# Chairman's Statement

On behalf of the board of directors (the "Board") of Upbest Group Limited (the "Company") together with its subsidiaries (collectively the "Group"), I have pleasure to present to you the annual report and the audited financial statements of the Group for the year ended March 31, 2003.

## Results

The Group recorded a net profit for the year attributable to shareholders of HK$13,123,000, a decrease of 46.63% compared with 2002 profit of HK$24,588,000. Earnings per share were HK1.2 cents (2002: HK2.2 cents).

## Dividends and distribution

The Board has resolved to recommend the payment of a final dividend of HK0.48 cents per ordinary share for the year (2002: HK2.5 cents per share before bonus issue).

Subject to the approval of shareholders at the forthcoming annual general meeting, the proposed final dividend are expected to be paid on September 22, 2003.

## Business review

The year under review was another difficult year for all businesses in Hong Kong. The outbreak of the Severe Acute Respiratory Syndrome (SARS) from March to June only added the pressure to the already depressed economy.

During the year under review, income from brokerage decreased by approximately 15%. Due to the slight 3% increase in turnover from securities margin financing and money lending, despite the continuous interest rate reduction, and the over 90% increase in corporate finance activities, the total turnover decreased merely by less than 1% when comparing with last year.

Operating profit before the provision for doubtful debts and bad debts written off for the year is HK$32 million which is even HK$2 million, or 6.6%, higher than last financial year. However, being conservative, we have made a provision for doubtful debts amounted to HK$14 million and written off bad debts amounted to HK$182,000. Therefore, the profit attributable to shareholders dropped substantially by HK$11.5 million, a nearly 47% decrease.

The decrease in securities brokerage income is in line with the decrease in turnover of the securities market during the track record period, probably on account of investors confidence due to accounting scandals and corporate governance issues in the PRC and the USA. The political uncertainties arise from the war in Iraq and terrorist attacks in other parts of the world also led to investors staying away from the securities market.

There are two sectors of business, namely corporate finance and assets management, that we have expanded substantially during the past 12 months. Turnover from corporate finance activities has been increased by over 90% and contributed approximately 13% to our operating profit.

The total assets under our assets management business was approximately HK$1.1 billion as at March 31, 2003. Our clients now included 2 listed companies and 7 private clients. However, as to fee income from some of these clients are related to the performance of their investment portfolio, the 21.7% decrease in the benchmark Hang Seng Index during the track record period had significantly affected our assets management fee income.

## Prospects

Looking forward, the recent signed Closer Economic Partnership Arrangement (CEPA) eliminates tariff on various goods made in Hong Kong. CEPA also facilities Hong Kong companies in various industries to establish wholly owned businesses in the PRC. The entry requirements of asset threshold for various industries are also substantially reduced. Under the CEPA, professionals in the Hong Kong securities industry can apply to practice in the PRC. The Hong Kong Exchange and Clearing Limited is also going to set up a representative office in Beijing. These will provide an easier foothold for us to take advantage of the business opportunities there.

It is expected that CEPA will provide vast opportunities to business enterprises to expedite Hong Kong's economic transformation. It will also provide Hong Kong services industries firms with a better access to the mainland.

The Economic Re-launch Strategy Group, headed by the Financial Secretary, has initiated a comprehensive series of programmes to promote Hong Kong internationally and revitalize our economy after the SARS attack.

We hope that both schemes can revive international investors' attention to Hong Kong securities market which will boost our corporate finance and brokerage activities.

On the other hand, the operating environment of the securities industry will be very competitive after the liberalization of commission rates on April 1, 2003. The proposal to raise the capital requirement for dealers will also add financial burden to all players in the industry. Although we do not have any problem in meeting the proposed figure, if small market players are being forced out of business, the market turnover will be significantly affected. This may cause a decrease in our brokerage and margin financing income.

## Financial review

### LIQUIDITY AND FINANCIAL RESOURCES

As at March 31, 2003, the Group had cash and bank balances of approximately HK$71 million (2002: HK$82 million) of which approximately HK$62 million (2002: HK$61 million) were pledged to bank for facilities granted to the Group. The Company has provided corporate guarantees to the extent of HK$153 million (2002: HK$113 million) to secure the general banking facilities granted to subsidiaries.

As at March 31, 2003, the Group had available aggregate banking facilities of approximately HK$263 million (2002: HK$84 million) of which approximately HK$96 million (2002: HK$29 million) was not utilized.

### CAPITAL STRUCTURE

There was no change to the Group's capital structure for the year ended March 31, 2003.

### GEARING RATIO

As at March 31, 2003, the amount of total bank borrowings was approximately HK$167 million (2002: HK$55 million), being equal to approximately 118% (2002: 41%) of the net assets of approximately HK$141 million (2002: HK$135 million).

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The Group continues to keep a good relationship with our banker. The bank has increased the banking facilities of the Group by approximately HK$180 million. In view of the outstanding performance in the money lending business, we have increased utilization of the banking facilities to meet the need of the rapidly growing money lending business.

## Credit Control

The Group has been practicing tight credit control policy. A credit committee composed of three Directors is responsible for overseeing the granting of credit facilities. Daily operation of money lending will be guided by the stringent procedures as prescribed by the internal control manual.



During the years, five of the debtors did not complied with our stringent credit control policy. In light of the declining value of the collateral and to be conservative, we have made a provision for doubtful debt of HK$14 million, which is less than 5% of the total outstanding debts. The Group has taken appropriate steps to recover these debts.

### FOREIGN CURRENCY FLUCTUATION

The Board believes that the foreign exchange risk is minimal as the Group mainly uses Hong Kong dollars to carry out its business transactions.

### EMPLOYMENT

Employees' remuneration are fixed and determined with reference to the market remuneration.

### SHARE OPTIONS

The Company does not have share option scheme.

## Appreciation

The Board would like to take this opportunity to express our appreciation to the continued dedication of the management, staff and to all shareholders, customers and banker for their support of our Group.

The Company regretfully accepted the resignation of Dr. Fung Hung, Lewis as Independent Non-executive Director of the Company on April 9, 2003. The Board sincerely thanks Dr. Fung for his past contributions to the Company.

The Board welcomes Mr. Pang Cheung Hing, Alex and believes his joining will be beneficial to the Company.

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

Hong Kong, July 4, 2003