Financial and Operations Review

The following sets out the financial highlights by operations for the year ended 31st March, 2001, with the comparative figures for the corresponding period in 2000.

	2001 HK$'million	2000 HK$'million	Change HK$'million	Change %
Turnover				
Voltage converter and rechargeable battery products	**654.0**	660.0	(6.0)	1%
Toy products (Discontinued operations)	**-**	213.0	(213.0)	100%
	654.0	873.0	(219.0)	25%
Net profit (loss) for the year				
Voltage converter and rechargeable battery products				
• Operating profit	**88.7**	88.4	0.3	-
• Non-operating items	**(0.4)**	(8.4)	8.0	95%
	88.3	80.0	8.3	11%
Toy products (Discontinued operations)	**-**	(120.0)	120.0	100%
	88.3	(40.0)	128.3	n/a
Dividends/distribution	**139.5**	-	139.5	n/a

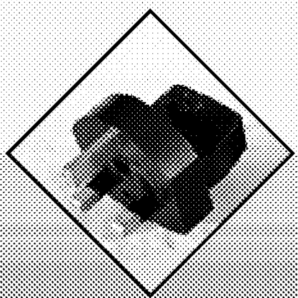
GROUP OVERVIEW

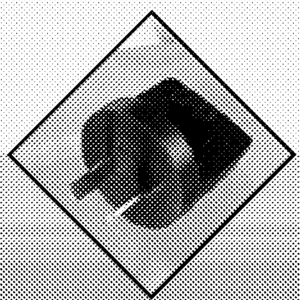
- For the Group's existing core business (i.e. voltage converter and rechargeable battery business segments), turnover and net profit for the year were amounted to HK$654.0 million and HK$88.3 million respectively.

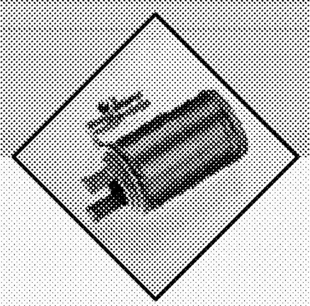
- As the Group had disposed of its equity interest in Goldwiz Holdings Limited (formerly known as Hong Kong Toy Centre International Limited) ("Hong Kong Toy") on 31st January, 2000, the profit contributed from the Group's existing core business of HK$88.3 million will NOT have to be diluted by any negative impact from Hong Kong Toy after 31st January, 2000.

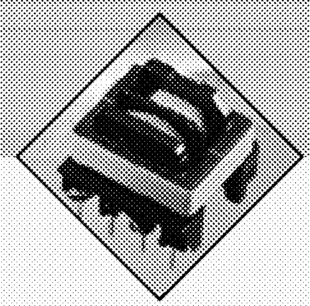
- The financial position of the Group is very healthy. On 31st March, 2001, the Group had bank and cash balances of HK$87.3 million with a total bank debt of HK$0.3 million, while the Group's net asset value was HK$290.9 million, with a very healthy current ratio of 291%.

- On 18th July, 2001, the Directors resolved to declare a final cash dividend of HK$0.05 per share that will be distributed to our shareholders on or before 30th September, 2001. This together with the two special cash dividends/ distribution totalling HK$0.15 per share and the interim dividend of HK$0.05 per share, gives a total cash dividend/ distribution of HK$0.25 per share or HK$139.5 million, for the year ended 31st March, 2001.









BUSINESS REVIEW AND PROSPECTS

Voltage Converter and Rechargeable Battery Business Segments

The financial performance of the voltage converter and rechargeable battery business segments continued to record a encouraging results in terms of turnover and profit attributable to shareholders, mainly due to the following:

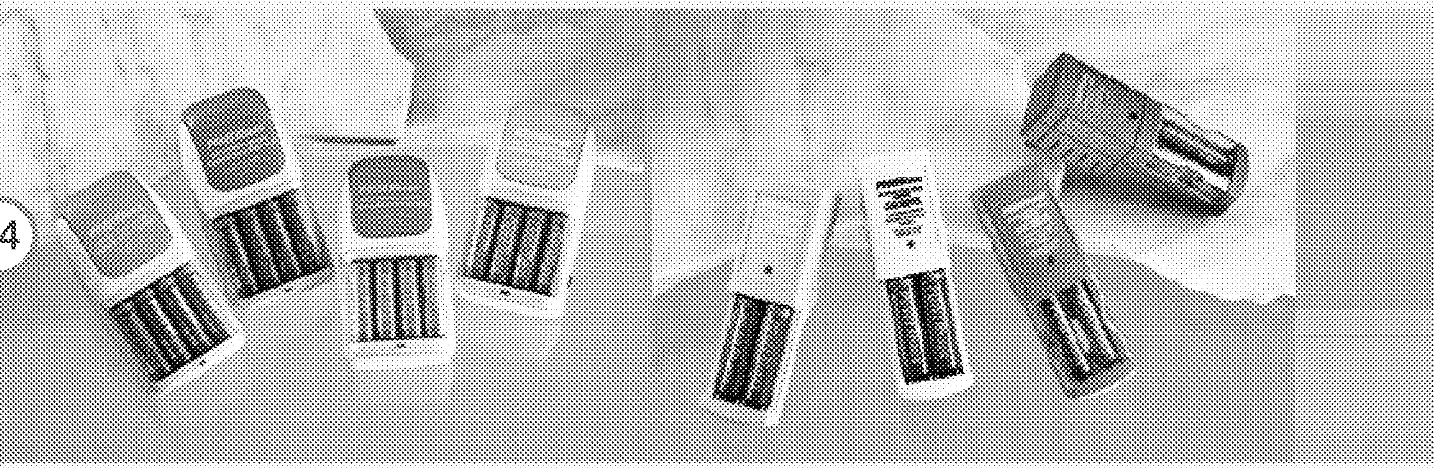
- Diversification of our customer base;
- Expansion of our product range;
- Continuous market demand for mobile phone and power tools charger products globally and improved sales volume of our rechargeable battery products; and
- Positive effects from a combination of successful financial and operations-related programs.

In addition, the North American market demand for the Group's power-tools chargers and related products continue to grow progressively leading to the expansion of our representative office in Chicago, including a team of specialist engineers to provide after-sales customer support. Sales and profit contribution from the North American market segment to the Group continue to show progressive growth and we, therefore, remain optimistic about our future prospects in that market.

The Group's SMT production line has been turning out, progressively, an increasing volume of switch-mode power supply products to meet increased orders from Hitachi and TCL, just to name two of our largest customers for such products. Bosch, our leading customer of power-tools chargers in North America, has also recently expanded their orders to include electrical switches and chargers. In other positive developments, we are also now on stream to exclusively mass-produce solenoid coils for Hydroforce, a major player in the U.S. market.

At home, our joint venture company, Pan Electrium Industrial Company Limited ("PE"), jointly owned and managed with Electrium PLC, a leading electronics manufacturer in the United Kingdom, has been further expanding its production capacity of cordsets, cables and other accessories ever since its establishment in 1998. Profit contribution from PE to the Group is therefore expected for the next financial year.

For our rechargeable battery business, although financial performance has shown an improvement compared to the previous years, your management is pushing constantly for continued progress in the areas of product quality and sales and marketing. As a result of management's efforts to improve our bottom line in the battery products segment, an operational reorganization has been put in place during the year, namely, (i) all international sales and marketing operations will now be centred in Hong Kong; (ii) our Fuyong plant in Shenzhen, PRC, will focus on OEM subcontracts and R & D; and (iii) our Shanghai, PRC, plant will focus on general production of our battery products as well as PRC-related sales and marketing operations. We are optimistic that this streamlining will improve our bottom line in the battery products segment as can be seen in most recent developments involving exclusive OEM subcontracts being signed with Moltech, a leading American OEM battery manufacturer, for the supply of battery cells, and with Makita, a Japanese electronics giant, for the supply of battery chargers.



With the existing core businesses of the Group moving ahead on track, our financial position continues to remain healthy without any material bank debt. Although the prospect for further growth remains bright, the Group's existing core businesses may face some pressure in the near future due to a general slow down in sales orders because of the lower global demand for mobile phone and electronic products. This is, your management foresees, likely to affect the Group's performance in the near to medium term. However, your management had already previously begun establishing long-range cost-cutting and financial control measures in anticipation of leaner times and the implementation of such measures will certainly help the Group to minimize the impact from negative market conditions.

Investment in Climax International Company Limited ("Climax")

Regarding our equity interest in Climax which we had written off completely in 1998, there was no impact on the Group from Climax's results. During the year, as publicly announced by Climax previously, Climax had successfully completed a subscription of new shares on 11th January, 2001 thereby bringing in a new controlling shareholder and fresh working capital. A debt restructuring with Climax's 26 bank creditors had also taken place simultaneously and this ensured continued financial support for Climax's operations.

As a result of the new share subscription in Climax and the partial market disposal of our Climax shares, our shareholding interest in Climax had been diluted to approximately 1.89%. Your management continues to vigilantly monitor market and other opportunities for further disposals of our remaining Climax shares to create value for our shareholders.

LIQUIDITY AND CAPITAL RESOURCES

The Group maintained a strong liquidity position in the year under review. On 31st March, 2001, the Group had bank and cash balances of HK$87.3 million with a total bank debt of HK$0.3 million, while the Group's net asset value was HK$290.9 million, with a very healthy current ratio of 291%.

The financial position of the Group remains robust mainly due to the continuous effort in management's implementing prudent and practical financial policies with respect to the operations of the business, together with the positive effects from the partial disposal of our Climax shares during the year.

The Group will continue to follow the practice of prudent cash management. Management is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, management also believes that the Group is in a good position to obtain financing on favorable terms.

Cash Flow From Operating Activities

With the continuous excellent financial performance of the Group and the implementation of prudent cash management, the net operating cash inflow substantially increased to HK$132.9 million in current year. The reconciliation of profit before taxation to net cash inflow from operating activities is shown as follows:-

	HK$' million
Profit before taxation	93.9
Non-cash items	16.2
Share of results of associates	0.2
Net interest income	(4.1)
Partial disposal of Climax's shares	(12.2)
Forfeiture of deposit received for disposal of Climax's shares	(1.8)
Change of working capital	40.7
Net cash inflow from operating activities	132.9

Cash Flow For Dividend and Interest Payments

The net cash outflow from returns on investments and servicing of finance substantially increased by HK$100.3 million to HK$106.6 million from HK$6.3 million reported last year.

The increase was mainly because a payment of dividends/ distribution of HK$111.6 million was made during the year while there was no such payment in prior year. The payment of dividends/distribution was financed by the cash generated from the disposal of Hong Kong Toy and our internal operating cashflow.

With the successful debt reduction in the previous year, together with the implementation of prudent cash management, the Group had benefited from the substantial decrease in interest payment in current year. For the year under review, the Group had earned a net interest income of HK$4.1 million, as to compared to the net interest payment of HK$7.8 million in prior year.

Cash Flow for Capital Expenditure & Corporate Activities

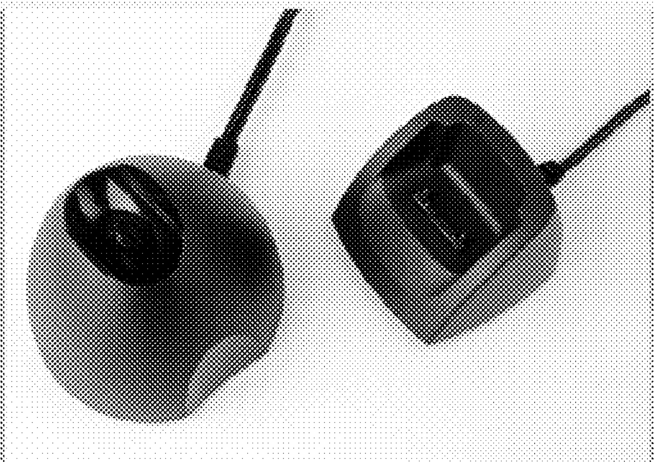
The Group's capital expenditure program was progressed smoothly as planned. During the year, the Group had made a capex investment of HK$17.6 million which was 100% financed by the cash internally generated from the operations. With the capital expenditure, the Group would be able to further increase its production capacity, improve quality and expand product variety, which will lay the foundation for the Group's future development.

In view of the continual liquidity and bank debt problems experienced by Climax, the Board of Directors of United Pacific Industries had unanimously decided to dispose of the Group's entire 29% equity interest in Climax in order to benefit the Group and our shareholders as a whole.

The net proceeds from the partial disposal of our Climax shares and the forfeiture of deposits of approximately HK$14.0 million was received by the Group during the year and will be used to finance the payment of HK$27.9 million in final cash dividend that will be paid to our shareholders on or before 30th September, 2001.

Treasury Management

On 31st March, 2001, the Group had a sufficient level of secured and unsecured banking facilities from our major bankers with a view to finance the working capital requirements. For exchange risk management, the Group will adopt cautious financial measures to manage and minimize the exchange risk exposure, and in this regard, the Group will normally match the currencies of sales with those of purchase in order to neutralize the effect of currency exposure. Furthermore, the Group will also take appropriate financial actions to ensure that the Group borrowings will be primarily denominated in Hong Kong dollars, while the non-Hong Kong dollar loans will be either directly tied in with the Group's businesses in the countries of the currencies concerned or such loans will be balanced by assets in the same currencies.



Major Suppliers and Customers

For the year under review, sales to the largest customer and the five major customers accounted for 54% and 85%, respectively, of total sales for the year.

Purchases from the largest supplier and the five largest suppliers accounted for 7% and 28%, respectively, of total purchases during the year.

As far as the directors are aware, neither the directors or their associates nor any shareholders or parties acting in concert with them, own more than 5% of the Company's total issued share capital, or had any interest in contracts with any Group's various customers or suppliers mentioned above.

Employees

On 31st March, 2001, the Group employed 79 executive and clerical staff and 3,916 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 such programs, are determined annually based on the performance of the Group as a whole and the careful assessment of each employee individually.