

The directors are pleased to present their annual report and the audited consolidated financial statements for the period from 1 April 2006 to 30 September 2006.

## Acquisition

The Company acquired 61.8% of Spear & Jackson, Inc. ("Spear & Jackson" or "S&J") on 28 July 2006.

## Change of Financial Year End Date

Following the acquisition of Spear & Jackson, the Company changed its financial year end date from 31 March to 30 September with effect from 2006 to align with Spear & Jackson's financial year end date in order to facilitate the preparation and presentation of the consolidated financial statements of the Group. The consolidated financial statements presented in this report therefore cover the six month period from 1 April 2006 to 30 September 2006.

## Principal Activities

United Pacific Industries Limited ("United Pacific Industries", "UPI" or the "Company") is a diversified investment holding company. With the acquisition of 61.8% of Spear & Jackson, Inc. ("Spear & Jackson" or "S&J") in July 2006, the principal operations of the Group are summarized in alphabetical order as follows:

- **Contract Manufacturing** Pantene Industrial is the Company's founding OEM service provider. Its core product range includes voltage converters, cables, coils and components for electronic/electrical/mechanical products, chargers and rechargeable battery products. Increasingly, Pantene utilizes laser/optics, RF (radio frequency) and magneto-electric technologies to produce sophisticated and complex products such as digital laser measurement devices, laser beam units, ultrasonic detection devices, thermostat controls, RF alert systems, portable magneto-electric generators.
- **Magnetics** Eclipse Magnetics' key products are permanent magnets (cast alloy), magnetic tools, magnetic chucks and turnkey magnetic systems. In the field of applied magnetics, Eclipse supplies products such as separators, conveyors, lifting equipment and material handling solutions for businesses.
- **Metrology/Measurement** Bowers Group designs, manufactures and distributes precision measuring instruments for the Automotive, Aerospace and Defence markets. The product range includes simple hand tools to highly sophisticated and specialized measuring systems such as precision bore gauges and hardness testing equipment.
- **Tools** Spear & Jackson Garden Products and Neill Tools, the founding companies in the S&J Group with histories dating back to the late 1700s, manufacture high-quality lawn, garden and agricultural tools, woodsaws and hacksaws, a full range of hand power tools, and a portfolio of electric-powered garden tools.

## Results and Appropriations

The results of the Group for the period from 1 April 2006 to 30 September 2006 are set out in the consolidated income statement on page 54 and the accompanying notes to the consolidated financial statements.

The directors do not recommend the payment of a dividend for the period from 1 April 2006 to 30 September 2006.

# Report of the Directors

## Financial Summary

A financial summary of the Group is set out on pages 115 and 116.

## Share Capital

Details of the Company's share capital are set out in note 28 to the consolidated financial statements.

## Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the period are set out in note 14 to the consolidated financial statements.

## Reserves

Details of the movements in the reserves of the Group during the period are set out in note 29 on page 102.

At 30 September 2006, the Company's reserves available for distribution amounting to HK\$5,197,479 consisted of contributed surplus of HK\$70,911,124 and accumulated loss of HK\$65,713,645.

Under the Companies Act 1981 of Bermuda (as may be amended from time to time), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## Directors and Service Contracts

The directors of the Company during the period and up to the date of this report are:

### Executive directors:

Mr. Brian C Beazer (*Executive Chairman*)

Mr. David H Clarke (*Executive Vice-chairman*)

Mr. Simon N Hsu (*Executive Vice-chairman*)

### Non-executive directors:

Mr. Teo Ek Tor

Mr. Ng Ching Wo

### Independent non-executive directors:

Dr. Wong Ho Ching, Chris

Mr. Ramon Sy Pascual

Mr. Henry W Lim

In accordance with Clauses 111(A) and 111(B) of the Company's Bye-laws, Mr. Simon N Hsu, Mr. Ng Ching Wo and Dr. Wong Ho Ching, Chris will retire at the forthcoming annual general meeting. Mr. Hsu and Dr. Wong, being eligible, will offer themselves for re-election, but Mr. Ng has advised that due to work commitments, he will not offer himself for re-election. All other directors will continue in office.

In compliance with Provision A.4.3 of Recommended Best Practices in the Code on Corporate Governance Practices issued by The Stock Exchange of Hong Kong Limited ("the SEHK"), the re-election of Dr. Wong Ho Ching, Chris ("Dr. Wong") as an independent non-executive director requires a separate shareholders' resolution as Dr. Wong has served for more than nine years as an independent non-executive director of the Company. For this purpose, shareholders are asked to consider the board's recommendation regarding the re-election of Dr. Wong as stated herein. Notwithstanding that Dr. Wong has served more than nine years, the Board is satisfied that Dr. Wong is a person of integrity and stature, and independent in character and judgement. He is independent of management and free from any business or other relationships or circumstances which could materially interfere with the exercise of his independent judgement. His details are set out on page 15 of the Report. Consequently, the Board recommends that shareholders re-appoint Dr. Wong as an independent non-executive director to serve for an additional year until the next annual general meeting.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

The non-executive directors are subject to retirement by rotation as required by the Company's Bye-laws.

## **Directors' Interests in Contracts and Connected Transactions**

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period except that Mr. Brian C Beazer and Mr. David H Clarke, being at the relevant time directors and shareholders of the Company and of Jacuzzi Brands, Inc. ("Jacuzzi"), were required to abstain from voting at the special general meeting convened on 28 July 2006 to seek shareholders' approval for the acquisition from Jacuzzi of a controlling stake in Spear & Jackson. Details are set out in note 31 to the consolidated financial statements.

# Report of the Directors

## Directors' Interests in Securities of the Company and its Associated Corporations

As at 30 September 2006, the interests of the Directors of the Company and their associates in the shares, underlying shares comprised in options and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the SEHK pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or are deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and The SEHK were as follows:

### Long Positions

#### (a) Ordinary shares of HK\$0.10 each of the Company

<u>Name</u>	<u>Capacity</u>	<u>Number of ordinary shares</u>	<u>Percentage interest in the Company's issued share capital</u>
Mr. Brian C Beazer	Interest in a controlled corporation (Note 1)	136,827,775	24.56%
Mr. David H Clarke	Interest in a controlled corporation (Note 2)	127,439,723	22.88%
Mr. Simon N. Hsu	Interest in a controlled corporation (Note 3)	3,787,158	0.68%

Notes:

- These shares are owned by B C Beazer Asia Pte. Ltd., a company in which Mr. Brian C Beazer has a 50% equity interest.
- These shares are held by GSB Holdings, Inc. Mr. David H Clarke has a 61.4% equity interest in Great South Beach Improvement Co., which has a beneficial interest in the entire issued share capital of GSB Holdings, Inc.
- These shares are owned by Strategic Planning Assets Limited, a company in which Mr. Simon N. Hsu has 100% equity interest.

#### (b) Share options

<u>Name of directors</u>	<u>Capacity</u>	<u>Number of options held</u>	<u>Number of underlying shares</u>
Mr. Brian C Beazer	Beneficial owner	5,031,053	5,031,053
Mr. David H Clarke	Beneficial owner	1,515,527	1,515,527
Mr. Simon N Hsu	Beneficial owner	9,062,106	9,062,106
		15,608,686	15,608,686

Other than as disclosed above, and except for nominee shares in certain subsidiaries held in trust for the Group at 30 September 2006, neither the directors nor chief executives, nor any of their associates, had any interests in any shares, underlying shares or debentures of the Company or any of its associated corporations.

## Shareholders with Notifiable Interests

As at 30 September 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

### Long positions

Ordinary shares of HK\$0.10 each of the Company

<u>Name of shareholders</u>	<u>Nature of interest</u>	<u>Number of ordinary shares held</u>	<u>Percentage interest in the Company's issued share capital</u>
Mr. Brian C Beazer	Interest in a controlled corporation <sup>(1)</sup>	136,827,775	24.56%
Mr. David H Clarke	Interest in a controlled corporation <sup>(2)</sup>	127,439,723	22.88%
Investor AB	Interest in a controlled corporation <sup>(3)</sup>	74,836,000	13.43%
Asian Corporate Finance Fund, L.P.	Interest in a controlled corporation <sup>(4)</sup>	65,000,400	11.67%

Notes:

- (1) These shares are owned by B C Beazer Asia Pte. Ltd., a company in which Mr. Brian C Beazer has a 50% equity interest.
- (2) These shares are held by GSB Holdings, Inc. Mr. David H Clarke has a 61.4% equity interest in Great South Beach Improvement Co., which has a beneficial interest in the entire issued share capital of GSB Holdings, Inc.
- (3) These shares are held indirectly by Investor AB through its beneficial interest of the entire issued capital of Investor (Guernsey) II Ltd.
- (4) These shares are held indirectly by Asian Corporate Finance Fund, L.P., through its beneficial interest of the entire issued capital of Payawal Capital Limited.

All interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 30 September 2006, the Company has not been notified of any other relevant interests in the issued share capital of the Company.

## Share Options and Directors' Rights to Acquire Shares or Debentures

- (a) Pursuant to a special general meeting of the Company held in April 1994, the Company adopted an executives' share option scheme (the "1994 Scheme") for the primary purpose of providing incentives to the executive directors and eligible employees of the Company and its subsidiaries. According to the 1994 Scheme, the Board of Directors of the Company is authorised, at any time within ten years after the adoption date of the 1994 Scheme, to grant options to eligible participants to subscribe for shares in the Company at a subscription price equal to the higher of the nominal value of the shares and an amount, to be determined by a committee administering the 1994 Scheme, which is not less than 80% of the average of the closing prices of the shares on The SEHK on the five trading days immediately preceding the date of the options are offered to the participant.

The details of in the number of options outstanding during the period which have been granted to the directors of the Company and employees of the Group under the 1994 Scheme were as follows:

<u>Name of directors</u>	<u>Date of grant</u>	<u>Exercise price</u> HK\$	<u>Number of option shares outstanding at 1.4.2006 and 30.9.2006</u>
Mr. Brian C Beazer	23.7.2003	0.36	2,000,000
Mr. Simon N Hsu	23.7.2003	0.36	3,000,000
			<u>5,000,000</u>

- (b) At a special general meeting of the Company held on 30 August 2004, a new share option scheme was adopted (the "2004 Scheme"). The Board is authorised to grant options to eligible executive directors and employees of the Company and its subsidiaries (the "Group"), to subscribe for shares in the Company. The number of underlying shares available under the 2004 Scheme shall not, in aggregate, exceed 5% of the issued shares as at 30 August 2004 ("Stock Limit"). The Stock Limit was refreshed at the annual general meeting held on 28 July 2006 with the result that 27,852,920 shares underlying options, representing 5% of the issued shares as at 28 July 2006, are available for future grants under the 2004 Scheme. The exercise price of the options shall be determined by a committee administering the 2004 Scheme, and shall fall within the following prescribed parameters: they should not be less than (i) the par value of the shares, (ii) the closing price of the shares on the date of grant which must be a business day, and (iii) the average closing price of the shares over 5 consecutive trading days immediately preceding the date of grant. As at the date of this report, 7,700,511 options at an exercise price of HK\$0.242 and 6,545,435 options at HK\$0.250 have been granted under the 2004 Scheme, which, subject to vesting, can be exercised at any time until 2014.

# Report of the Directors

The movements in the number of share options under the 2004 Scheme during the financial period under review are as follows:

Name of directors	Date of grant	Exercise price HK\$	Number of option shares		
			Outstanding at 1.4.2006	Lapsed during the period	Outstanding at 30.9.2006
Mr. Brian C Beazer	28.9.2004	0.242	1,638,407	—	1,638,407
	20.12.2004	0.250	1,392,646	—	1,392,646
Mr. David H Clarke	28.9.2004	0.242	819,204	—	819,204
	20.12.2004	0.250	696,323	—	696,323
Mr. Simon N Hsu	28.9.2004	0.242	3,276,814	—	3,276,814
	20.12.2004	0.250	2,785,292	—	2,785,292
			10,608,686	—	10,608,686
Other employees	28.9.2004	0.242	2,293,767	(327,681)	1,966,086
	20.12.2004	0.250	1,949,703	(278,529)	1,671,174
			14,852,156	(606,210)	14,245,946

Other than as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Other than as disclosed above, none of the Directors, or their spouses and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## Major Customers and Major Suppliers

For the period under review, sales to the largest customer and the five major 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.

# Report of the Directors

## **Convertible Securities, Options, Warrants or Similar Rights**

Other than the outstanding but unvested share options as set out above, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 30 September 2006 and there had been no exercise of convertible securities, options, warrants or similar rights during the period.

## **Purchase, Sale or Redemption of the Company's Listed Securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## **Pre-emptive Rights**

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

## **Audit Committee**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the audited consolidated financial statements for the period from 1 April 2006 to 30 September 2006.

The members of the Audit Committee comprise Mr. Henry W Lim (Chairman) and Dr. Wong Ho Ching, Chris, both independent non-executive directors, and Mr. Ng Ching Wo, a non-executive director. Mr. Brian C Beazer, the Executive Chairman, is the non-voting secretary of the Audit Committee.

## **Compensation Committee**

The Compensation Committee advises the Board on Group compensation theory and practice with a view that a meaningful portion of management's compensation should be contingent upon financial performance of the Company in order to foster the creation of long term shareholder value. The Compensation Committee meets regularly twice a year and at other times as required. The Committee comprises three directors who, in the reasonable opinion of the Board, are able to exercise independent judgment in discharging their duties as a Compensation Committee member.

The Compensation Committee as at the date of this report comprises: Mr. Ramon Sy Pascual, INED and Chairman, Mr. Henry W Lim, INED and member, and Mr. Brian C Beazer, Executive Chairman and member. During the period under review, the Compensation Committee had reviewed the current compensation of Directors and senior management and approved the increase in compensation as it relates to Pantene and Pin Xin.



## Emolument Policy

The emolument policy of the employees of the Group is set up by the Compensation Committee on the basis of their merit, qualifications and competence. The emoluments of the directors of the Company are decided by the Compensation Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The Company has adopted a share option scheme as an incentive to directors and eligible employees, and details of the scheme are set out in note 30 to the consolidated financial statements.

## Public Float

Based on the information that is publicly available to the Company and with the knowledge of the directors of the Company throughout the period under review up to the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Rules Governing the Listing of Securities (the "Listing Rules") on The SEHK.

## Corporate Governance

Principal corporate governance practices as adopted by the Company is set out in the Corporate Governance Report on page 39.

## Appointment of Independent Non-executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

## Auditors

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**BRIAN C BEAZER**

*Executive Chairman*

Hong Kong

22 January 2007