the year.

Purchases from the largest supplier and the five largest suppliers accounted for 4% and 15%, respectively, of total purchases for the year.

As far as the directors are aware, none of the directors of the Company; their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in the customers or suppliers of the Company disclosed above other than portfolio interests.

Employees

On 31st March, 2005, the Group employed 581 executive and clerical staff and 2,270 factory workers. The remuneration of such staff and workers are determined by overall guidelines within each industry. The Group has also adopted a discretionary bonus program, share option scheme, medical insurance and personal accident insurance for its various categories of employees. Awards, under award programs, are determined annually based on the performance of the Group as a whole and the careful assessment of the performance of each employee individually.