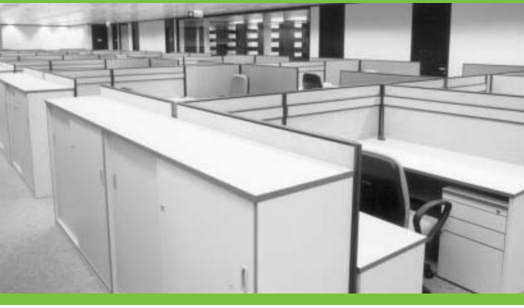
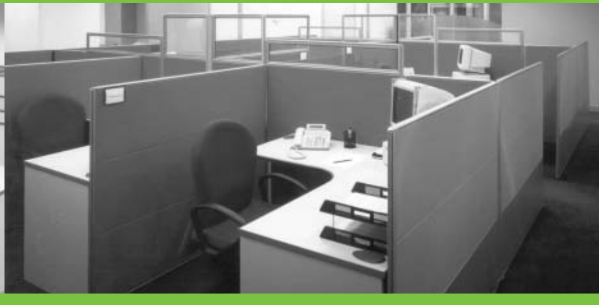
ULTRA GROUP HOLDINGS LIMITED

歐美集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

2003 Third Quarterly Report





CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Ultra Group Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The Company was successfully listed on GEM of the Stock Exchange on 20th January, 2004.

- The turnover of the Company during the nine months ended 31st December, 2003 amounted to approximately HK$68.7 million, representing a decrease of approximately 16.8% as compared to the same period last year.

- The net profit attributable to shareholders during the nine months ended 31st December, 2003 amounted to approximately HK$1.6 million, representing a decrease of approximately 84.7% as compared to the same period last year.

- Earnings per share of the Company was approximately HK$0.4 cents for the nine months ended 31st December, 2003.

UNAUDITED COMBINED PROFIT AND LOSS ACCOUNT
For the three months and nine months ended 31st December, 2003

The board of directors (the "Board" or the "Directors") of Ultra Group Holdings Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 31st December, 2003, together with the unaudited comparative figures for the corresponding periods in 2002 as follows:

		Three Months ended 31st December,		Nine Months Ended 31st December,	
		2003	2002	**2003**	2002
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	2	**22,421**	26,601	**68,669**	82,560
Cost of sales		**(12,073)**	(12,768)	**(37,705)**	(39,069)
Gross profit		**10,348**	13,833	**30,964**	43,491
Other revenue		**216**	52	**558**	531
Selling and distribution costs		**(3,669)**	(4,462)	**(10,628)**	(12,643)
Administrative and other operating expenses		**(6,225)**	(7,469)	**(19,607)**	(20,014)
Profit from operations		**670**	1,954	**1,287**	11,365
Finance costs		**(13)**	(80)	**(78)**	(354)
Profit before taxation		**657**	1,874	**1,209**	11,011
Taxation	3	**—**	(211)	**401**	(477)
Profit attributable to shareholders		**657**	1,663	**1,610**	10,534
Dividends	4	**—**	—	**—**	—
Basic earnings per share (cents)	5	**0.16**	0.41	**0.40**	2.60

NOTES TO COMBINED PROFIT AND LOSS ACCOUNTS

1. Company reorganisation and basis of preparation

The Company was formed pursuant to a group reorganisation on 9th December, 2003 (the "Reorganisation") to rationalize the structure of the Group in preparation for the listing of the Company's shares (the "Shares") on the GEM in January 2004. Further details of the Reorganisation are set out in the Prospectus of the Company dated 31st December, 2003. The shares have been listed on the GEM since 20th January, 2004.

The unaudited quarterly results have been prepared on the basis of merger accounting as if the current group structure had been in existence throughout the periods under review or since their respective dates of incorporation, whichever is a shorter period.

All material intra-group transactions and balances have been eliminated on combination.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention and in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules of the Stock Exchange. The accounting policies adopted are consistent with those adopted in preparation of the Company's combined financial statements for the year ended 31st March, 2003 as set out in the accountants' report in the prospectus of the Company dated 31st December, 2003.

2. Turnover

The Group is principally engaged in manufacturing and sales of office furniture to customers. Turnover represents invoiced value of goods sold, net of value-added tax, and after allowance for goods returned and trade discounts.

The Group's operations are located in Hong Kong, the PRC and other Asian countries. No activity analysis is provided as substantially all the Group's turnover and contribution to profit from operations were derived from the sales of office furniture.

The following table sets out the turnover breakdown of the Group by geographical region for three months and nine months ended 31st December, 2003.

	Unaudited Three months ended 31st December,		Unaudited Nine months ended 31st December,	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Hong Kong	8,415	16,411	25,044	40,339
The PRC	11,940	9,478	38,638	40,110
Overseas	2,066	712	4,987	2,111
Total	22,421	26,601	68,669	82,560

3. Taxation

Taxation in the combined profit and loss account represents:

	Unaudited Three months ended 31st December,		Unaudited Nine months ended 31st December,	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong profits tax				
— current year	—	—	—	266
— over-provision in previous years	—	—	(401)	—
PRC enterprise income tax	—	211	—	211
	—	211	(401)	477

No provision for profits tax in the Cayman Islands or British Virgin Islands has been made as the Group had no income assessable for profit tax for the periods.

Hong Kong profits tax has been provided at the rate of 17.5%, 16%, 17.5% and 16% on the estimated assessable profits less allowable losses brought forward of the individual companies within the Group arising in Hong Kong for the periods respectively.

Pursuant to the relevant laws and regulations in the PRC, Zhaoqing MFY, a subsidiary of the Company operating in Zhaoqing, PRC is subject to enterprise income tax rate at 24% on its taxable profit in accordance with 中國外商投資企業和外國企業所得稅法. However, it is exempted from enterprise income tax for two years starting from the first year of profitable operation in 2000 after off-setting prior year tax losses, followed by a 50% reduction for the next three years. Zhaoqing Ultra Furniture, a wholly-owned subsidiary established in Zhaoqing, PRC is subject to enterprise income tax at a rate of 24% in accordance with 中國外商投資企業和外國企業所得稅法. However, it is exempted from enterprise income tax for two years starting from the first year of profitable operation after off-setting prior year tax losses, followed by a 50% reduction for the next three years.

No provision for deferred taxation has been made in the combined financial statements as the effect of temporary differences is not material to the Group.

4. Dividends

The Directors do not recommend the payment of a dividend for the nine months ended 31st December, 2003. (2003: Nil)

5. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit to shareholders during the periods and on the assumption that 405,000,000 shares were deemed to have been issued, comprising 20,000,000 shares in issue as at 31st December, 2003 and 385,000,000 shares to be issued pursuant to the capitalisation issue, as described more fully in the section headed "Further Information about the Company" in Appendix IV in the prospectus of the Company dated 31st December, 2003.

No diluted earnings per share have been presented as the Company did not have any diluted potential ordinary shares during the periods.

6. Reserve and Capital

	Share capital	Exchange fluctuation reserve	(Accumulated losses)/ retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st April, 2002	—	(131)	(1,008)	(1,139)
Proceeds from issue of shares	98	—	—	98
Surplus arising from change of exchange rate	—	52	—	52
Profit for the period	—	—	10,534	10,534
At 31st December, 2002	98	(79)	9,526	9,545
At 1st April, 2003	98	(48)	6,882	6,932
Deficit arising from change of exchange rate	—	(9)	—	(9)
Profit for the period	—	—	1,610	1,610
At 31st December, 2003	98	(57)	8,492	8,533

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's business was adversely affected by the outbreak of the severe acute respiratory syndrome ("SARS") in the PRC and Hong Kong during the nine months ended 31st December, 2003. This resulted in the suspension or cancellation of projects by customers. Notwithstanding the economies in the PRC and Hong Kong have been recovering gradually since August 2003, the office furniture business takes relatively a longer period to resume. The Group's sales orders on hand have been gradually picking up since December 2003.

As the Group was not yet fully recovered from the SARS impact in the third quarter ended 31st December, 2003, it resulted in a lower revenue and net profit as compared to the previous corresponding year. The Group's turnover for the nine months ended 31st December, 2003 was approximately HK$68.7 million, represented a decrease of 16.8% as compared to the turnover of approximately HK$82.6 million for the nine months ended 31st December, 2002.

Gross profit margin of the Group for the nine months ended 31st December, 2003 was approximately 45.1%. The decrease in gross profit margin, as compared to the nine months ended 31st December, 2002 of approximately 52.7%, was mainly attributable to an increase in sales discounts granted to customers and higher cost of sales incurred. The lower production and sales volume resulted in a relatively higher percentage of manufacturing overheads being absorbed.

The selling and distribution costs were approximately HK$10.6 million for the nine months ended 31st December, 2003. The lower costs incurred by approximately 15.9% as compared to the same period in 2002 was mainly attributable to the reduction in headcount in the sales and relevant support departments in Hong Kong since April 2002.

The lower administrative expenses to approximately HK$19.6 million for the nine months ended 31st December, 2003 was resulted from better cost control exercised by management during this period. The cost was decreased by approximately 2.0% as compared to the nine months ended 31st December, 2002.

Overall, the Group recorded a net profit attributable to shareholders of approximately HK$1.6 million for the nine months ended 31st December, 2003. The decrease in the Group's net profit margin was mainly due to the exceptional sluggish markets resulted from SARS effects as compared to the net profit of approximately HK$10.5 million for the nine months ended 31st December, 2002. The Group is under the progress of recovery and continuously striving for opportunities and improvements in order to obtain a higher market share in the office furniture industry.

Business Review

During the nine months ended December 2003, the Group continued to engage in the provision of total office furnishing solutions. The Group designs, manufactures and sells a wide range of office furniture, including panels, desks, cabinets and chairs. The Group also provided some value-added services such as budget planning, furniture design and layout planning, project management, site project co-ordination, relocation services and after-sales support to customers at no charge or at a minimal fee.

Considering the great potential of the PRC market, the Group continues to shift its focus to expand the PRC distribution network. The turnover attributed to the PRC market was increased to 56.3% of the Group's turnover for the nine months ended 31st December, 2003 as compared to 48.6% of the same period in last year. On the other hand, turnover attributed to the Hong Kong market has dropped from 48.9% in the same period of last year to 36.5% this year.

In addition, continuous expansion of dealership network is considered the right move in the Asia Pacific markets in order to achieve a leading position in the industry. To date, the Group has overseas distribution arrangements in India, the Philippines, Singapore, Taiwan and Thailand in Asia Pacific region. Turnover attributed to the overseas market was increased to 7.2% of the Group's turnover for the nine months ended 31st December, 2003 from 2.5% of the same period in last year.

Outlook

In view of the prosperity of the Asia Pacific region, many US and European companies are looking for investment opportunities in the Asia Pacific region, in particular the PRC. China's accession to the WTO is also the catalyst for these investors. These investors may set up new offices that will in turn lead to higher demand for office furniture.

The Group is committed to provide more innovative, high-quality office furniture and comprehensive range of value-added services, and also persistently pursue market research, product development and quality assurance to enable our customers to have a good working environment.

Facing the fierce competition, the Directors believe that the Group needs to leverage on its competitive advantages in order to compete with its competitors. As the Group's competitive advantages lie upon its strong Research & Development and extensive distribution network, the Group's future strategies will be building upon these competitive advantages by developing, manufacturing and distributing our products through our innovative design and extensive distribution network.

Nevertheless, the Board is mindful that the Hong Kong market is not expected to have much improvement in the coming years in light of the slow recovery of the Hong Kong economy. Competition in the office furniture industry will remain keen and we expect the profit margin may further be squeezed. The Directors believe that customers will become more and more price conscious and also their requirements towards quality and services will be more stringent than ever. To improve price competitiveness without compromising the quality, the Group continues to adopt effective measures in supply chain management and to widen the raw material source.

OTHER INFORMATIONS

1. Interests and Short Positions of Directors and Chief Executives in shares, underlying shares and debentures

As at 31st December, 2003, the interests and short positions of the Directors and the chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

Interests in the shares of the Company

Name of Director	**Capacity**	**No. of shares**	Notes	**Percentage of shareholding**
CHO Yuen Yi, Wendy	Interest of controlled corporations	199,057,500 (Long position)	1, 3 & 5	36.86%
CHO Chun Man	Interest of controlled corporations	199,057,500 (Long position)	2, 4 & 5	36.86%

Notes:

1. These shares are held as to 22,882,500 shares by Huge Mars International Limited and 176,175,000 shares by Excel Formation Limited.

2. These shares are held as to 22,882,500 shares by Formation Wealth Limited and 176,175,000 shares by Excel Formation Limited.

3. Huge Mars International Limited is wholly owned by CHO Yuen Yi, Wendy.

4. Formation Wealth Limited is wholly owned by CHO Chun Man.

5. Excel Formation Limited is owned as to 50% by CHO Yuen Yi, Wendy and 50% by CHO Chun Man. Each of CHO Yuen Yi, Wendy and CHO Chun Man is deemed interested in all the shares of the Company held by Excel Formation Limited under the SFO.

Save as disclosed above, none of the Directors or the chief executives had any interests or short positions in the shares and underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules as at 31st December, 2003.

2. Interests and Short Positions of Shareholders in Shares and Underlying Shares

As at 31st December, 2003, the interests and short positions of shareholders (other than the Directors and chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Capacity	No. of shares	Notes	Percentage of shareholding
Excel Formation Limited	Beneficial owner	176,175,000	1	32.63%
Gold Master Business Limited	Beneficial owner	81,000,000	2	15.00%
CHAN Pak Hung	Interest of a controlled corporation	81,000,000	2	15.00%
CHAN Pat Leung	Interest of a controlled corporation	81,000,000	2	15.00%

Notes:

1. Relevant shares have been included in the interests of CHO Chun Man and CHO Yuen Yi, Wendy as disclosed under the heading of Interests and Short Positions of Directors and Chief Executives in shares, underlying shares and debentures.

2. Gold Master Business Limited is owned as to 50% by CHAN Pak Hung and 50% by CHAN Pat Leung. Each of CHAN Pak Hung and CHAN Pat Leung is deemed interested in all the shares of the Company held by Gold Master Business Limited under the SFO.

Save as disclosed above, as at 31st December, 2003, the Company had not been notified of any shareholders' interests or short position, being 5% or more of the issued share capital of the Company, other than those of the Directors and chief executives of the Company.

3. Share Option Scheme

The then shareholders of the Company had on 9th December, 2003 conditionally approved the principal terms of a share option scheme. The principal purpose of the share option scheme is to enable the Company to grant share options to eligible persons as incentives or rewards for their contributions to the Group.

As at 31st December, 2003, no option had been granted or agreed to be granted under the Share Option Scheme.

4. Competing Interests

None of the Directors, management shareholders or their respective associates (as defined in GEM Listing Rules), had any interests in any business which compete or may compete with the Company or any other conflicts of interest which any such person may have with the Company.

5. Sponsor's Interests

As at 31st December, 2003, neither Deloitte & Touche Corporate Finance Ltd ("DTCF") nor its directors, employees or associates as defined in the GEM Listing Rules had any interest in the securities of the Company or right to subscribe for or to nominate person to subscribe for securities of the Company.

Pursuant to a sponsor's agreement dated 19th January, 2004 which was entered between the Company and DTCF, DTCF has been appointed as the sponsor to the Company as required under the GEM Listing Rules at a fee for the period commencing from 20th January, 2004 up to 31st March, 2006 or until the agreement is terminated upon the terms and conditions set out therein.

6. Audit Committee

The Company had established an audit committee on 9th December, 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. 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 consists of two members, namely Mr. Siu Siu Ling, Robert, and Mr. Kong Tze Wing, both being independent non-executive Directors. Mr. Kong Tze Wing is the chairman of the Group's audit committee.

The Group's unaudited quarterly results for the nine months ended 31st December, 2003 had been reviewed by the audit committee.

7. Purchase, Sale or Redemption of Shares

The Company's shares were listed on GEM of the Stock Exchange on 20th January, 2004. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the nine months ended 31st December, 2003.

8. Board practices and procedures

The company had complied with the board practices and procedures as set out in Rules 5.28 to 5.29 of the GEM Listing Rules for the period under review.

By order of the Board
Cho Yuen Yi, Wendy
Chairman

Hong Kong, 12th February, 2004