

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, 2004.

Results

The Group recorded a net profit for the year attributable to shareholders of HK\$38,144,000, an increase of 191% compared with 2003 profit of HK\$13,123,000. Earnings per share were HK3.4 cents (2003: HK1.2 cents).

Dividends and distribution

The Board has resolved to recommend the payment of a final dividend of HK1 cent (2003: HK0.48 cent) per ordinary share for the year.

Subject to the approval of shareholders at the forthcoming annual general meeting, the proposed final dividend are expected to be paid on September 30, 2004.

Closure of Registers of Members

The registers of members of the Company will be closed from August 16, 2004 to August 30, 2004, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Standard Registrars Limited, at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on August 13, 2004.

Business review

The Group achieved a net profit of HK\$38,144,000 for the year ended March 31, 2004. When comparing with 2003's HK\$13,123,000, this represented an increase of 191%. During the financial year, the Group implemented further of its continuing cost control policies which had successfully reduced administrative and operating expenses by HK\$1.7 million comparing with previous year. This in essence represents a crucial improvement in terms of revenue generation and cost control.

As reported in our interim report ended September 30, 2003, the Group reported a net profit of approximately HK\$12.5 million for the six months ended September 30, 2003. The first half of 2003 was no doubt a challenging time to Hong Kong's economy due to the outbreak of the severe acute respiratory syndrome ("SARS") and the armed conflict happened in the Middle East.

Fortunately, the Group's businesses shared in benefits generated by the implementation of various favourable policies such as Closer Economic Partnership Arrangement ("CEPA"), individual travel scheme, etc designed to produce such effects. These policies has boosted the retail and hospitality industries and restored market confidence which push up local economy. The market showed a "V" shape recovery in the fourth quarter of 2003. Correspondingly, the Hang Seng Index surged over 40% to 12,687.61 as at March 2004 as compared to the same period in 2003. The average daily turnover of the Stock Exchange of Hong Kong Limited ("Stock Exchange") reach nearly HK\$17 billion in March 2004, showing a substantial increase by 226% when comparing with corresponding period last year. This was in line with the performance of the Group's margin financing and securities brokerage of an increase for 183% and 42% respectively.

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Benefiting from various favourable policies implemented by the Chinese Central Government such as CEPA and the Pan-Pearl River Delta Agreement, the Group's turnover for the year ended March 31, 2004 achieved a substantial improvement of 46% when comparing with the same period last year.

The global investment markets were depressed by the burst of technology bubble in 2000 and the 9-11 terrorist attacks in 2001. The sluggish economy of Hong Kong was further impacted by the outbreak of SARS and the local political uncertainties in 2003. In response, the management adopted tight cost control policy during the difficult time. In addition, we have further strengthened our market position through diversifying our scopes of business from the traditional stock broking to a one stop financial services provider, especially in securities margin financing and corporate finance.

FINANCING

Securities margin financing and money lending business remain the core business of the Group which contributed over 50% of the Group's turnover. The active IPO exercise had created strong demand for the margin financing service. Turnover and profit for the second half of 2003 had therefore increased by HK\$8.2 million and HK\$10 million respectively.

SECURITIES BROKERAGE

The decline in Hong Kong's composite consumer price index had narrowed to -2.1% in March 2004. Investors predicted that Hong Kong would soon walk away from deflation with signs of restoration. The total turnover of Stock Exchange for the year ended December 31, 2003 amounting to HK\$2.5 trillion, representing a 59% increase as compare with the corresponding period last year, investors therefore expected a better prospect of share appreciation in value.

This sector contributed an operating profit of over HK\$9 million to the Group for the year under review. This represented a significant improvement which exceed 183% comparing with the preceding year. This improvement was largely because of the restoration of market confidence which had enhanced consumer purchasing power and the tight cost control policy adopted by the Group to minimize the impact from the abolishment of the minimum brokerage commission from 2003. Furthermore, active IPO application activities since the fourth quarter of 2003 and the increase in the average trading volume were other major factors behind the improved result.

CORPORATE FINANCE

Turnover and profit contributed from corporate finance increase by approximately 127% and 196 % respectively. This improvement was mainly due to fund raising activity such as placement rather than corporate advisory service provided.

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ASSET MANAGEMENT

The Group was the investment manager of two companies listed on the main board of the Stock Exchange under Chapter 21 (Investment Companies) of the Rules Governing the Listing of Securities and five other institutional clients. The total asset value under our management exceeded HK\$969 million.

Prospect

With the well established legislation and financial system, Hong Kong has been one of the major fund raising platform for the PRC enterprises intending to look for foreign investment. Looking ahead, we believe that the Group will benefit from the signing of Pan-Pearl River Delta Agreement and CEPA, as this common market covering the nine southwestern provinces and two SARs (Hong Kong and Macau) will channel a bio-lateral flow of business between China and aboard. Being a one-stop financial service provider, it is expected that our performance will be enhanced by taking advantage of this changing economy.

On the other hand, the subsequent cooling measures of China's credit policies and the imminent election in Hong Kong in September 2004 will overshadow the horizon of the Group. We understand perfectly the importance of risk management to our Group, and therefore we had set up risk management committee recently comprising three directors for immediate react to any possible uncertainty and unknown that may arise in the future.

The adoption of tight cost control, improvement in internal control and advance risk management will provide a solid cornerstone for future development. We believe that our Group's competitiveness will be enhanced.

Financial review

LIQUIDITY AND FINANCIAL RESOURCES

As at March 31, 2004, the Group had cash and bank balances of approximately HK\$91 million (2003: HK\$71 million) of which approximately HK\$63 million (2003: HK\$62 million) were pledged to bank for facilities granted to the Group. The Company has provided corporate guarantees to the extent of HK\$173 million (2003: HK\$153 million) to secure the general banking facilities granted to subsidiaries.

As at March 31, 2004, the Group had available aggregate banking facilities of approximately HK\$283 million (2003: HK\$263 million) of which approximately HK\$127 million (2003: HK\$96 million) was not utilised.

CAPITAL STRUCTURE

There was no change to the Group's capital structure for the year ended March 31, 2004.

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GEARING RATIO

As at March 31, 2004, the amount of total bank borrowings was approximately HK\$156 million (2003: HK\$167 million), being equal to approximately 90% (2003: 118%) of the net assets of approximately HK\$174 million (2003: HK\$141 million).

The Group continues to keep a good relationship with our banker. The bank has increased the banking facilities of the Group by approximately HK\$20 million.

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 year, four of the debtors did not comply 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 approximately 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 Option

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.

On behalf of the Board

Tsang Cheuk Lau

Chairman

Hong Kong, July 19, 2004