

..... towards new goals

Based on

Contract Manufacturing

Magnetics

Metrology / Measurement

Tools

Group Operations Review

UPI acquired 61.8% of Spear & Jackson, Inc. on 28 July 2006. The financial results for the period under review include the Company's share of the financial results of S&J from the date of acquisition to 30 September 2006.

To align the Company's financial year-end date with that of S&J, the Company changed its financial year end date from 31 March to 30 September with effect from 2006.

The Group recorded a turnover during the six month period of HK\$390.2 million in which the Contract Manufacturing Division contributed HK\$273.9 million and S&J contributed, for two months, HK\$116.3 million.

The Contract Manufacturing Division's results for the period under review were adversely affected by competitive pressures and a general rise in costs, including, labour, raw materials and foreign exchange variations.

The Group's four principal business units and their product offerings are summarized in alphabetical order as follows:



Magnetic Powered Bike Light



Rechargeable Batteries

Contract Manufacturing Division

Pantene Industrial Co. Ltd, our original contract manufacturing business, is based in Shenzhen, China. Pantene is proud of its long standing record as OEM supplier to some of the world's best known companies and brands. We base our approach on design, quality, price, delivery and service. Now we are moving towards total design solutions for our customers, and we feel we will be able to meet the requirements of the most discerning. From our corporate office in Hong Kong, we have developed complete design and production facilities in China, employing approximately 2,500 employees. We serve a World-Wide clientele and have opened an office in Chicago and now have commercial representation in the European Union.

Our products are widespread. The development of these products is controlled by our dedicated management team. Kong Meng Lee as COO is supported by a management team with considerable depth of experience and expertise, including from engineering and design, to production to sales and marketing functions.

Pantene was founded in 1978; our core business from the outset has been electronic power supplies covering a wide product range which includes voltage converters, power tool chargers, battery chargers, high frequency transformers, coils and solenoids. Increasingly, we are utilizing new technologies including laser/optics, ultrasonic, RF (radio frequency), and magneto-electric technologies to produce more sophisticated and complex product lines such as digital laser measurement devices, laser beam units, ultrasonic detection devices, thermostat controls, RF alert systems, portable magnetic generators (Mag Gen) and Mag Gen-powered products. Pantene's Pin Xin sells to the consumer market battery chargers with rechargeable batteries under the Powerhaus brand name.

Our Engineering Department has a multi-disciplinary engineering approach employing over 100 engineers and technicians who are involved in design, testing and qualification of new products from concept through production, transforming customer's ideas into reality. This department is fully equipped with modern tools and facilities.

In our OEM business the competition remains intense, but our customers balance their requirements not solely on price, but against all the other factors, especially quality and delivery. We are highly competitive when working closely with our customers to assure they have the best designs manufactured to exacting standards and delivered on a timely basis.



Magnetics activities

Magnetics Division

Eclipse Magnetics has a rich history of leading edge of innovation in magnetic tool technology while maintaining its foundation in a core product range that goes back to the early 20th century. The company's strong management team, led by Lee Wells, is accepting the many challenging which lie in their business to ensure continued growth.

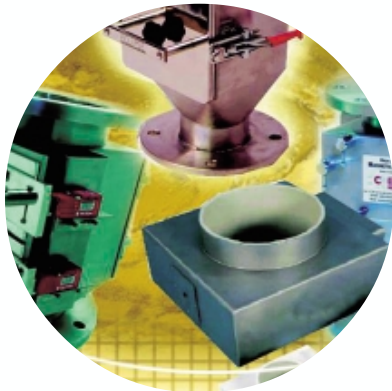
Eclipse Magnetics' key products are permanent magnets (cast alloy), magnetic tools, magnetic chucks and turnkey magnetic systems. Products range from very simple low-cost items to technically complex high value added systems. In addition, Eclipse Magnetics supplies the market with other magnetic devices, sourced from Asia. Providing both complete

factored items to end-customers, as well as sales of component parts to UK manufacturers. Eclipse is also involved in applied magnetics and supplies many areas of manufacturing with products such as separators, conveyors, lifting equipment and material handling solutions. The Eclipse name represents a guarantee of quality and performance and support from a team of highly skilled engineering specialists who continue to innovate new products from the UK incorporating patented technology.



Eclipse has a fully equipped magnet testing laboratory and specialist machine tools for its engineering division. Our special applications team designs, manufactures and installs fully automated depalletizing cells for the aerosol filling industry. The team also develops and supplies nuclear waste canister handling magnets, robotic pick and place magnets and laser welding magnetic conveyor lines.

In the 1990s the Engineered Products Division was formed to focus on developing higher technology magnetic products and equipment to serve an increasingly demanding manufacturing and processing industry in a wide number of markets.



In the Separation and Filtration group we have seen a surge in new products with patented designs that lead the way in separating ferrous contamination from all powder, granulate, slurry and liquid materials in the processing industry. The Food, Pharmaceutical and Plastics industries are targeted by us as potentially large customers for our new product additions as they are developed.

The company's products are supplied worldwide and through major industrial distribution channels within the UK, Europe and the USA being strongest markets.



Magnetics clamping



BOWERS METROLOGY GROUP

Metrology / Measurement Division

Our Metrology Division falls under Bowers Group plc and consists of four principle companies; Bowers Metrology Ltd., Bowers Metrology (UK) Ltd., CV Instruments Europe BV and Bowers Eclipse Equipment Shanghai Co. Ltd. These businesses are based in Bradford UK, Bordon UK, Maastricht, The Netherlands and Shanghai, P.R.C. respectively.



Bowers Plant United Kingdom



Bowers Metrology Tools

The Metrology Division, led by Steve White as Managing Director, is engaged in the design, manufacturing and distribution of precision measuring instruments for the Automotive, Aerospace and Defence markets. These products range from simple engineers' hand tools such as gauges for checking the threads, diameters and tapers of machined components to highly sophisticated and specialized measuring systems such as precision bore gauges and hardness testing equipment. Our products are sold to industrial customers and are exported to more than 50 countries worldwide.

The main manufacturing facility in Bradford, UK is equipped with the latest in modern manufacturing machinery and techniques, and 80% of the products are exported. Industrial concerns in the United States, Germany, France and P.R. China are major customers. The core product produced from this site is the 3-point internal micrometer range, known as the "Bowers XT", a field in which Bowers is the market leader. A Special Product and Systems division offers specialized solutions to unique measuring needs.

The UK division in Bordon is following a strategy in offering a "one-stop-shop" to the UK industrial marketplace, complementing its own manufactured products with a range of products from manufacturers in Switzerland, USA and Germany. Selling predominantly to industrial end-users, the technical sales team offers solutions to the majority of high precision measuring problems.

The Bowers business is complemented by the well-known brands of Moore & Wright and CV Instruments. Moore & Wright, which celebrated its centenary in 2006, offers a full range of precision tools from factories in the UK and Asia. CV Instruments is the Testing Instruments brand and the distribution centre in Maastricht, Netherlands offers a complete range of portable and bench instruments for testing hardness, thickness, surface roughness and coating thickness.

Started in 2006, the new Bowers Shanghai facility manufactures several of the Group's testing instruments, while also acting as a sourcing and quality control centre for products sold internationally. In addition, Bowers Shanghai acts as a distribution centre offering in the rapidly expanding Chinese market the entire product range of the Bowers Group.

Combining these well known brands with modern manufacturing facilities in both the UK and Asia, the Group continues to build on its strategy of offering standard and specialty measuring solutions to industry. This is supported by the Group slogan of being "Partners in Precision".



Tools Division

Our Tools Division, with a heritage dating back to the 1760s, encompasses Spear & Jackson Garden Products Ltd and Neill Tools Ltd, with a broad range of premium-quality well known product brands.



Spear & Jackson
Sheffield, United Kingdom



Spear & Jackson Secateurs



Robert Sorby



Robert Sorby Chuck & Tools

The Tools Division manufactures hand hacksaws, hacksaws blades, hacksaw frames, builders' tools, riveter guns, wood saws and lawn, garden and agricultural tools, all non-powered. In addition, Neill Tools has supplemented its UK manufactured products with factored products from Asian suppliers. Neill Tools' product offering now includes a full range of hand power tools, and a portfolio of electric powered garden tools that were added in 2005. The division has facilities in Sheffield, England and St. Chamond, Cedex, France and distribution facilities in Australia and New Zealand. The division sells in over 100 countries world-wide under globally recognized brands such as Spear and Jackson, WHS and Tyzack. The Division's policy is to support its core product offering with a pipeline of new products and range extensions. In the period under review, the new product development programme, using the power of our global procurement resources, has seen the launches of the award winning Predator Woodsaw Series, garden power and professional builders' tools. Our new product development programme has used the power of our global procurement capability programme in the latest category launches in the award-winning Predator Woodsaw Series, Garden Power and Professional Builders tools. The senior management team, led by Lee Wells as managing director, have a vision for the future which involves the design, manufacturing and sourcing high quality long-lasting products at a cost effective price which assures the customer excellent value.

Also in the Tools Division is the independently run Robert Sorby, a niche business supplying high-quality English designed and manufactured specialty hand tools for woodworkers. Robert Sorby's product portfolio comprises chisels and accessories for the hobbyist woodworker, whether woodturner, carver, cabinet or furniture maker, who still derives satisfaction from constructing superb-quality products by hand. Robert Sorby, led by Peter Gill, has an outstanding reputation in this unique and specialized field and is known throughout the world. The company's thriving mail order business is supported by a recently added e-commerce site.



Garden Tools

Brands

A significant part of the Group's operations is branding and brands strategy, principally through Spear & Jackson and its subsidiaries.

Spear & Jackson has held leading brand names in its core business since 1760. Neill Tools is one of the largest British based manufacturers of hand tools with leading brand names such as Neill Tools, Elliott Lucas and Spear & Jackson. In the metrology division, the Moore & Wright brand has been recognized for over 100 years for its traditional craftsmanship while the Bowers name has been at the forefront of international precision measuring equipment for over 50 years. Eclipse Magnetics is a recognized brand name in the UK manufacturing industry because of its long history of supplying quality magnetic tools. Robert Sorby is a recognized specialist in marketing its wood turning tools.

Pin Xin manufactures a range of chargers coupled with factored rechargeable batteries which are sold worldwide under the Powerhaus brand name.



Robert Sorby



WHS





..... **maximising
shareholder value**



Pin Xin 1-Hour Rapid Charger
with rechargeable batteries

Liquidity and Capital Resources

The Group's net cash (debt) position as at 30 September 2006 and corresponding gearing ratio are as follows:

	At 30.9.06 HK\$'million
Cash	335.3
Less: Bill financing, bank borrowings and obligations under finance leases	(258.5)
	76.8
Shareholders' funds	182.8
Bill financing, bank borrowings and obligations under finance leases to shareholders' funds	141.0%
Net debt to shareholders' funds	N.A.

As at 30 September 2006, cash and bank balances of the Group amounted to HK\$335.3 million, with bill financing, bank borrowings and obligations under finance leases amounting to HK\$258.5 million (net cash of HK\$76.8 million), while the Group's net asset value as at 30 September 2006 was HK\$ 226.8 million.

The working capital position of the Group remains healthy. As at 30 September 2006, the liquidity ratio (ratio of current assets to current liabilities) was 170.1% and a gearing ratio of nil balance (ratio of net bank debt to net asset 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 continues to be net cash from operating activities. With the continuous implementation of prudent cash control measures, cash generated from operating activities was a positive HK\$29.5 million.

Cash Flow from Financing Activities

The net cash inflow from financing activities for the period under review amounted to HK\$40.2 million, which included a net increase in bank borrowing of HK\$42.7 million and principal repayments of obligation under finance lease of HK\$1.7 million.



Sheffield Plant Interior



Eclipse Magnetic Products

Cash Inflow on Acquisition of a subsidiary

The net cash inflow arising on acquisition of a subsidiary was:

Cash consideration paid acquisition costs	HK\$(51,500,000)
Cash and cash equivalents acquired	HK\$88,541,118
	<hr/>
	HK\$37,041,118

Capital Expenditure

The Group made additional capital expenditure investments of HK\$5.4 million. This was financed by internal resources and credit facilities.

Treasury Management

During the six months ended 30 September 2006, there was no material change in the Group's funding and treasury policy. The Group had a sufficient level of cash and banking facilities for the conduct of its business in the normal course. 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. It is the Group's policy not to engage in speculative activities. The management continues to monitor foreign exchange exposure from time to time.

Major Customers and Major Suppliers

For the period under review, sales to the largest customer and the five largest customers accounted for 16.8% and 36.6% respectively, of total sales for the period.

Purchases from the largest supplier and the five largest suppliers accounted for 3.2% and 14.2%, respectively, of total purchases for the period.

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.



*Workforce in the Songgang Contract
Manufacturing Plant*

Employees

As at 30 September 2006, the Group employed 801 executive and clerical staff and 2,470 factory workers. The remuneration of such staff and workers is determined by overall guidelines within the industry. The Group has also adopted certain bonus programs, share option schemes, medical insurance and personal accident insurance, and other employee welfare and benefit programs for its various categories of employees. Awards, under award programs, are determined annually based on certain criteria which relates to performance of each employee individually or business divisions.

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 organizes training sessions in many disciplines including SAP for the benefit of its staff on a worldwide basis to upgrade staff skills.

Major Factors Affecting The Group

During the six months period under review, our trading performance was affected by the intensely competitive nature of the business environment in which we operate, exacerbated by the following specific factors:

- Rise in materials and other costs;
- Weakness of the US Dollar which reduces the Group's margins;
- Severe downward pricing pressure from customers.

During the period under review, Pantene gained a significant increase in sales volume although its gross profit margin was hit by the increase in labor, utility, raw material costs and currency fluctuations. Pantene continues its efforts to control costs by all available means. Pin Xin's results were also affected by the closure of the Shanghai operations.

The Group addresses these problems by improving operational efficiencies and optimizing its financial resources through on-going cost cutting and financial control measures. Certain restructuring exercises were taken during the period to streamline business operations. S&J initiated a significant UK manufacturing reorganization program prior to UPI's acquisition of a controlling stake in that company and these restructuring activities will continue into the next fiscal year.



PANTENE Magnetic Powered Unit

Prospects and Strategies

Each of the Group's divisions operates in mature sectors and under extremely competitive market conditions. This situation has been increasingly exacerbated by low cost competition from a wide range of developing economies. In addition, currency fluctuation are increasing the pressure on our margins.

Our major competition is not only from low cost developing economies but from many established companies. The trend towards DIY, Big Box and one-stop shops has placed significant pressure upon the maintenance of market share.

Although certain of our competitors are substantially larger than us, and have greater financial resources, we believe that we compete favourably across the whole range of our activities because of the quality of our products, pricing and imaginative design. Our reputation, customer service, combined with unique brand offerings enable us to build and maintain customer loyalty.

Neill Tools continues to experience particularly tough trading conditions in both its export and home markets. This has highlighted the fact that within the industrial tools business, export markets continue to be driven by demand for Spear & Jackson's hacksaw blades. Sales of these products now represent 60% of the industrial tools division's revenue and strategies are being prepared to spread this sales concentration risk through the development of higher margin product ranges.

Pantene is subject to the downward pressure on pricing caused by the market expectation for cheaper electronic products. We supply some of the world's great names in the consumer product industry. We are proud to be associated with such companies but with this goes the need to reduce costs, increase flexibility and supply an ever-widening list of products.

Our on-going business strategy is to capture and retain a diversified revenue stream from the market. Good products, excellent service and competitive pricing will support this goal. During the period under review, the Group has launched new products and continues to explore initiatives to reduce its operating base costs, both of raw materials and processes, in order to minimize margin erosion and to retain its competitive edge.



During the period was the acquisition of 61.8% of Spear & Jackson, Inc on 28 July 2006. With this acquisition, the Group is better positioned to:

- Utilize and extend the reach of S&J's well-established brand names
- Market products from Pantene through S&J's extensive distribution channels
- Take advantage of S&J's long established market presence in Europe and Asia Pacific
- Increase the size and depth of product lines available to the Group
- Exploit economies of scale
- Engage in collaborative engineering between S&J and Pantene
- Assist Spear & Jackson to penetrate the China market with Pantene's China insight and experience

We are working to realize the potential synergies that can be achieved for the Group from the acquisition.

Building on the S&J acquisition, our Executive Directors and the Group management team will, among their other tasks, concentrate on extending the Group's activities by further suitable acquisitions.

Recognising that all the Group's divisions operate in a competitive environment, our management team is focusing on increasing the range of new products, extending our customer base, improving our operational efficiencies and control measures, while investing prudently in R&D technology to remain competitive in the long term.

Barring unforeseen circumstances, the Board considers we will achieve a rise in earnings per share for the UPI Group for the full year ending 30 September 2007 compared to the full year ended 31 March 2006.