United Pacific Industries

United Pacific Industries Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 176)
Websites: www.upi.com.hk
www.irasia.com/listco/hk/upi

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board of directors (the "Board" or "Directors") of United Pacific Industries Limited (the "Company") announces its unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016 together with the comparative figures for 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

	Notes	**Six months ended 30 June** **2016** **HK$'000** **(Unaudited)**	2015 HK$'000 (Unaudited)
Revenue	3	**53,689**	51,537
Cost of sales		**(49,807)**	(49,946)
Gross profit		**3,882**	1,591
Other income		**379**	225
Interest income		**929**	2,407
Selling and distribution costs		**(1,198)**	(1,293)
Administrative costs		**(12,676)**	(14,222)
Finance costs	4	**—**	(1,823)
Gain on dilution of interest in an associate		**—**	1,058
Share of results of an associate	9	**10,532**	8,626
Profit/(loss) before tax	5	**1,848**	(3,431)
Income tax expense	6	**(2,377)**	(1,552)
Loss for the period		**(529)**	(4,983)
Loss per share			
Basic and diluted	8	**(0.04) HK cents**	(0.43) HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016	2015
		HK$'000	HK$'000
		(Unaudited)	(Unaudited)
Loss for the period		**(529)**	(4,983)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from the translation of foreign operations		**(85)**	(10)
Exchange differences arising from the translation of interest in a foreign associate	9	**1,180**	1,125
Change in fair value on available-for-sale financial assets		**6**	(151)
Other comprehensive income for the period, net of tax		**1,101**	964
Total comprehensive income for the period, attributable to owners of the Company		**572**	(4,019)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**3,496**	3,957
Interest in an associate	9	**147,607**	152,383
Available-for-sale financial assets		**83**	77
		151,186	156,417
CURRENT ASSETS			
Inventories		**10,268**	12,599
Trade and other receivables	10	**42,120**	34,565
Cash and bank balances		**309,398**	306,669
		361,786	353,833
CURRENT LIABILITIES			
Trade and other payables	11	**36,783**	37,004
Tax payable		**11,150**	7,587
		47,933	44,591
NET CURRENT ASSETS		**313,853**	309,242
TOTAL ASSETS LESS CURRENT LIABILITIES		**465,039**	465,659
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**511**	1,703
		511	1,703
NET ASSETS		**464,528**	463,956
CAPITAL AND RESERVES			
Share capital		**133,171**	133,171
Reserves		**331,357**	330,785
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**464,528**	463,956

Notes:

1. GENERAL INFORMATION

On 5 November 2015, the Group announced to change its financial year end date from 30 September to 31 December so as to unify the financial year end date of the Company and its principal operating subsidiary which is incorporated in the People's Republic of China (the "PRC"). Accordingly, the current interim results covered a period of six months from 1 January 2016 to 30 June 2016 and the comparative figures presented for the condensed consolidated statement of profit or loss and the condensed consolidated statement of comprehensive income covered a period of six months from 1 January 2015 to 30 June 2015.

The unaudited condensed consolidated interim financial statements of the Group (the "Interim Financial Statements") are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the consolidated financial statements for the fifteen months ended 31 December 2015, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include individual HKFRSs, HKASs and Interpretations) as disclosed in note 2 to the Interim Financial Statements.

The preparation of the Interim Financial Statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The Interim Financial Statements are unaudited, but have been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The Interim Financial Statements do not include all the information and disclosures required in the consolidated financial statements for the fifteen months ended 31 December 2015, and should be read in conjunction with the Group's consolidated financial statements for the fifteen months ended 31 December 2015.

2. ADOPTION OF NEW OR REVISED HKFRSs

A number of new or revised Standards, Amendments and Interpretations are effective for the Group's financial period beginning on or after 1 January 2016. The adoption of the new and revised Standards, Amendments and Interpretations had no material effect on how the results and financial position for the current and prior accounting periods have been prepared and presented.

The Group has not early adopted the following new standards and amendments of the HKFRSs potentially relevant to the Group's Interim Financial Statements, which have been issued but not yet effective for the financial period beginning on 1 January 2016.

HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 9	Financial Instruments[1]
HKFRS 16	Leases[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning on or after the effective date of the pronouncement.

3. REVENUE AND SEGMENT INFORMATION

The Group's segment information is based on regular internal financial information reported to the Company's executive director and management for their decisions about resources allocation to the Group's business components and their review of these components' performance. For management purposes, the Group has only one reportable operating segment which is the manufacture of consumer electronics products. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Revenue represents the total invoiced value of goods supplied less discounts and returns.

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the Interim Financial Statement as follows:

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Reportable segment loss	**(2,311)**	(4,987)
Gain on dilution of interest in an associate	**—**	1,058
Share of results of an associate	**10,532**	8,626
Unallocated corporate costs	**(6,373)**	(8,128)
Profit/(loss) before tax	**1,848**	(3,431)

The unallocated corporate costs mainly comprise staff cost (including directors' remuneration), legal and professional fee, exchange differences and office rental.

Geographical information

The following provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods:

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
PRC		
Mainland China	**135**	1,550
Hong Kong (place of domicile)	**368**	254
	503	1,804
United States of America	**32,761**	36,106
United Kingdom	**11,683**	4,622
Europe	**6,212**	7,521
Others	**2,530**	1,484
	53,689	51,537

4. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Finance costs comprise:		
Interest on interest-bearing bank borrowings and bank overdrafts	**—**	7
Imputed interest on convertible bonds	**—**	1,816
	—	1,823

5. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**672**	379
Impairment loss on trade receivables, net	**213**	243
Impairment loss on inventories	**948**	115
Interest income	**(929)**	(2,407)
Cost of inventories recognised as expense	**49,807**	49,946

6. INCOME TAX EXPENSE

The income tax expense for the period comprises:

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current income tax — Hong Kong:		
Provision for the period	**—**	—
Current income tax — Mainland China:		
Provision for the period	**271**	—
Over provision in prior years	**—**	(173)
	271	(173)
Withholding tax on dividend income	**3,298**	—
Deferred tax	**(1,192)**	1,725
	2,377	1,552

No Hong Kong profits tax has been provided for the six months ended 30 June 2016 as the Group has no estimated assessable profits (six months ended 30 June 2015: nil).

PRC Enterprise Income tax has been provided on estimated assessable profits of the subsidiary operating in Mainland China at 25% (six month ended 30 June 2015: 25%).

Withholding tax is levied on profit distribution upon declaration of the undistributed earnings of an associate for the six months ended 30 June 2016 at the rate of 20% (six months ended 30 June 2015: 20%).

7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the six months ended 30 June 2016 is based on the loss attributable to owners of the Company of HK$529,000 (six months ended 30 June 2015: loss of HK$4,983,000) and the weighted average number of 1,318,279,590 (six months ended 30 June 2015: 1,148,313,453) ordinary shares.

The calculation of weighted average number of ordinary shares is as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January 2016/1 January 2015	**1,331,707,590**	1,160,871,287
Effect of share options exercised (note (i))	**—**	870,166
Treasury shares	**(13,428,000)**	(13,428,000)
Weighted average number of ordinary shares at 30 June	**1,318,279,590**	1,148,313,453
Basic and diluted loss per share (HK cents) (note (ii))	**(0.04)**	(0.43)

Notes:

(i) This is related to the share options exercised under the Company's share option scheme during the six months ended 30 June 2015.

(ii) The basic and diluted loss per share are the same for the six months ended 30 June 2016 and 2015. For the six months ended 30 June 2016, there is no potential dilutive share outstanding. For the six months ended 30 June 2015, the basic and diluted loss per share are the same as the effect of the share options outstanding and the effect of the conversion of outstanding convertible bonds were anti-dilutive.

9. INTEREST IN AN ASSOCIATE

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Movements of interest in an associate are as follows:		
At 1 January 2016/1 October 2014	**152,383**	150,234
Gain on dilution of interest in an associate (note)	**—**	1,152
Share of results of an associate	**10,532**	24,594
Dividend declared/received	**(16,488)**	(16,080)
Currency realignment	**1,180**	(7,517)
At 30 June 2016/31 December 2015	**147,607**	152,383

Note: During the fifteen months ended 31 December 2015, ordinary shares in issue of Yuji Development Corporation ("Yuji") were increased from 176,000,000 shares to 181,930,324 shares. The Group did not subscribe its proportionate share of the new ordinary shares which were issued at New Taiwan dollars 15 per share. Accordingly, the Group's equity interest in Yuji was diluted from 28.84% to 27.9%. As the Group's share of net asset value of Yuji immediately after the issuance of new shares was in excess of the Group's original share in net asset value of Yuji, a gain on dilution of interest in an associate of approximately HK$1,152,000 was recognised during the fifteen months ended 31 December 2015.

As at 30 June 2016, the Group had an interest in the following associate:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Nominal value of share capital TWD	Proportion of nominal value of share capital held by the Group
Yuji	Limited by shares	Taiwan	Taiwan	1,819,303,240	27.9%

The summarised financial information in respect of the Group's associate is set out below:

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Non-current assets	**37,522**	35,848
Current assets	**670,114**	574,056
Total assets	**707,636**	609,904
Current liabilities	**(160,157)**	(45,400)
Non-current liabilities	**(2,797)**	(2,800)
Total liabilities	**(162,954)**	(48,200)
Non-controlling interests	**(15,624)**	(15,529)
Net assets	**529,058**	546,175
Share of an associate's net assets	**147,607**	152,383
Sales	**62,299**	151,813
Profit for the period	**37,718**	87,984
Other comprehensive income	**4,229**	(26,948)
Total comprehensive income	**41,947**	61,036
Share of results of an associate (net of tax)	**10,532**	24,594

10. TRADE AND OTHER RECEIVABLES

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Trade receivables	**19,387**	31,342
Less: Impairment provisions	**(1,094)**	(881)
Trade receivables - net	**18,293**	30,461
Dividend receivable from an associate	**16,488**	—
Prepayments and other receivables	**7,339**	4,104
	42,120	34,565

At the reporting date, the aged analysis of trade receivables, based on invoice date, is as follows:

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
0 - 60 days	**17,496**	16,627
61 - 90 days	**386**	5,302
91 - 120 days	**411**	7,504
Greater than 120 days	**1,094**	1,909
	19,387	31,342

11. TRADE AND OTHER PAYABLES

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Trade payables	**16,213**	19,021
Accruals and other payables	**20,570**	17,983
	36,783	37,004

At the reporting date, the aged analysis of trade payables, based on invoice date, is as follows:

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
0 - 60 days	**11,107**	12,962
61 - 90 days	**2,407**	2,099
Greater than 90 days	**2,699**	3,960
	16,213	19,021

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded revenue from continuing operations of HK$53.7 million for the six months ended 30 June 2016 (the "period under review"), a slight increase by 4.3% when compared with HK$51.5 million for the six months ended 30 June 2015.

The Group continued to brace for a challenging environment during the period under review, incurring a loss of HK$0.5 million (six months ended 30 June 2015: loss of HK$5.0 million).

Gross profit margin improved to 7.2% as compared with 3.1% for the six months ended 30 June 2015, reflecting stringent control efforts, especially on labour costs, with more outsourcing to allow flexibility in production arrangements. Cost of materials and overheads were largely maintained at a steady level through continual production process improvements. Administrative costs for the period under review decreased to HK$12.7 million for the six months ended 30 June 2016, as a consequence of decreased legal and professional services requirements.

BUSINESS REVIEW

Operating in the highly dynamic consumer-electronics industry, which is price sensitive and demands keen competition among manufacturers, the Group has taken initiatives to diversify its businesses and market coverage in phases to improve its business prospects and earnings base.

The industry has been impacted by modest growth as well as fast-changing trends, including increased releases of new products, shorter development cycles and fickle consumer loyalty. These factors have dealt harsh blows to industry participants in the form of declining revenues and shrinking profit margins.

In response, the Group has sought to secure more orders from existing customers to drive business growth. At the same time, to stay relevant to changing consumer preferences and market trends, the Group has continued to pursue new product developments and solicit new clients. Market expansion is also an ongoing effort.

Consumer Electronics Division (the "Division")

During the period under review, baby monitors continued to be the Division's principal product, two major customers have contributed 89.1% of total sales. United States of America remained the Division's biggest market, generating 61.0% of total sales, United Kingdom came second, generating 21.8% of total sales, while Europe came third, generating 11.6% of total sales. Management believes more time and effort will have to be put in before the Division can achieve a balanced product and market mix, but is confident that the Division is on the right track to attain this goal.

Further to some new product models currently under test, the Division has also commenced printed circuit board assembly on healthcare products.

Intense price competition, the maintenance of efficiency and quality, as well as technological upgrade requirements, are some of the challenges faced by the Division along with the rest of the industry. To manage these challenges, the Division will boost its efforts in product diversification, production efficiency enhancements and in service customisation for buyers.

Material costs and overhead expenditure remained at a steady level. Costs remained a key challenge, but the Division continued to exercise strict cost control measures, including a reduced headcount assisted by effective outsourcing and shift-work arrangements as well as natural attrition.

Business Developments

The Group holds a 27.9% interest in Yuji Development Corporation ("Yuji"), an afterlife services company based in Taiwan. Yuji operates three columbarium towers and one outdoor cemetery. Its revenue was mainly generated by the sale of columbarium units and cemetery plots. During the period under review, Yuji contributed a profit of HK$10.5 million (six months ended 30 June 2015: HK$8.6 million) to the Group.

This business development represents a strategic initiative to enable the Group to achieve a more balanced earnings and geographical mix. The Group is continuously exploring other viable investment opportunities with the aim of maximising shareholders' return.

OUTLOOK

The consumer electronics industry is faced with the dual pressures of softening global demand for consumer electronics and ever-decreasing product and technology lifecycles. Companies globally are navigating through a highly competitive environment. To build a more balanced and dynamic earnings mix, strategic product diversification and innovation will be the way forward.

Indeed, product innovation has driven much of the success enjoyed by participants of the consumer electronics sector. The Group remains highly responsive to technological and product advancements. To support new product development initiatives, the Group will continue to source competitive, high-quality suppliers.

The Group will also constantly adjust its allocation of resources into areas and markets with growth potential. In continuing to implement its business development strategy, the Group will push ahead with targeted marketing and customer-focused campaigns.

Cost management is another key and ongoing initiative for the Group. To this end, the Group will continue to run a lean operating structure.

In response to these continuing challenges, the Group is relentlessly moving ahead with its business expansion, with a keen focus on product innovation, increasing market share and expanding the geographical mix, in pursuing operational excellence to enhance shareholder value.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group adopted a prudent funding and treasury policy with regard to its overall business operation. As at 30 June 2016, the Group had cash and cash equivalents of HK$309.4 million (31 December 2015: HK$306.7 million). As at 30 June 2016, as the Group had no external borrowings and a nil gearing ratio (31 December 2015: nil). Most of the bank balances were in Hong Kong dollars. With the cash and bank balances available, the Group has sufficient financial resources to finance its operations and to meet the financial obligations of its business.

The Group had net asset value of HK$464.5 million (31 December 2015: HK$464.0 million), with a liquidity ratio (ratio of current assets to current liabilities) of 754.8% (31 December 2015: 793.5%).

FOREIGN EXCHANGE EXPOSURE

Most of the Group's assets and liabilities are denominated in Hong Kong dollars, Renminbi and New Taiwan dollars. Considering the exchange rate between these currencies is relatively stable, the Group believed that the corresponding exposure to Renminbi and New Taiwan dollars exchange rate fluctuation was insignificant.

The Group does not undertake any derivative financial instruments or hedging instruments. The Group will constantly review the economic situation and its foreign currency risk profile, continue to actively monitor foreign exchange exposure to minimise the impact of any adverse currency movement.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016, the Group employed approximately 270 employees (31 December 2015: 360 employees).

The remuneration of employees is determined by overall guidelines within the relevant industries. The Group has also adopted certain bonus programs, medical insurance and other welfare and benefit programs for its various categories of employees. The remuneration policy of the Group is reviewed regularly and is in line with the performance, qualification of individual employees and prevailing market condition.

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

The Company or any of its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities during the period under review.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct governing Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they had complied with the required standards set out in the Model Code throughout the period under review.

CORPORATE GOVERNANCE CODE

The Company has adopted all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. Throughout the period under review, the Company complied with all applicable code provisions of the CG Code.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive directors, namely Ms. Hu Gin Ing (Chairman), Dr. Wong Ho Ching and Mr. Lan Yen-Po.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016 have been reviewed by the Audit Committee, who are of the opinion that these interim results comply with applicable accounting standards and legal requirements, and that adequate disclosure have been made.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the Company's website (www.upi.com.hk and www.irasia.com/listco/hk/upi) and the designated website of the Stock Exchange (www.hkexnews.hk). The interim report will be available on the websites of the Company and the Stock Exchange in due course.

By Order of the Board
United Pacific Industries Limited
Kelly Lee
Executive Director

Hong Kong, 24 August 2016

As at the date of this announcement, the Board comprises one Executive Director, namely Ms. Kelly Lee; two Non-Executive Directors, namely Dato' Choo Chuo Siong and Mr. Sun Jih-Hui; and three Independent Non-Executive Directors, namely Dr. Wong Ho Ching, Mr. Lan Yen-Po and Ms. Hu Gin Ing.