

# Report of the Directors

The Board of Directors (the “Directors”) have pleasure in presenting their report and the audited financial statements of Upbest Group Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended March 31, 2001.

## **CORPORATE REORGANISATION** ▶

The Company was incorporated in the Cayman Islands on July 28, 2000 as an exempted company with limited liability.

Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “SEHK”), the Company became the holding company of the companies now comprising the Group effective on September 21, 2000. Upon completion of the Reorganisation, 210,000,000 ordinary shares of HK\$0.01 each had been issued. On October 10, 2000, 70,000,000 ordinary shares of HK\$0.01 each were issued and allotted to the public at HK\$1 per share. Details of the corporate reorganisation are set out in the section headed “Statutory and General Information” in Appendix IV of the prospectus dated September 29, 2000 issued by the Company.

The shares of the Company were listed on the SEHK with effect from October 18, 2000.

## **PRINCIPAL ACTIVITIES** ▶

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the provision of a wide range of financial services including securities broking, margin financing, loan financing, corporate finance advisory, futures broking and asset management.

# Report of the Directors

## SEGMENTAL INFORMATION ►

The Group's turnover and contribution to profit from operating activities in Hong Kong for the year ended March 31, 2001, analysed by principal activity, were as follows:

	<b>Turnover</b> HK\$'000	<b>Contribution to profit</b> HK\$'000
Commission and brokerage income from securities broking	19,340	10,730
Commission and brokerage income from futures contracts broking	691	(169)
Margin financing interest income	18,875	14,439
Loan financing interest income	14,600	10,280
Interest income earned from financial institutions and other sources	4,281	3,910
Management and handling fee from securities broking	2,523	1,385
Commission for subscribing new shares	500	245
Corporate finance advisory fee	710	364
Placement and underwriting commission	2,333	1,354
Investment management fee	485	460
	<u>64,338</u>	<u>42,998</u>
Investment income		20,427
Other income		<u>146</u>
		<u>63,571</u>

## SUBSIDIARIES ►

Details of the Company's subsidiaries at March 31, 2001 are set out in note (13) to the financial statements.

## RESULTS AND APPROPRIATIONS ►

The results of the Group for the year ended March 31, 2001 are set out in the consolidated income statement on page 19.

## DIVIDENDS ►

The special dividends in the consolidated income statement amounting to HK\$46,000,000 were paid by certain subsidiaries to their then shareholders prior to the Group's reorganisation.

The directors have resolved to recommend the payment of a final dividend of HK\$0.1 per ordinary share in respect of the year, to the shareholders on the register of members on August 31, 2001.

# Report of the Directors

## FINANCIAL SUMMARY ►

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below. This summary is not part of the audited financial statements.

### Results

	Year ended March 31				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	<b>64,338</b>	60,527	36,868	52,917	61,617
Profit before taxation	<b>63,571</b>	45,521	18,507	36,023	39,993
Taxation	<b>(6,879)</b>	(6,339)	(2,332)	(5,955)	(3,585)
Net profit attributable to shareholders	<b>56,692</b>	39,182	16,175	30,068	36,408

	March 31				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Total assets	<b>416,158</b>	349,754	242,003	176,191	130,690
Total liabilities	<b>(301,327)</b>	(284,304)	(196,235)	(116,298)	(96,875)
Net assets	<b>114,831</b>	65,450	45,768	59,893	33,815

Notes:

The Company was incorporated in the Cayman Islands on July 28, 2000 and became the holding company of the companies comprising the Group as a result of a group reorganisation on September 21, 2000. The financial results of the Group for four years ended March 31, 1997, 1998, 1999 and 2000 were prepared on the basis of merger accounting as if the Group structure had been in existence throughout the periods presented.

## RESERVES ►

Movements during the year in the reserves of the Group and the Company are set out in note (25) to the financial statements.

The Company's reserves available for distribution represent the share premium, contributed surplus and retained profits under the Companies Law of the Cayman Islands. The share premium of the Company is available for paying dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can be distributed out of the share premium, contributed surplus and retained profits of the Company which in aggregate amounted to approximately HK\$42,400,000 as at March 31, 2001.

# Report of the Directors

## FIXED ASSETS ▶

During the year, the Group spent approximately HK\$1,100,000 on plant and equipment.

Details of these and other movements during the year in the fixed assets are set out in note (12) to the financial statements.

## BORROWINGS ▶

Bank loans, overdrafts and other borrowings repayable within one year or on demand are classified as current liabilities. A repayment analysis of bank loans and other borrowings is set out in note (21) to the financial statements. No interest was capitalised by the Group during the year.

## SHARE CAPITAL ▶

Details of movements in share capital of the Company are set out in note (24) to the financial statements.

## MAJOR CLIENTS ▶

For the year ended March 31, 2001, the Group's five largest clients accounted for in aggregate approximately 17% of the Group's turnover, of which the largest client accounted for approximately 5% of the Group's turnover.

None of the directors or any of their associates or any shareholder of the Company which to the knowledge of the directors of the Company owned more than 5% of the Company's issued share capital have an interest in the Group's five largest clients.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES ▶

During the year, other than as an agent for clients of the Company or its subsidiaries, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## DIRECTORS ▶

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

Mr. Tsang Cheuk Lau ( <i>Chairman</i> )	(Appointed on July 28, 2000)
Mr. Cheng Kai Ming, Charles	(Appointed on July 28, 2000)
Mr. Li Kwok Cheung, George	(Appointed on July 28, 2000)
Mr. Choy Ye King	(Appointed on July 28, 2000)

### Independent non-executive directors:

Mr. Wong Wai Kwong, David	(Appointed on July 28, 2000)
Dr. Fung Hung, Lewis	(Appointed on April 2, 2001)
Mr. Wong Ching Hung, Thomas	(Appointed on August 28, 2000 and resigned on April 19, 2001)

In accordance with Article 116 of the Company's Articles of Association, Mr. Choy Ye King and Mr. Wong Wai Kwong, David retire and, being eligible, will offer themselves for re-election.

The term of office of each of the independent non-executive directors lasts until his retirement by rotation as required by the Company's Articles of Association.

# Report of the Directors

## DIRECTORS' SERVICE CONTRACTS ►

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years and shall continue thereafter commencing on September 25, 2000 which may be terminated by either party giving to the other six months' prior notice in writing. The annual remuneration under the service contract for each of Mr. Tsang Cheuk Lau, Mr. Cheng Kai Ming, Charles and Mr. Choy Ye King is HK\$100,000 HK\$220,000 and HK\$100,000 respectively for the initial term of three years. The annual remuneration under the service contract for Mr. Li Kwok Cheung, George is HK\$163,600 plus a commission at the rate of 20% of all commission and fee income on securities dealings earned from clients referred by Mr. Li Kwok Cheung, George.

The annual remuneration for each of the independent non-executive directors is HK\$100,000 for the initial term of three years.

Saved as disclosed above, 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.

## DIRECTORS' INTERESTS IN SECURITIES ►

As at March 31, 2001, the interests of the directors in the securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares Corporate interest
Mr. Cheng Kai Ming, Charles (Note)	210,000,000

Note: Mr. Cheng Kai Ming, Charles is one of the beneficiaries of a trust which assets include interests in the entire issued share capital of CCAA Group Limited ("CCAA"). CCAA holds 210,000,000 shares of the Company.

Save as disclosed above, as at March 31, 2001, none of the directors and chief executive or their associates had any personal, family, corporate or other interests in equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors and chief executive, nor their respective spouses or 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 year.

# Report of the Directors

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES ►

Save as disclosed in the section "Directors' interests in securities" above, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangements to enable the directors or chief executive of the Company or their respective spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS ►

The register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance shows that as at March 31, 2001, the following shareholder was interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Number of shares	Percentage of issued shares
CCAA	210,000,000 (Note)	75%

Note: Identical to those disclosed above as "Directors' interests in securities".

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at March 31, 2001.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS ►

Details of the connected transactions for the year are set out in note (29) to the financial statements under the section heading of "Related party transactions".

The independent non-executive directors have reviewed the connected transactions and confirmed that the transactions were in the normal course of business of the Group and the agreements governing the transactions were entered into under normal commercial terms.

Save as disclosed in note (29) to the financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS ►

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

# Report of the Directors

## USE OF PROCEEDS ►

The net proceeds of the new issue, after deduction of related expenses, amounted to approximately HK\$63,600,000, have been applied as follows:

- HK\$600,000 was used to develop internet trading platform and acquire related facilities;
- HK\$2,000,000 was deposited with the Securities and Futures Commission;
- HK\$3,400,000 was used to buy a trading right in the SEHK;
- HK\$28,000,000 was lent to various clients as short term loans;
- The remaining net proceeds of the issue will continue to be used as disclosed in the Prospectus and is currently placed on short term deposits with banks.

## PRE-EMPTIVE RIGHTS ►

There are no provision for pre-emptive rights which would oblige the Company to offer new shares on pro-rata basis to existing shareholders under the Company's Memorandum and Articles of Association and the Companies Laws of the Cayman Islands.

## AUDIT COMMITTEE ►

The Company has established an audit committee according to "Guideline to set up an audit committee" compiled by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee of the Group consists of two independent non-executive Directors, namely Mr. Wong Wai Kwong, David and Dr. Lewis Hung Fung.

## CODE OF BEST PRACTICE ►

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 on the Stock Exchange of Hong Kong Limited, except that independent non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation according to the provisions of the Company's Bye-Laws.

## AUDITORS ►

A resolution to re-appoint Messrs. Chu and Chu, Certified Public Accountants, as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board  
**Tsang Cheuk Lau**  
*Chairman*

Hong Kong, July 18, 2001

17

UPBEST GROUP LIMITED  
ANNUAL REPORT 2001