United Pacific Industries

United Pacific Industries Limited
(Incorporated in Bermuda with limited liability)

(Stock Code: 00176)

Year Ended 31 March 2004
Final Results Announcement

Financial Highlights

- Adjusted operating profit rose from HK$3.7 million to HK$13.4 million, up by 262%
- Turnover increased by 5% to HK$338.4 million
- Earning before interest, taxation, depreciation and amortisation of HK$25.6 million, up by 17%
- Bank and cash balances of HK$46.0 million
- Final dividend of HK$0.02 per share

RESULTS

The Board of Directors (the "Directors") of United Pacific Industries Limited ("United Pacific Industries" or the "Company") is pleased to announce the audited consolidated results of United Pacific Industries and its subsidiaries (the "Group") for the year ended 31 March 2004, together with the corresponding comparative figures for the year ended 31 March 2003 as follows:-

	Notes	**2004** *HK$*	**2003** *HK$*
Turnover	3	338,386,078	320,800,357
Cost of sales		(291,824,863)	(297,383,781)
Gross profit		46,561,215	23,416,576
Other operating income	4	9,982,493	7,231,863
Distribution costs		(1,398,380)	(1,159,385)
Administrative expenses		(39,489,937)	(32,312,226)
Other operating expenses	5	(8,329,005)	(14,736,481)
Profit (loss) from operations	6	7,326,386	(17,559,653)
Finance costs	7	(702,693)	(164,045)
Share of results of associates		—	(523,067)
Gain on partial disposal of a subsidiary		—	3,148,827
Impairment losses recognised in respect of interest in associates		—	(982,785)
Profit (loss) before taxation		6,623,693	(16,080,723)
Taxation	8	(20,350,699)	(1,725,000)
Loss before minority interests		(13,727,006)	(17,805,723)
Minority interests		—	(10,094)
Net loss for the year		(13,727,006)	(17,815,817)
Dividends	9	11,141,168	44,564,672
Loss per share	10	(2.5) cents	(3.2) cents

Notes:

1. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from and up to their effective dates of acquisition and disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice (SSAPs) and Interpretations approved by the HKSA.

SSAP 12 (Revised)	**Income taxes**

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In the previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. None of the above amendments affected the results of the Group for the current or prior years.

3. SEGMENT INFORMATION

Business Segments

The Group's principal activities are manufacture and trading of voltage converters, coils and components for electrical / electronic / mechanical products, and rechargeable battery products. These two business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

	Voltage converters, coils and components for electrical/ electronic/ mechanical products	**Rechargeable battery products**	**Elimination**	**Consolidated**
	HK$	*HK$*	*HK$*	*HK$*
For the year ended 31 March 2004				
Turnover				
External sales	303,454,368	34,931,710	—	338,386,078
Inter-segment sales	9,270,813	—	(9,270,813)	—
	312,725,181	34,931,710	(9,270,813)	338,386,078

Inter-segment sales are carried out at cost.

	Voltage converters, coils and components for electrical/ electronic/ mechanical products *HK$*	Rechargeable battery products *HK$*	Elimination *HK$*	Consolidated *HK$*
Result				
Segment result	8,634,772	10,944,346		19,579,118
Impairment losses recognised in respect of property, plant and equipment	(8,329,005)	—		(8,329,005)
Unallocated corporate expenses				(4,156,687)
Interest income				232,960
Profit from operations				7,326,386
Finance costs				(702,693)
Profit before taxation				6,623,693
Taxation				(20,350,699)
Net loss for the year				(13,727,006)
Other information				
Additions of property, plant and equipment	4,717,608	—		4,717,608
Addition of goodwill on acquisition of additional interest in a subsidiary	—	943,396		943,396
Amortisation of goodwill	—	125,786		125,786
Depreciation and amortisation of property, plant and equipment	11,626,669	—		11,626,669
Loss (gain) on disposal of property, plant and equipment	571,097	(1,469,190)		(898,093)

	Voltage converters, coils and components for electrical/ electronic/ mechanical products *HK$*	Rechargeable battery products *HK$*	Elimination *HK$*	Consolidated *HK$*
For the year ended 31 March 2003				
Turnover				
External sales	286,881,502	33,918,855	—	320,800,357
Inter-segment sales	13,026,340	—	(13,026,340)	—
	299,907,842	33,918,855	(13,026,340)	320,800,357

Inter-segment sales are carried out at cost.

Result				
Segment result	11,971,682	(8,941,241)		3,030,441
Deficit arising on revaluation of investment properties	(1,050,000)	—		(1,050,000)
Write-off of property, plant and equipment	—	(7,288,490)		(7,288,490)
Write-off of debtors and prepayments	—	(4,230,991)		(4,230,991)

	Voltage converters, coils and components for electrical/ electronic/ mechanical products	Rechargeable battery products	Elimination	Consolidated
	HK$	*HK$*	*HK$*	*HK$*
Provision for restructuring expenses	—	(2,167,000)		(2,167,000)
Unallocated corporate expenses				(6,210,279)
Interest income				356,666
Loss from operations				(17,559,653)
Finance costs				(164,045)
Share of results of associates	(523,067)	—		(523,067)
Gain on partial disposal of a subsidiary	—	3,148,827		3,148,827
Impairment losses recognised in respect of interest in associates				(982,785)
Loss before taxation				(16,080,723)
Taxation				(1,725,000)
Loss before minority interests				(17,805,723)
Minority interests				(10,094)
Net loss for the year				(17,815,817)
Other information				
Additions of property, plant and equipment	8,608,535	625,115		9,233,650
Depreciation and amortisation of property, plant and equipment	12,677,282	3,316,051		15,993,333
Loss on disposal of property, plant and equipment	2,435,362	—		2,435,362

Geographical Segments

The Group's operations are located in Mainland China and Hong Kong of the People's Republic of China (the "PRC"). The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

	Turnover by geographical market Year ended 31 March,	
	2004	**2003**
	HK$	*HK$*
The PRC		
Mainland China	36,057,454	43,644,474
Hong Kong	79,333,401	81,028,725
	115,390,855	124,673,199
United States of America, South America and Canada	116,137,547	83,719,628
Europe	79,141,503	66,545,997
Malaysia	10,822,733	30,210,906
Asia (excluding the PRC and Malaysia)	16,893,440	15,650,627
	338,386,078	320,800,357

The following is an analysis of the carrying amount of consolidated total assets and additions to property, plant and equipment analysed by the geographical areas in which the assets are located:

	As at 31 March,	
	2004	**2003**
	HK$	*HK$*
Carrying amount of consolidated total assets		
Hong Kong	134,091,780	152,866,248
Mainland China	98,648,958	84,853,372
United States of America	—	57,531
	232,740,738	237,777,151

	Year ended 31 March,	
	2004	**2003**
	HK$	*HK$*
Additions to property, plant and equipment and intangible assets		
Mainland China	5,190,921	8,576,567
Hong Kong	470,083	657,083
	5,661,004	9,233,650

4. OTHER OPERATING INCOME

	2004	**2003**
	HK$	*HK$*
The other operating income comprises:		
Bad debts recovery	2,674,348	—
Refund of deposits paid for acquisition of a property written-off in the prior years	2,777,292	—
Gain on disposal of property, plant and equipment	898,093	—
Property rental income net of nil outgoings	721,058	826,326
Interest earned on bank deposits and balances	232,960	356,666
Negative goodwill arising on acquisition of additional interest in a subsidiary released	112,662	—
Mould and tooling income	—	6,017,265
Sundry income	2,566,080	31,606
	9,982,493	7,231,863

5. OTHER OPERATING EXPENSES

	2004	**2003**
	HK$	*HK$*
The other operating expenses comprise:		
Impairment losses recognised in respect of property, plant and equipment	8,329,005	—
Write-off of property, plant and equipment	—	7,288,490
Write-off of debtors and prepayments	—	4,230,991
Provision for restructuring expenses	—	2,167,000
Deficit arising on revaluation of investment properties	—	1,050,000
	8,329,005	14,736,481

During the year ended 31 March 2003, the directors decided to restructure certain subsidiaries of the Company. It resulted in the write-off of property, plant and equipment, write-off of debtors and prepayments and a provision for restructuring expenses of HK7,288,490, HK$4,230,991 and HK$2,167,000 respectively.

6. PROFIT (LOSS) FROM OPERATIONS

	2004	2003
	HK$	*HK$*
Profit (loss) from operations has been arrived at after charging:		
Directors' remuneration	12,137,254	6,684,000
Staff salaries, allowance and welfare	29,850,365	33,396,828
Provident fund contributions	98,292	159,094
Mandatory provident fund contributions	330,159	341,899
Direct labour costs	18,587,924	17,085,794
Total staff costs	61,003,994	57,667,615
Amortisation of goodwill included in administrative expenses	125,786	—
Auditors' remuneration	917,250	880,000
Depreciation and amortisation of property, plant and equipment		
Owned assets	11,537,716	15,985,920
Assets held under finance leases	88,953	7,413
Loss on disposal of property, plant and equipment	—	2,435,362
Minimum lease payments in respect of rented premises	3,749,456	4,519,706

7. FINANCE COSTS

	2004	2003
	HK$	*HK$*
Interest on:		
Bank borrowings wholly repayable within five years	682,548	158,580
Obligations under finance leases	20,145	5,465
Total borrowing costs	702,693	164,045

8. TAXATION

	2004	2003
	HK$	*HK$*
The charge comprises:		
The Company and its subsidiaries:		
Hong Kong Profits Tax		
- current year provision	2,000,000	900,000
- (over)underprovision in prior years	(173,692)	825,000
- additional assessments for the years of assessment from 1997/98 to 2001/02	11,524,391	—
- tax penalty	7,000,000	—
	20,350,699	1,725,000

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year.

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. During the year, the Company and the IRD reached a mutual settlement agreement in respect of the additional tax liabilities of the Group, without the directors admitting any liability. On 19 November 2003, additional assessments of HK$11,524,391 for the years of assessment from 1997/98 to 2001/02 together with a compound tax penalty of HK$7,000,000 were issued by the IRD to the Group. The additional taxation charge and the tax penalty will be settled, after deducting the provisional tax already paid amounting to HK$6,822,738, in twelve monthly instalments starting from 31 December 2003.

9. DIVIDENDS

	2004	2003
	HK$	*HK$*
Interim dividend, paid - nil (2003: 4 cents) per share	—	22,282,336
Final dividend, proposed - 2 cents (2003: 4 cents) per share	11,141,168	22,282,336
	11,141,168	44,564,672

The final dividend of 2 cents (2003:4 cents) per share has been proposed by the directors of the Company.

10. LOSS PER SHARE

The calculation of loss per share is based on the net loss for the year of HK$13,727,006 (2003: loss of HK$17,815,817), and the weighted average of 557,058,400 (2003: 557,230,778) shares in issue during the year.

No diluted loss per share has been presented as the exercise of the Company's outstanding share options would reduce the loss per share for both years.

DIVIDEND

The directors of the Company resolved to propose a final dividend for the year ended 31 March 2004 of HK$0.02 per share that, subject to shareholders' approval, is expected to be distributed to our shareholders on or before 30 September 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 25 August 2004 to 30 August 2004, both days inclusive, during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the Annual General Meeting and who are entitled to any dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Secretaries Limited, at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00p.m. on 24 August 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Company has set up an Audit Committee pursuant to the Company's bye-laws and the Listing Rules. The major duties are to assist the Board in fulfilling its oversight responsibilities as to the Company's financial statements, reporting, internal control, and audit findings, as well as the Company's process for monitoring the compliance with certain laws and regulations. The members of the Audit Committee, together with the management and the Company's auditor, had reviewed the audited financial statements of the Group for the year ended 31 March, 2004 before recommending it to the Board for approval.

FULL DETAILS OF FINANCIAL INFORMATION

All the financial and other information of the Company required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules will be published on the Company's own website and on the website of The Stock Exchange of Hong Kong Limited in due course.

BUSINESS REVIEW AND PROSPECTS

The following sets out the financial highlights for the year ended 31 March 2004, with the comparative figures for the corresponding period in 2003.

	2004 *HK$'million*	**2003** *HK$'million*	**Change** *HK$'million*	**Change** %
Turnover	338.4	320.8	17.6	5%
Earnings before interest, taxation, depreciation and amortisation	25.6	21.9	3.7	17%
Depreciation and amortisation of tangible and intangible assets	(11.8)	(18.4)	6.6	36%
Net interest (expenses)/income	(0.4)	0.2	(0.6)	300%
Adjusted operating profit	13.4	3.7	9.7	262%
Share of results of associates and impairment losses recognised in respect of interest in associates	—	(1.5)	1.5	100%
Other non-operating items:				
- Compensation to directors	(5.2)	—	(5.2)	NA
- Impairment on property	(8.3)	—	(8.3)	NA
- Provision for restructuring	6.8	(18.3)	25.1	137%
	(6.7)	(18.3)	11.6	63%
Profit/(Loss) before taxation	6.7	(16.1)	22.8	142%
Taxation				
- Underprovision in prior years	(11.4)	(0.8)	(10.6)	1,325%
- Tax penalty	(7.0)	—	(7.0)	NA
- Tax provision in current year	(2.0)	(0.9)	(1.1)	122%
	(20.4)	(1.7)	(18.7)	1,100%
Net loss for the year	(13.7)	(17.8)	4.1	23%
Dividends	11.1	44.6	(33.5)	75%

Group Overview

The Group recorded a moderate increase in turnover during the year by approximately 5% to HK$338.4 million (2003: HK$320.8 million).

Net profit before interest, taxation, depreciation and amortisation ("EBITDA") for the year ended 31 March 2004 was HK$25.6 million, an impressive growth of 17% over last year.

Adjusted operating profit, which represented profit before the provision for current year's taxation and prior years' taxation (aggregate of HK$20.4 million), compensation payment (HK$5.2 million) and other non-operating expenses (HK$1.5 million), increased from HK$3.7 million to HK$13.4 million, up by 262%.

The increase in EBITDA for the year was mainly attributable to the increased orders from certain major customers, the continued stringent cost control measures and diligent adherence to financial budgets adopted by the Group, even though the business environment was adversely affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") epidemic and the US-Iraq war in the early part of the year under review.

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. During the year, the Company and the IRD reached a mutual settlement agreement in respect of the additional tax liabilities of the Group, without the directors admitting any liability. On 19 November 2003, additional assessments of HK$11.5 million for the years of assessment from 1997/98 to 2001/02 together with a compound tax penalty of HK$7 million were issued by the IRD to the Group. The additional taxation charge and the tax penalty will be settled, after deducting the provisional tax already paid amounting to HK$6.8 million, in twelve monthly installments starting from 31 December 2003. As at the date of this report, the Group has paid approximately HK$8.0 million towards the aforesaid tax liabilities of approximately HK$12 million (outstanding balance as at the date of this report of HK$4.0 million).

As at 31 March 2004, the Group had a bank and cash balance of HK$46.0 million with certain trade debt amounting to HK$26.2 million (a net cash balance of HK$19.8 million), while the Group's net assets value was HK$154.9 million, with a relatively healthy current ratio of 223% 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.

Financial and Operations Review

Voltage Converter, Coils and Components and Rechargeable Battery Business Segments

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

- Customers' pricing pressure;
- Change in the ordering pattern of customers;

- Increase in materials costs; and

- Economic uncertainty from the outbreak of SARS and US-Iraq war

The financial performance of voltage converter, coils and components and of the rechargeable battery segments were slightly improved in the second half of the year under review despite the tough environment in which the industries operate.

We are progressively improving our competitiveness in the field of linear-mode power supply and switch-mode power supply products in response to the changing trend in product demand in the electronics and the telecommunications industry. 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.

Expansion of our manufacturing scope to OEM (original equipment manufacturer) manufacturing of electrical or electronic home and personal appliances and increasing the sales volume of our power-tools products, chargers and related products (i.e. components, tooling and finished products) are also progressing positively.

Year 2003/2004 was a transformation year for the Group. We restructured operations, expanded services and focused on streamlining our manufacturing capabilities in order to penetrate more directly into the core EMS (electronic/electrical manufacturing services) market.

The EMS industry includes hundreds of companies in Mainland China and is highly competitive. We compete with different companies on the basis of the type of services provided as prospective customers also evaluate the completeness of our manufacturing capabilities which ideally, are intended to complement their internal operations. The global trend towards outsourcing continue to allow EMS providers to grow. While the long term outlook for the industry is good, it is dependent on world economic trends which, during the year under review, have been affected by rapidly rising raw materials prices.

Our strategy is to provide customers a "one-stop shop". We continue to strengthen our management team and to build our expertise in tooling, molding, plastic injection and coil winding. 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;

- Continuing to diversify product and services sector.

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

A Special Note On The Retirement and The Resignation of Directors

The Directors wish to express their considerable thanks to Mr Ho Che Kong, the former Chairman and Group Managing Director, and Mr Leung Wai Chuen, the former Chief Executive Officer of Pantene, and Mr Kan Yuk Chuen, the former Chief Operating Officer of Pantene for their work and dedication to the Group over a considerable number of years. On behalf of the Company's shareholders we wish to record a vote of thanks to all of them for their valuable contribution to the Group.

The Company also records the resignation of Mr Lawrence Oei and Mr William Peter Fong and thanks them for their services.

The Year Ahead

- Barring unforeseen circumstances, we expect to produce a greater volume of sales leading to higher revenues and profitability.

- We will continue to move from being an OEM of linear adapters to being a provider of electronic/electrical manufacturing services, (EMS), with the objective of widening our product range and customer base.

- To succeed in a competitive environment, your management 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.

Appreciation

On behalf of the Board of Directors, I would like to convey our thanks to all our investors, suppliers, customers and staff for their past and continuing support of our Group, and I look forward to an even better working relationship with them in the next year.

By Order of the Board
BRIAN CYRIL BEAZER
Executive Chairman

Hong Kong, 19 July 2004

The Directors of the Company as at the date of this announcement are as follows:-

Executive Directors:
Mr Brian Cyril Beazer
(Executive Chairman)
Mr Simon N Hsu
(Executive Vice Chairman)
Mr Wong Hei Pui Andy
(Chief Financial Officer)

Non-Executive Directors:
Mr Teo Ek Tor
Mr Peter F Reilly
Mr Ho Che Kong
Mr Ramon Sy Pascual

Independent Non-Executive Directors:
Dr Wong Ho Ching, Chris
Mr Ng Ching Wo

Please also refer to the published version of this announcement in The Standard.