

Notes to the Financial Statements

For the year ended March 31, 2001

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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.

The shares of the Company have been listed on the SEHK since October 18, 2000.

Although the current group structure resulting from the Reorganisation did not legally exist until September 21, 2000, the Directors consider that it is more appropriate and meaningful to treat the Group as a continuing entity. Accordingly the consolidated results of the Group have been prepared on the basis as if the current group structure had been in existence throughout the periods presented. All significant intra-group transactions and balances have been eliminated.

The directors consider the ultimate holding company at March 31, 2001 to be CCAA Group Limited, which is incorporated in the British Virgin Islands.

The principal activity of the Company was investment holding. 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). They have been prepared under the historical cost convention, modified with respect to the measurement of investments in securities, as explained in the respective accounting policies below. A summary of the significant accounting policies adopted by the Group is set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year on the basis described in note (1) above.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purposes, are measured at subsequent reporting date at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Revenue recognition

Commission and brokerage income, underwriting commission, management and handling fees, corporate finance advisory fees and investment management fee are recognised when the services are rendered, the amount for which can be reliably estimated and it is probable that they will be received.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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For the year ended March 31, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

Realised gains and losses on disposal of investments in securities are dealt with through the income statement on a trade-date basis when a sales contract is entered into.

Intangible assets

Trading rights, acquired prior to the documents dated September 3, 1999 issued by the SEHK and Hong Kong Futures Exchange Limited (the "HKFE") to their respective shareholders, are stated at a nominal value of HK\$1. Any acquisition thereafter are stated at cost.

Plant and equipment

Plant and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	20% – 30%
Motor vehicles	15%

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Provident fund

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from December 1, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

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3. TURNOVER

Turnover is analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Commission and brokerage income from securities broking	19,340	31,123
Commission and brokerage income from futures contract broking	691	13
Interest income from		
– margin clients	18,875	20,629
– money lending	14,600	–
– financial institutions and others	4,281	1,732
Management and handling fee from securities broking	2,523	3,752
Commission for subscribing new shares	500	–
Corporate finance advisory fees	710	1,379
Placement and underwriting commission	2,333	1,899
Investment management fee	485	–
	<u>64,338</u>	<u>60,527</u>

4. INVESTMENT INCOME

	2001 HK\$'000	2000 HK\$'000
Realised and unrealised loss on other investments	–	(97)
Unrealised gain on holding shares in Hong Kong Exchanges and Clearing Limited (“HKEC”)	17,327	5,877
Realised gain on disposal of shares in HKEC	2,924	–
Dividend income from listed investment in HKEC	176	–
	<u>20,427</u>	<u>5,780</u>

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5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

Staff costs, including directors' remuneration as set out
in note (7) below

- Provident fund contributions
- Other staff costs

Depreciation

Formation expenses written off

Auditors' remuneration

Operating lease rentals in respect of rented premises

2001 HK\$'000	2000 HK\$'000
71	–
<u>4,121</u>	<u>8,391</u>
4,192	8,391
416	384
33	5
357	122
<u>847</u>	<u>1,135</u>

6. FINANCE COSTS

Interest on bank loans and overdrafts

Interest on escrow money

2001 HK\$'000	2000 HK\$'000
<u>4,669</u>	<u>5,682</u>
<u>3,400</u>	<u>–</u>
8,069	5,682

Escrow money represents deposits paid by third parties to the Group in relation to potential investments in certain projects. Such deposits were interest-bearing at normal commercial rates.

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7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments:

Fees:

Executive directors

Independent non-executive directors

Other emoluments of executive directors:

Salaries and other benefits

Provident fund contributions

The directors' emoluments were within the following band:

Nil – HK\$1,000,000

Employees' emoluments:

The five highest paid individuals included two directors (2000: one director) of the Company, details of whose emoluments are shown above. The emoluments of the remaining three (2000: four) highest paid individuals are as follows:

Salaries and other benefits
Provident fund contributions

	2001 HK\$'000	2000 HK\$'000
Executive directors	–	–
Independent non-executive directors	100	–
	<u>100</u>	<u>–</u>
Other emoluments of executive directors:		
Salaries and other benefits	945	677
Provident fund contributions	10	–
	<u>955</u>	<u>677</u>
	<u><u>1,055</u></u>	<u><u>677</u></u>

	2001 Number of directors	2000 Number of directors
Nil – HK\$1,000,000	7	6
	<u>7</u>	<u>6</u>

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	559	2,658
Provident fund contributions	9	–
	<u>568</u>	<u>2,658</u>

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7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The remuneration of each of the aforesaid employees was within the following band:

	2001 Number of employees	2000 Number of employees
Nil – HK\$1,000,000	<u>3</u>	<u>4</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office. No directors have waived any emoluments during the year.

8. TAXATION

The charge comprises:

	2001 HK\$'000	2000 HK\$'000
Hong Kong Profits Tax		
Provision for the year	6,873	6,339
Under-provision in prior years	<u>6</u>	<u>–</u>
	<u>6,879</u>	<u>6,339</u>

Hong Kong Profits Tax was calculated at 16% (2000: 16%) on the estimated assessable profit for the year.

The Group did not have any significant unprovided deferred taxation for the year (2000: Nil).

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9. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Special dividends	46,000	20,000
Final dividend proposed of HK\$0.1 per ordinary share (2000: Nil)	28,000	–
	74,000	20,000

The special dividends of HK\$46,000,000 (2000: HK\$20,000,000) were paid (2000: proposed) by certain subsidiaries of the Group to their then shareholders prior to the Group Reorganisation.

10. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the net profit attributable to shareholders of HK\$56,692,000 (2000: HK\$39,182,000) and the weighted average number of 245,000,000 shares in issue during the year (2000: 210,000,000 shares, being the number of shares issued immediately after the Reorganisation).

There is no diluted earnings per share for the years ended March 31, 2001 and 2000 presented since the Company has no dilutive potential ordinary shares.

11. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of approximately HK\$56,692,000, a loss of HK\$416,000 has been dealt with in the financial statements of the Company.

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12. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At April 1, 2000	1,321	844	2,165
Additions	719	398	1,117
Disposal	–	(276)	(276)
	<u> </u>	<u> </u>	<u> </u>
At March 31, 2001	<u>2,040</u>	<u>966</u>	<u>3,006</u>
Depreciation			
At April 1, 2000	986	446	1,432
Provided for the year	325	91	416
Eliminated on disposal	–	(83)	(83)
	<u> </u>	<u> </u>	<u> </u>
At March 31, 2001	<u>1,311</u>	<u>454</u>	<u>1,765</u>
Net book value			
At March 31, 2001	<u>729</u>	<u>512</u>	<u>1,241</u>
At March 31, 2000	<u>335</u>	<u>398</u>	<u>733</u>

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13. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	<u>10,615</u>	<u>—</u>

Details of the Company's subsidiaries at March 31, 2001 are as follows:

Name of subsidiary	Place of incorporation	Issued and fully paid ordinary share capital	Percentage of equity interest held	Principal activities
Good Foundation Company Limited	Hong Kong	HK\$10,000	100%	Investment holding
Marco Tech Limited	British Virgin Islands	US\$2	100%	Investment holding
Upbest Assets Management Limited	Hong Kong	HK\$600,000	100%	Assets management
Upbest Bullion Company Limited	Hong Kong	HK\$5,500,000	100%	Bullion dealing
Upbest Commodities Company Limited	Hong Kong	HK\$10,000,000	100%	Futures broking
Upbest Cyber Trade Company Limited	Hong Kong	HK\$2	100%	Inactive
Upbest Finance Company Limited	Hong Kong	HK\$2	100%	Loan financing
Upbest Financial Holdings Limited	British Virgin Islands	US\$1	100%	Investment holding
Upbest Investment Company Limited	Hong Kong	HK\$20,000,000	100%	Margin financing

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13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Issued and fully paid ordinary share capital	Percentage of equity interest held	Principal activities
Upbest Securities Company Limited	Hong Kong	HK\$10,000,000	100%	Securities dealing
Upbest Strategic Company Limited	Hong Kong	HK\$5,002	100%	Investment holding

Notes:

- (i) Other than Upbest Financial Holdings Limited, all subsidiaries are held by the Company indirectly.
- (ii) All subsidiaries are private limited companies with their respective principal place of operations in Hong Kong.
- (iii) None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.
- (iv) The amounts due from and to subsidiaries are unsecured, non-interest bearing and repayable on demand.

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14. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted, non-current equity securities	1,250	1,250	–	8,530	1,250	9,780
Listed, non-current equity securities	–	–	25,081	–	25,081	–
	<u>1,250</u>	<u>1,250</u>	<u>25,081</u>	<u>8,530</u>	<u>26,331</u>	<u>9,780</u>

- (i) The Group's investment securities as at March 31, 2001 represent a 12.5% equity interest in eZ Financial Services Limited, a company which is incorporated in Hong Kong and engaged in the business of providing services in electronic securities trading.
- (ii) Other investments in securities represent shares in HKEC which are now listed on SEHK and are carried at market value.

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15. OTHER NON-CURRENT ASSETS

	2001 HK\$'000	2000 HK\$'000
Hong Kong Securities Clearing Company Limited		
– Guarantee fund deposit	116	381
– Admission fee	100	50
Statutory deposit with the SEHK	200	100
Statutory deposit with the Securities and Futures Commission	2,000	–
Statutory deposit with the HKFE	100	100
Reserve fund contribution to the SEHK Options Clearing House Limited	1,500	1,500
Reserve fund contribution to HKFE Clearing Corporation Limited	1,500	1,500
Trading rights in the SEHK and the HKFE	3,400	–
	<u>8,916</u>	<u>3,631</u>

16. DEBTORS, PREPAYMENTS AND DEPOSITS

	2001 HK\$'000	2000 HK\$'000
Amounts receivable arising from the ordinary course of business of dealing in securities and options:		
– Cash clients	11,228	40,884
– The SEHK Options Clearing House Limited	1	6
Amounts receivable arising from the ordinary course of business of trading in futures contracts:		
– Clearing house	803	433
Amount receivable arising from the ordinary course of business of provision of securities margin financing		
– Clients	93,076	168,780
Interest bearing advances	187,057	–
Other receivables	4,150	–
Deposits and prepayments	323	165
	<u>296,638</u>	<u>210,268</u>

Margin client receivables of HK\$93,076,000 (2000: HK\$168,780,000) are repayable on demand, bearing interest at market rate and secured by clients' securities listed on the SEHK with a market value of approximately HK\$193,000,000 as at March 31, 2001 (2000: HK\$358,000,000).

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16. DEBTORS, PREPAYMENTS AND DEPOSITS (Continued)

The settlement terms of cash client receivables and amounts due from clearing houses are one or two days after the trade date. The age of these balances is within 30 days.

No ageing analysis is disclosed for margin client receivables and interest bearing advances as, in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of business of share margin financing and money lending business.

17. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies in which Mr. Cheng Kai Ming, Charles has beneficial interest are as follows:

Name of related company	Terms of loan	Balance at 31/3/2001 HK\$'000	Maximum amount outstanding during the year ended 31/3/2001 HK\$'000	Balance at 31/3/2000 HK\$'000
Upbest Capital International Company Limited	Secured, repayable on demand and interest bearing	–	340	340
Town Bright Industries Limited	Unsecured, repayable on demand and non-interest bearing	–	483	483
Winker Properties Limited	Unsecured, repayable on demand and non-interest bearing	–	145	145
Upbest Properties Company Limited	Unsecured, repayable on demand and non-interest bearing	–	1,465	1,465
Brilliant Future Limited	Unsecured, repayable on demand and non-interest bearing	–	700	700
		–		3,133

Prior to the date of listing of the Company's shares on the SEHK, the amounts due were fully repaid.

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18. AMOUNT DUE FROM A DIRECTOR

Particulars of amount due from a director of the Company disclosed pursuant to section 161B of the Companies Ordinance are as follows:

Name of director	Terms of loan	Balance at	Maximum amount outstanding during the year ended	Balance at
		31/3/2001	31/3/2001	31/3/2000
		HK\$'000	HK\$'000	HK\$'000
Cheng Kai Ming, Charles	Unsecured, repayable on demand and non-interest bearing	–	14,501	9,438

Prior to the date of listing of the Company's shares on the SEHK, the amount due was fully repaid.

19. PLEDGED FIXED DEPOSITS

The amount represents fixed deposits pledged to banks for general banking facilities granted to the Group.

20. BANK BALANCES AND CASH

	2001 HK\$'000	2000 HK\$'000
Bank balances		
– General accounts	16,159	101,168
– Trust accounts	1,046	124
– Segregated accounts	2,171	373
Cash in hand	7	5
	<u>19,383</u>	<u>101,670</u>

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21. BANK BORROWINGS

	2001 HK\$'000	2000 HK\$'000
Bank loans, secured	–	12,300
Bank overdrafts, secured	67,586	–
Bank overdrafts, unsecured	–	28,870
	<u>67,586</u>	<u>41,170</u>
The maturity of the above borrowings is as follows:		
On demand or within one year	<u>67,586</u>	<u>41,170</u>

The bank overdrafts were secured by fixed deposits of the Group, of which part of the overdraft balance of HK\$67,584,782 is interest bearing at 1% per annum over the interest rate of the pledged fixed deposits. The remaining secured bank overdraft was interest bearing and the interest rate was prime rate or overnight HIBOR rate or 2% per annum over the interest rate for the pledged deposits whichever was the highest.

22. CREDITORS AND ACCRUED CHARGES

	2001 HK\$'000	2000 HK\$'000
Amounts payable arising from the ordinary course of business of dealing in securities and options:		
– Cash clients	7,433	125,487
– Clients for trading in options	5	10
– HKSCC	4,319	3,384
Amounts payable arising from the ordinary course of business of trading in futures contracts:		
– Clients	2,241	791
Amount payable arising from the ordinary course of business of provision of securities margin financing		
– Clients	4,598	89,115
Escrow money received	93,300	–
Other payable and accruals	844	165
	<u>112,740</u>	<u>218,952</u>

No ageing analysis is disclosed for escrow money received as it represents deposits paid by third parties to the Group for the purpose of potential investments in certain projects and is bearing interest at normal commercial rates.

The settlement term of cash client payables is two days after the trade date. Other payables are repayable on demand. The age of these balances is within 30 days.

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23. AMOUNTS DUE TO RELATED COMPANIES AND A DIRECTOR

The amounts due are unsecured, non-interest bearing and repayable on demand.

24. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised</i>		
On incorporation	35,000	350
Increase in authorised share capital	<u>2,965,000</u>	<u>29,650</u>
At March 31, 2001	<u>3,000,000</u>	<u>30,000</u>
<i>Issued and fully paid</i>		
On incorporation	–	–
Issue of shares upon the Group Reorganisation	210,000	2,100
Issued on public flotation	<u>70,000</u>	<u>700</u>
At March 31, 2001	<u>280,000</u>	<u>2,800</u>

On incorporation, the Company's initial authorised share capital was HK\$350,000, divided into 35,000,000 shares, of which two subscriber shares were issued at HK\$1 each and credited as fully paid for the provision of initial capital.

Pursuant to written resolutions of the sole member of the Company passed on September 15, 2000:

- (a) The authorised share capital of the Company was increased to HK\$30,000,000 by the creation of additional 2,965,000,000 shares of HK\$0.01 each.
- (b) The issue of 70,000,000 new shares of HK\$0.01 each to the public at a price of HK\$1 per share was approved, and the directors were authorised to allot and issue the new shares, in connection with the New Issue (as defined in the prospectus dated September 29, 2000).

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24. SHARE CAPITAL (Continued)

On September 21, 2000, 209,999,998 shares of HK\$0.01 each were allotted and issued as consideration for the transfer of the shares in each of Upbest Securities Company Limited, Good Foundation Company Limited, Upbest Strategic Company Limited and Upbest Assets Management Limited to Upbest Financial Holdings Limited.

On October 10, 2000, 70,000,000 shares of HK\$0.01 each were issued and allotted to the public at a price of HK\$1 per share pursuant to the prospectus issued by the Company dated September 29, 2000. The Company's shares have been listed on the SEHK since October 18, 2000.

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.

All the ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

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25. RESERVES

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits (Accumulated losses) HK\$'000	Total HK\$'000
The Group				
Arising on Group Reorganisation	–	4,915	38,753	43,668
Capital contribution	–	500	–	500
Net profit for the year	–	–	39,182	39,182
Dividend	–	–	(20,000)	(20,000)
	<u>–</u>	<u>–</u>	<u>(20,000)</u>	<u>(20,000)</u>
At March 31, 2000	–	5,415	57,935	63,350
Capital contributions	–	3,100	–	3,100
Premium on issue of shares in connection with listing	62,889	–	–	62,889
Net profit for the year	–	–	56,692	56,692
Dividends	–	–	(74,000)	(74,000)
	<u>–</u>	<u>–</u>	<u>(74,000)</u>	<u>(74,000)</u>
At March 31, 2001	<u>62,889</u>	<u>8,515</u>	<u>40,627</u>	<u>112,031</u>
The Company				
Arising on Group Reorganisation	–	8,515	–	8,515
Premium on issue of shares in connection with listing	62,301	–	–	62,301
Net loss for the period	–	–	(416)	(416)
Dividend	–	–	(28,000)	(28,000)
	<u>–</u>	<u>–</u>	<u>(28,000)</u>	<u>(28,000)</u>
At March 31, 2001	<u>62,301</u>	<u>8,515</u>	<u>(28,416)</u>	<u>42,400</u>

The contributed surplus of the Company represents the difference between the net assets of the subsidiaries at the date on which the Group Reorganisation become effective and the nominal amount of the share capital of the Company issued under the Group Reorganisation.

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26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	63,571	45,521
Interest expense	8,069	5,682
Dividend income	(176)	–
Depreciation	416	384
Loss on disposal of plant and equipment	5	–
Unrealised gain on other investments	(17,327)	(5,877)
Realised gain on disposal of other investments	(2,924)	–
Increase in other non-current assets	(5,285)	(1,776)
Increase in debtors, prepayments and deposits	(86,370)	(39,292)
Decrease in amounts due from related companies	3,133	10,006
Decrease (Increase) in amount due from a director	9,438	(6,856)
Decrease in other listed investments	–	309
(Decrease) Increase in creditors and accrued charges	(106,212)	170,739
Increase in amount due to a related company	19,361	7
Increase in amount due to a director	71,568	–
	<hr/> (42,733) <hr/>	<hr/> 178,847 <hr/>
Net cash (outflow) inflow from operating activities		

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27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Contributed surplus HK\$'000	Borrowings HK\$'000
Arising on Group Reorganisation	2,100	4,915	12,300
Increase in contributed surplus	–	500	–
At March 31, 2000	2,100	5,415	12,300
Proceeds from issue of shares	63,589	–	–
Increase in contributed surplus	–	3,100	–
Repayment of a bank loan	–	–	(12,300)
At March 31, 2001	<u>65,689</u>	<u>8,515</u>	<u>–</u>

Increase in contributed surplus represents capital contributions made by the substantial shareholder to the companies comprising the Group prior to the completion of the Reorganisation.

28. MAJOR NON-CASH TRANSACTION

On September 21, 2000, the Company issued and allotted, credited as fully paid, an aggregate of 209,999,998 shares of HK\$0.01 each in the Company at a price of HK\$1 per share as consideration for the transfer of shares as aforesaid in note (24) above.

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29. RELATED PARTY TRANSACTIONS

During the year, the following related party transactions had taken place:

Name of related party	Nature of transaction	2001 HK\$'000	2000 HK\$'000
Town Bright Industries Limited	Rental expenses (i)	849	1,142
Charles Cheng (Secretaries) Limited	Professional fee (ii) Management fee (ii)	350 7	840 12
Upbest Capital International Company Limited	Interest income (iii)	26	526
Directors and their associates	Interest income (iii)	1,034	939
UBA Investments Limited	Investment management fee (iv)	454	-
		<u>454</u>	<u>-</u>

Mr. Cheng Kai Ming, Charles, a director of the Company, has beneficial interests in Town Bright Industries Limited, Charles Cheng (Secretaries) Limited, Upbest Capital International Company Limited and UBA Investments Limited.

Notes:

- (i) Prior to the listing of the Company, the rental expenses were transacted on the basis determined by the parties concerned. After the listing of the Company, the rental expenses were transacted at the market rate.
- (ii) Professional fee and management fee were transacted at cost plus a percentage profit mark-up.
- (iii) Interest income, derived from margin financing, was charged at market rates.
- (iv) Investment management fee was charged at 1.5% of the net asset value of UBA Investments Limited.

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30. CONTINGENT LIABILITIES

The Company has issued corporate guarantee amounting to HK\$110,000,000 (2000: Nil), together with the pledged fixed deposits as stated in note (19), to a bank in respect of general banking facilities granted to one of its subsidiaries.

31. OPERATING LEASE COMMITMENTS

At March 31, 2001, the Group had commitments payable within the next twelve months under a non-cancellable operating lease in respect of rented premises as follows:

Operating lease which expires:
In the second to fifth year inclusive

2001 HK\$'000	2000 HK\$'000
<u>736</u>	<u>–</u>