

The board of directors (the “Board”) of Upbest Group Limited (the “Company”) is pleased to present the interim report and the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | For the six months ended 30th September | |
|---|------|--|---------------------------------|
| | Note | 2003 (unaudited) HK\$'000 | 2002 (unaudited) HK\$'000 |
| Turnover | 2 | 32,253 | 28,477 |
| Net investment income (losses) | 3 | 2,585 | (1,719) |
| Other income | | 65 | 10 |
| Provision for doubtful debts | | (8,128) | – |
| Administrative and other operating expenses | | (8,916) | (8,756) |
| Profit from operations | 4 | 17,859 | 18,012 |
| Finance costs | 5 | (2,028) | (1,441) |
| Profit before taxation | | 15,831 | 16,571 |
| Taxation | 6 | (3,290) | (3,200) |
| Profit attributable to shareholders | | 12,541 | 13,371 |
| Interim dividend | | Nil cent | Nil cent |
| Basic earnings per share | 7 | 1.1 cents | 1.2 cents |

CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | 30th September 2003 (unaudited) HK\$'000 | 31st March 2003 (audited) HK\$'000 |
|-----------------------------------|------|--|--|
| Assets and Liabilities | | | |
| Non-current assets | | | |
| Plant and equipment | | 823 | 1,035 |
| Intangible assets | | 2,380 | 2,720 |
| Investments in securities | 8 | – | 3,490 |
| Other non-current assets | | 5,328 | 5,328 |
| | | 8,531 | 12,573 |
| Current assets | | | |
| Investments in securities | 8 | – | 51 |
| Debtors, prepayments and deposits | 9 | 361,527 | 435,855 |
| Tax recoverable | | 608 | 987 |
| Pledged fixed deposits with bank | | 62,655 | 62,386 |
| Other bank balances and cash | 10 | 11,789 | 8,935 |
| | | 436,579 | 508,214 |
| Current liabilities | | | |
| Creditors and accrued charges | 11 | 47,254 | 136,072 |
| Amounts due to related companies | | 36,494 | 38,710 |
| Amounts due to a director | 12 | 38,103 | 37,079 |
| Bank borrowings | | 172,658 | 167,372 |
| Tax payable | | 2,094 | 212 |
| | | 296,603 | 379,445 |
| Net current assets | | 139,976 | 128,769 |
| Net assets | | 148,507 | 141,342 |
| Equity | | | |
| Capital and reserves | | | |
| Share capital | | 11,200 | 11,200 |
| Reserves | | 137,307 | 124,766 |
| Proposed final dividend | | – | 5,376 |
| | | 148,507 | 141,342 |



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | For the six months ended 30th September | |
|--|--|---------------------------------|
| | 2003 (unaudited) HK\$'000 | 2002 (unaudited) HK\$'000 |
| Net cash outflow from operating activities | (8,070) | (57,322) |
| Net cash inflow from investing activities | 5,821 | 12,482 |
| Net cash outflow before financing activities | (2,249) | (44,840) |
| Net cash outflow from financing activities | — | — |
| Decrease in cash and cash equivalents | (2,249) | (44,840) |
| Cash and cash equivalents as at the beginning of the period | (159,649) | (35,737) |
| Cash and cash equivalents as at the end of the period | (161,898) | (80,577) |
| Analysis of cash and cash equivalents | | |
| Bank balances and cash | 10,760 | 11,783 |
| Bank borrowings | (172,658) | (92,360) |
| | (161,898) | (80,577) |



CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

| | Share Capital (unaudited) HK\$'000 | Share Premium (unaudited) HK\$'000 | Contributed Surplus (unaudited) HK\$'000 | Retained Profits (unaudited) HK\$'000 | Proposed Final Dividend (unaudited) HK\$'000 | Total (unaudited) HK\$'000 |
|---------------------------|--|--|---|---|---|----------------------------------|
| At 1st April 2003 | 11,200 | 54,489 | 8,515 | 61,762 | 5,376 | 141,342 |
| Net profit for the period | - | - | - | 12,541 | - | 12,541 |
| Dividend approved | - | - | - | - | (5,376) | (5,376) |
| At 30th September 2003 | 11,200 | 54,489 | 8,515 | 74,303 | - | 148,507 |

| | Share Capital (unaudited) HK\$'000 | Share Premium (unaudited) HK\$'000 | Contributed Surplus (unaudited) HK\$'000 | Retained Profits (unaudited) HK\$'000 | Proposed Final Dividend (unaudited) HK\$'000 | Total (unaudited) HK\$'000 |
|---------------------------|--|--|---|---|---|----------------------------------|
| At 1st April 2002 | 2,800 | 62,889 | 8,515 | 54,015 | 7,000 | 135,219 |
| Net profit for the period | - | - | - | 13,371 | - | 13,371 |
| Dividend approved | - | - | - | - | (7,000) | (7,000) |
| Bonus issue of shares | 8,400 | (8,400) | - | - | - | - |
| At 30th September 2002 | 11,200 | 54,489 | 8,515 | 67,386 | - | 141,590 |



NOTES TO CONDENSED INTERIM REPORTS

1. Basis of preparation and accounting policies

The condensed unaudited consolidated interim accounts (“the Interim Accounts”) are prepared in accordance with the requirements of Hong Kong Statement of Standard Accounting Practice (the “SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (the “HKSA”), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These Interim Accounts should be read in conjunction with the audited annual accounts for the year ended 31st March 2003.

The accounting policies and methods of computation used in the preparation of these Interim Accounts are consistent with those used in the audited reports for the year ended 31st March 2003, except that the Group has changed certain of its accounting policies following its adoption of SSAP 12 (revised) “Income Taxes” issued by HKSA which is effective for accounting periods commencing after 1st January 2003.

The changes to the Group’s accounting policies and the effect of adopting this new policy are set out below:

SSAP 12 (revised): Income Taxes

Income taxes for the period comprise current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous year. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts.

The adoption of this accounting standard has had no significant impact on the Group’s results for the prior accounting period.

2. Turnover and segment Information

An analysis of the turnover and contribution to profit before taxation by principal activities for the period is as follows:

| | For the six months ended 30th September | | | |
|--|---|---|-------------------------------------|---|
| | 2003 | | 2002 | |
| | Turnover (unaudited) HK\$'000 | Contribution to profit before taxation (unaudited) HK\$'000 | Turnover (unaudited) HK\$'000 | Contribution to profit before taxation (unaudited) HK\$'000 |
| Securities brokerage and futures brokerage | 7,425 | 2,167 | 5,404 | 1,406 |
| Interest income from securities margin financing & money lending | 18,805 | 15,903 | 17,224 | 13,054 |
| Corporate finance advisory, placing & underwriting | 4,880 | 3,068 | 3,859 | 2,679 |
| Assets management | 1,143 | 171 | 1,990 | 1,141 |
| | <u>32,253</u> | <u>21,309</u> | <u>28,477</u> | <u>18,280</u> |
| Provision for doubtful debts | | (8,128) | | - |
| Net investment income (losses) | | 2,585 | | (1,719) |
| Other income | | 65 | | 10 |
| Profit before taxation | | 15,831 | | 16,571 |
| Taxation | | (3,290) | | (3,200) |
| Profit attributable to shareholders | | <u>12,541</u> | | <u>13,371</u> |

The Group has no operating activities outside Hong Kong and accordingly a geographical analysis of such activities has not been presented.

3. Net investment income (losses)

| | For the six months ended 30th September | |
|---|--|---------------------------------|
| | 2003 (unaudited) HK\$'000 | 2002 (unaudited) HK\$'000 |
| Unrealised losses on holding shares in Hong Kong Exchanges and Clearing Limited ("HKEEx") | - | (2,142) |
| Realized gain (loss) on disposal of shares in HKEEx | 2,405 | (187) |
| Dividend income from listed investments in HKEEx | 180 | 610 |
| | <u>2,585</u> | <u>(1,719)</u> |



4. Profit from operations

Profit from operations has been arrived at after charging the following:

| | For the six months ended 30th September | |
|---|--|---------------------------------|
| | 2003 (unaudited) HK\$'000 | 2002 (unaudited) HK\$'000 |
| Mandatory Provident Fund Contribution | 91 | 85 |
| Staff costs, including directors' remuneration | 2,879 | 2,232 |
| Depreciation | 251 | 299 |
| Amortisation of intangible assets | 340 | 170 |
| Provision for doubtful debts | 8,128 | – |
| Operating lease rentals in respect of rented premises | 414 | 368 |

5. Finance costs

| | For the six months ended 30th September | |
|---------------------------------------|--|---------------------------------|
| | 2003 (unaudited) HK\$'000 | 2002 (unaudited) HK\$'000 |
| Interest on bank loans and overdrafts | 2,028 | 1,441 |

6. Taxation

| | For the six months ended 30th September | |
|-----------------------|--|---------------------------------|
| | 2003 (unaudited) HK\$'000 | 2002 (unaudited) HK\$'000 |
| Hong Kong profits tax | 3,290 | 3,200 |

Hong Kong profits tax is calculated at 17.5% (2002 : 16%) on the estimated assessable profits for the period.

Deferred tax has not been provided for the Group and the Company as there were no significant temporary differences giving rise to deferred tax liabilities as at 30th September 2003 (2002: nil).



7. Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the six months ended 30th September 2003 of approximately HK\$12,541,000 (2002: HK\$13,371,000) and the weighted average number of 1,120,000,000 shares (2002: 1,120,000,000 shares) in issue during the year.

There is no diluted earnings per share for the periods ended 30th September 2003 and 2002 presented since the Company has no dilutive potential ordinary shares.

8. Investment in securities

| | 30th September 2003 (unaudited) HK\$'000 | 31st March 2003 (audited) HK\$'000 |
|---|---|--|
| Other Investments | | |
| Equity securities listed in Hong Kong, at market value, classified as: | | |
| Non-current assets | – | 3,490 |
| Current assets | – | 51 |
| | – | 3,541 |

9. Debtors, prepayments and deposits

No ageing analysis is disclosed for debtors, prepayment and deposits as, in the opinion of the Board, the ageing analysis does not give additional value in view of the nature of business of securities margin financing and money lending business.

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.

10. Other bank balances and cash

| | 30th September 2003 (unaudited) HK\$'000 | 31st March 2003 (audited) HK\$'000 |
|-----------------------|---|--|
| Bank balances | | |
| – General accounts | 10,756 | 7,719 |
| – Trust accounts | 591 | 670 |
| – Segregated accounts | 438 | 542 |
| Cash in hand | 4 | 4 |
| | 11,789 | 8,935 |



11. Creditors and accrued charges

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 the balance at 30th September 2003 is interest-free.

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.

12. Amounts due to a director

The amount due to a director is unsecured, non-interest bearing and repayable on demand.

13. Related party transactions

During the period, the Group entered into transactions with Town Bright Industries Limited (“Town Bright”) and UBA Investments Limited (“UBA”). In the opinion of the Board, the following transactions arose in the ordinary course of the Group’s business:

| | For the six months ended 30th September | |
|---|--|---------------------------------|
| | 2003 (unaudited) HK\$'000 | 2002 (unaudited) HK\$'000 |
| Rental expenses and building management fee to Town Bright (Note (i)) | 368 | 368 |
| Investment management fee from UBA (Note (ii)) | 709 | 752 |

Mr. Cheng Kai Ming, Charles, a director of the Company, has beneficial interests in UBA and Town Bright.

In additional, Mr. Li Kwok Cheung, George, an executive director of the Company, is also an executive director of UBA.

Notes:

- (i) The rental expenses and building management fee were transacted at the market rate.
- (ii) Investment management fee was charged at 1.5% per annum of the net asset value of UBA.



INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the six months ended 30th September 2003 (2002 : nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With the global and local economy remained uncertain, the six months under review continued to be challenging to the Group. The sluggish economy of Hong Kong was further impacted by the outbreaks of the Severe Acute Respiratory Syndrome (SARS) and the war in Iraq. Hong Kong had experienced the highest unemployment rate of 8.7% and an underemployment rate of 4% since 1997 for the period from May to July.

Despite the sluggish economy, the Group managed to maintain a stable income out from its four main core business. Turnover for the six months ended 30th September 2003 was approximately HK\$32 million representing an increase of over 13% from the corresponding period last year.

The Group has continued to expand the corporate finance advisory, placing and underwriting business. During the six months under review, its turnover accounted for approximately 15% of the Group's turnover as compared with 14% in the corresponding period last year.

Financing Activities

For the six months under review, interest income from securities margin financing and money lending business, and contribution to profit before taxation was increased by approximately 9% and 22% respectively when compared with the corresponding period last year.

Financing activities remained to be the core business of the Group, which accounted for approximately 58% of the Group's turnover and contributed nearly 75% of its profit.

Securities Brokerage

The Group's turnover from securities brokerage was increased by approximately 37% compared with the corresponding period last year. Despite the impact from the abolishment of the minimum brokerage from April 2003, the Group was able to maintain a stable contribution from this sector of business.



Asset Management

The Group was the investment manager of two companies listed on the main board of the Stock Exchange of Hong Kong Limited and five other private institutional clients. The total asset value under our management exceeded HK\$930 million. The sluggish investment sentiment and economy were the major contributing factors for the discouraging performance of the Group's investment securities. As a result, the turnover and profit contributed from such activities were decreased by approximately 43% and 85% respectively compared with the corresponding period last year.

Corporate Finance Advisory, Placing and Underwriting


Despite the impact of the sluggish economy in Hong Kong and the outbreak of SARS during the reporting period, the performance of the Group's corporate finance advisory, placing and underwriting business was rather encouraging. During the six months under review, corporate finance activities contributed over 15% of the Group's turnover representing an increase of approximately 26% compared with the corresponding period last year.

This sector contributed approximately 14% of the profit representing an increase of nearly 15% compared with the corresponding period last year.

FUTURE PROSPECTS

In recent months, there have been signs of recovery of the Hong Kong economy, strong evidence indicating that there are inflows of funds into the Hong Kong stock market as well as strong rebound in tourism after the disappearance of SARS in July 2003. As a result, the Hang Seng Index surged over 30 % to an 18-month high of 12,250 on 21st October 2003. The total turnover of stock trading reached HK\$30 billion in September 2003, the highest in the three years. The weakening United States dollar and upward pressure on the Hong Kong dollar have forced interest rates lower, which made Hong Kong assets such as real estates representing good value to foreign investors. Many investors believed that deflation was abating and companies would benefit from the improving economy.

The Group believes that the signing of the CEPA between the Mainland and Hong Kong will further enhance and broaden the content of the free-trade deal which would have positive impacts on the Hong Kong economy. The Group is confident of the future economy of Hong Kong as the continuous improvement of unemployment rate from 8.7% to 8.3% and underemployment rate from 4% to 3.6%.



To further improve services to clients, the Group would continue maintaining as an one-stop financial service provider. To minimize the impact from the liberalization of commission rates after 1st April 2003, the Group will continuously diversify its scopes of business from traditional stock broking business by further expanding its other business such as assets management and corporate finance.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th September 2003, the Group had cash and bank balances of approximately HK\$74 million (31st March 2003: HK\$71 million) of which approximately HK\$63 million (31st March 2003: HK\$62 million) were pledged to bank for facilities granted to the Group. The Company has provided corporate guarantees to a bank to the extent of HK\$153 million (31st March 2003: HK\$153 million) for securing general banking facilities granted to subsidiaries.

As at 30th September 2003, the Group had available aggregate banking facilities of approximately HK\$263 million (31st March 2003: HK\$263 million) of which approximately HK\$91 million (31st March 2003: HK\$96 million) was not utilized.

Gearing Ratio


As at 30th September 2003, the amount of total bank borrowings was approximately HK\$173 million (31st March 2003: HK\$167 million), being equal to approximately 116% (31st March 2003: 118%) of the net assets of approximately HK\$149 million (31st March 2003: HK\$141 million).

CAPITAL STRUCTURE

There was no change to the Group's capital structure for the six months ended 30th September 2003.

CREDIT CONTROL

During the period under review, three of our debtors were not able to meet their commitment to repay upon demand. These three margin clients had pledged their shares to secure the debts, however, those pledged shares had been suspended for more than half a year. In light of the liquidity of the collateral and to be conservative, the Group has made a provision for doubtful debts of HK\$8.1 million representing less than 5% of the outstanding debts. The Group has taken and will continue to take appropriate steps to recover these debts.



After taking the above mentioned into account, we are still well in excess of the minimum requirements in accordance with the Financial Resources Rules.

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 OPTION

The Group does not have share option scheme.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September 2003, the interests and short positions of each director, chief executive or their associate in the securities, underlying shares and debenture of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:-

| Name of directors | Number of ordinary shares held as corporate interests |
|--------------------------------|--|
| Cheng Kai Ming, Charles (note) | 840,000,000 |

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 840,000,000 shares of the Company.

At no time during the period was the Company, its subsidiaries or its associated companies a party to any arrangements to enable the directors or executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition in shares or debentures of the Company or its associated corporations.

Save as disclosed above, as at 30th September 2003, none of the Directors and chief executive or their associates, nor were they taken to or deemed to have under such provisions of the SFO, any interest or short positions in the shares, underlying shares or debentures of the Company or any associated corporation or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO.



SUBSTANTIAL SHAREHOLDERS

As at 30th September 2003, the following shareholder held an interest of 5% or more in the issued share capital of the Company which is required to be recorded under section 336 of the SFO:

| <u>Name of Shareholder</u> | <u>Number of shares held</u> | <u>Percentage of issued shares</u> |
|----------------------------|------------------------------|------------------------------------|
| CCAA | 840,000,000 | 75% |

Save as disclosed above, as at 30th September 2003, the Company was not notified by any persons who had an interest of 5% or more in the issued share capital of the Company which is required to be recorded under section 336 of the SFO.

AUDIT COMMITTEE

The Company has established an audit committee according to "A Guide for the Formation of an Audit Committee" published 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 Mr. Pang Cheung Hing, Alex.

CODE OF BEST PRACTICE

Save and except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company, none of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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

During the six months ended 30th September 2003, there was no repurchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

By order of the Board
Tsang Cheuk Lau
Chairman

Hong Kong, 13th November 2003