We think about our operations

Financial and Operations Review

The following sets out the financial highlights for the year ended 31st March, 2006, with the comparative figures for the corresponding period in 2005.

	2006 HK$'million	2005 HK$'million	Change HK$'million	Change %
Turnover	454.3	392.1	62.2	16%
Earnings before interest, taxation, depreciation & amortisation	33.7	28.9	4.8	17%
Depreciation & amortisation	(11.5)	(12.2)	0.7	6%
Net interest expenses	(0.7)	(1.3)	0.6	46%
Adjusted operating profit	21.5	15.4	6.1	40%
Redundancy payment	(1.9)	—	1.9	NA
Impairment loss on goodwill	(0.6)	—	0.6	NA
Gain arising from changes in fair value of investment properties	1.0	—	1.0	NA
Profit before taxation	20.0	15.4	4.6	30%
Income tax expense	(4.3)	(2.5)	1.8	72%
Profit for the year	15.7	12.9	2.8	22%

Group Overview

Fiscal 2005/2006 denoted another outstanding year of growth for UPI. We delivered the second consecutive year of double-digit growth in sales and net profit. We strengthened the balance sheet and capital efficiency; and delivered strong cash flow performance throughout the year.

Turnover of HK$454.3 million and Net profit after tax of HK$15.7 million represented growth over 2004/2005 of 16% and 22% respectively despite the continuing problems of overcapacity and growing competition in the electronics industry.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") for the year ended 31st March, 2006 was HK$33.7 million, a notable growth of 17% from the prior year.

Consistent with increase in EBITDA, the Group's adjusted operating profit ("earnings before other non-operating items and taxation") continues to be strong, an increase of 40% to HK$21.5 million.

The catalyst for UPI's strong growth continues despite a slight decline in gross margins due to pricing pressure from customers. This was mainly attributable to the success in controlling fixed overheads in spite of higher volumes, and diligent adherence to financial budgets adopted by the Group.

In the interests of efficiency, certain employees were made redundant during the year which entailed redundancy payments in the amount of HK$1.9 million. UPI's financial position remains strong and the Company continues to generate substantial cash flow. As at the balance sheet date, the Group had a bank and cash balance of HK$67.0 million with certain trade debt and bank borrowings amounting to HK$37.0 million (a net cash balance of HK$30.0 million), while the Group's net assets value was HK$172.6 million, with a relatively healthy current ratio of 253% 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.

Liquidity and Capital Resources

The net cash (debt) position as at 31st March, 2006 and corresponding gearing ratio are shown as follows:

	2006 HK$' million
Cash	67.0
Less: trade debt and bank borrowings	(37.0)
Net cash position	30.0
Shareholders' funds	172.6
Trade debt and bank borrowings to shareholders' funds	21.4%
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, 2006, cash and bank balances amounted to HK$67.0 million with certain trade debt and bank borrowings amounting to HK$37.0 million (net cash of HK$30.0 million), while the Group's net asset value as at 31st March, 2006 was HK$172.6 million.

The working capital position of the Group remains healthy. As at 31st March, 2006, the liquidity ratio (ratio of current assets to current liabilities) was 253%. (2005: 211%) 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.

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$18.3 million, though the Group reported a net profit after tax for the year of HK$15.7 million. The reconciliation of profit before taxation to net cash inflow from operating activities is shown as follows:

	2006 HK$' million
Profit before taxation	20.0
Depreciation & amortization	11.5
Change in working capital	(11.5)
Net interest expenses	0.7
Profits tax paid	(2.4)
Net cash inflow from operating activities	18.3

Cash Flow from Financing Activities

The net cash outflow from financing activities for the year amounted to HK$1.1 million, which mainly included net payment of HK$8.4 million, being repayment of bank loans, obligation under finance leases and interest incurred on trade financing after setting off net cash inflow from bank loans of HK$7.3 million.

We think about our client

Capital Expenditure

The Group had made a Capex investment of HK$10.7 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.

During the year, the Group had committed to the implementation of a new global enterprise resources planning system to enhance the supply chain management which was financed from internal resources.

Treasury Management

During the year, there was no material change in the Group's funding and treasury policy. On 31st March, 2006, 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. The management continues to monitor foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

Major Customers and Major Suppliers

For the year under review, sales to the largest customer and the five major customers accounted for 17% and 47%, respectively, of total sales for the year.

Purchases from the largest supplier and the five largest suppliers accounted for 4% and 16%, 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.

We think about our people

Business Review and Prospects

Voltage Converter and Rechargeable Battery Business Segments

Due to the intensely competitive nature of electronics industry, the business environment relating to voltage converters, coils, and components and rechargeable battery segments was generally affected by the following factors during the year under review:

- Rise in materials costs, particularly of resins, metal, electronics components and from RoHS compliance;
- Upward revaluation of the RMB which reduces our margins;
- Severe downward pricing pressure from customers; and
- Change in the ordering pattern of customers, resulting in shorter product life cycle.

The Group acted swiftly to identify and address the problems so that the situation can be brought under control. Comprehensive measures were taken to improve production efficiency, streamline operations, and optimize the financial resources through on-going cost cutting and financial control measures.

The Group's revenue growth momentum is now on a much more stable footing. Turnover for 2005/2006 was in an uptrend with 16% increase as compared with 2004/2005 while net profit after tax increased by 22% to HK$15.7 million.

Progress was also made in development of new markets. We successfully re-opened our Chicago office and set up our Hangzhou office to serve our customers' needs. We also plan to expand our business presence further to the European Union. We will continue to invest in traditional product line while expanding new product range that provides a sound platform for future business growth.

The fast changing market environment brought a number of challenges for the Group. We need to step ahead to improve our R&D production technology to remain relevant and competitive in order to adapt to the changing trends in product demand in the electronics and telecommunications industry. We are progressively enhancing our competitiveness in the field of switch-mode power supply products, expanding our manufacturing of electrical or electronic appliances and components to ODM (original design manufacturer) and OBM (own brand manufacturer) products while increasing sales 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.

The Group continue to expand our customer base, maintain a close working relationship with our customers and be highly responsive to customers' requirements. This will enable us to fulfill our mission of providing broad-based solutions to our customers and creating a "one-stop shop" to our customers. We continue to strengthen the management team and further build up 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 or to their designated delivery locations.

Employees

On 31st March, 2006, the Group employed 551 executive and clerical staff and 2,177 factory workers. The remuneration of such staff and workers are determined by overall guidelines within the 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.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labor disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with employees.

The Group benefited from a motivated workforce. The Group is fully committed to investing in the growth and development of its people. The Group organized English and computer software skill trainings and organized management training to upgrade staff skills.

Outlook

The most significant event in the past year was the agreement to purchase 61.8% of Spear & Jackson, Inc. The closing of which is still subject to certain conditions precedent.

The Directors have decided that on closing this purchase we will change the financial year end to 30th September. Barring unforeseen circumstances, we expect that for the period ending 30th September, 2007 and on the assumption Spear & Jackson closes, earnings before tax will increase with an increase in earnings per share.

We look forward to the benefits which will arise from the acquisition of Spear & Jackson, Inc., which will with the increase size and depth of the group, and our product lines produce greater revenues, and subject to trading conditions, greater profits for our shareholders.

We will continue to move from being an OEM (original equipment manufacturer)/ODM (original design manufacturer) to OBM (owned-brand manufacturer), without compromising our competitive pricing, and high standards of service and quality to our customers.

To succeed in a competitive environment, our management team is focusing on improving our operational efficiencies, control measures, while investing prudently in R&D technology to remain competitive in the long term.