



ULTRA GROUP HOLDINGS LIMITED

歐美集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)



2004

Annual 年
Report 報

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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 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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Cho Yuen Yi, Wendy
Mr. Cho Chun Man
Ms. Wong Ching Ngor

Independent Non-executive Directors

Mr. Siu Siu Ling, Robert
Mr. Kong Tze Wing

QUALIFIED ACCOUNTANT

Ms. Wong Ching Ngor, AHKSA, FCCA

COMPANY SECRETARY

Ms. Wong Ching Ngor, AHKSA, FCCA

AUDIT COMMITTEE

Mr. Siu Siu Ling, Robert
Mr. Kong Tze Wing

COMPLIANCE OFFICER

Ms. Wong Ching Ngor, AHKSA, FCCA

AUTHORISED REPRESENTATIVES

Ms. Cho Yuen Yi, Wendy
Mr. Cho Chun Man

AUDITORS

RSM Nelson Wheeler

LEGAL ADVISOR

Chan and Cheng Solicitors & Notaries

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

3rd Floor Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Hang Seng Bank Limited

WEBSITE

www.ultrafurniture.net

GEM STOCK CODE

8203

CHAIRMAN'S STATEMENT

The outbreak of severe acute respiratory syndrome ("SARS") was an obstacle for the business development of the Group throughout the financial year ended 31 March 2004. The Group has unavoidably suffered from the market downturn under the harsh economic conditions and achieved a less than expected performance in its first year result since the Company was listed on GEM of the Stock Exchange on 20 January 2004. Notwithstanding the adverse financial results in the year, the Group has successfully explored new markets by spreading the number of dealerships, and continuously enhanced staff quality and department structure so as to be able to cope with the expansion whenever the business environment becomes favourable.

BUSINESS REVIEW

The Group's turnover for the year ended 31 March 2004 was approximately HK\$91.9 million, which represented a decrease of 22.5% as compared to the turnover of approximately HK\$118.7 million for the year ended 31 March 2003.

The financial year ended 31 March 2004 was difficult for the office furniture industry; the Group could not be isolated from the economic outcome given the devastating outbreak of SARS in People's Republic of China ("PRC") and Hong Kong had deterred business negotiations, especially with customers whose decision makers are based overseas. Even though the market atmosphere had been recovering in the later part of the year, projects ran slowly due to the worry of the return of SARS.

During the year under review, the higher raw material costs, transportation costs and absorption of overhead costs led to an increase in the Group's cost of sales. The rise in major raw material costs particularly in the last quarter for the year ended 31 March 2004 has further cut down the Group's gross profit margin. As a result, the Group experienced an unprecedented setback in the business and performance for the year under review and was significantly worse than the previous year.

In view of the recovery trend in economic conditions and the potential growth in the PRC market, the Group has confidence to achieve a better performance in the coming year.

OUTLOOK

Facing one of the worst years, the Group initiated a thorough review of business strategy and operations. The Group has decided, besides the expansion of the direct sales teams to our multinational companies, the Group will put more focus on expanding the coverage to local PRC companies, especially government authorities, and to speed up the dealership business, so as to diversify regional business risk and to capture the rising demand from both the PRC and overseas markets, as a result of the continuous economic growth in the PRC and worldwide economic recovery.

Direct Sales

Riding on the booming economy, the Group has captured the opportunities in the PRC market which paves our way to achieve another milestone. In order to succeed in an increasingly competitive environment, the Group has expanded the sales teams and project management teams in all branches and to promote Ultra Group's motto to not only sell products of the best quality, but also offer ideas and services to meet customers' needs. The Group also has enlarged the corporate service team with several expatriate staff in Beijing, Shanghai and Hong Kong offices to serve the top management of our multinational corporate clients in order to strengthen their confidence and loyalty to the Group. On top of the staff force enhancement, the Group is also striving to build up the brand name in the region through promotional campaigns.

CHAIRMAN'S STATEMENT

Dealership Business

During the SARS period, the business activities in the region came to a virtual halt for almost half a year. The Group's management team realised the need of the market diversification, and therefore speeded up the progress of dealership arrangements in the second half of the year under review. The Group has expanded its PRC dealership team both in Beijing and Shanghai offices to widen the dealership network in the northern and eastern China. During this period, five more dealers have been appointed to make a total of eight dealers in the PRC. The Group expects ten more will be appointed by end of coming year in other major cities to achieve wider geographical coverage in the PRC.

Capitalising the economic recovery worldwide, especially in United States, Ultra Group has confirmed several dealers in key commercial countries, including United States, United Kingdom and Australia. The Directors believe that this is good progress for the export business and target to have five more overseas dealers in Asia by end of the coming year.

The Group expects the stringent selection criteria and the close relationship built with the dealers will allow dealers to start their contribution in the second half year of the coming year.

New Products

With an eye on the promising growth in the demand for medium to high-end office furniture, the Group continues to commit its resources on the development of high quality products by improving the production facilities and upgrading the quality of the research and development team. The Group will have a product launch in the second quarter of the coming year to catch the peak sales season in the second half of the year.

Besides the self-developed products, the Group will also widen its product range by making OEM and distribution arrangement with some branded office furniture products. The Group has confirmed an OEM and distribution arrangement with a New Zealand manufacturer of a desking system which has won the Gold award of the Best NeoCon Award at NeoCon World's Trade Fair in the United States. The Group expected to fully localise the production of these products in the mid coming year. Similar arrangements are under negotiation with other overseas furniture manufacturers.

Cost Control

In an effort to reduce costs, the Group's procurement and logistic team will strive to negotiate better prices with the key raw material suppliers and logistic services providers. The Group's newly set up procurement team was also assigned to focus on the task of sourcing better quality raw materials and trading products with lower cost from new vendors. Management will monitor the moving trends of raw material prices to ensure prompt adoption of corresponding measures. In addition, despite the reasonable expansion in sales and project management teams, management will still impose tight control on the headcounts of all other departments.

CHAIRMAN'S STATEMENT

CHALLENGES AHEAD

Looking ahead, the robust economic growth in Mainland China and Hong Kong, coupled with the Mainland China and Hong Kong Closer Economic Partnership Arrangement ("CEPA") and the major forthcoming events such as the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai, will definitely present us with immense business opportunities in the years to come. Also, the economic recovery worldwide drives the rising demand in good quality office furniture in all these countries. Notwithstanding the expected opportunities, these opportunities also bring challenges to the Group. However, we have always paid heed to the vigorous competition in our line of trade, and we have confidence to meet future challenge by taking advantage of the new opportunities lying ahead.

Notwithstanding that the Group has incurred a net loss during the year under review, the concrete and clear business strategy, and a promising prospect of economic growth in this region, I have every confidence that Ultra Group will be able to ride over this period of difficulty and prove itself to be a strong and committed enterprise.

APPRECIATION

On behalf of the Board, I would like to express our sincere appreciation to our staff for their diligence, and the shareholders, customers, suppliers, and bankers for their continued support. We will strive to grow our business to maintain a leading position in the office furniture industry.

Cho Yuen Yi, Wendy
Chairman

Hong Kong, 23 June 2004

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2004 was approximately HK\$91.9 million, which represented a decrease of 22.5% as compared to the turnover of approximately HK\$118.7 million for the year ended 31 March 2003. The Directors attribute the main reason for such decrease to the outbreak of SARS during the financial year, which resulted in the suspension or cancellation of projects by customers.

The turnover derived from Hong Kong, the PRC and overseas accounted for approximately 37.4%, 55.5% and 7.1% respectively for the year ended 31 March 2004, as compared to approximately 47.6%, 48.5% and 3.9% for the year ended 31 March 2003. A relatively lower percentage in the Hong Kong market and higher percentage in the PRC market in respect of total turnover was consistent with the Group's strategy in focusing on the PRC market.

The raw material costs in the manufacturing of office furniture were greatly increased, in particular, the price soar of steel, building materials and petroleum in the last quarter of the financial year ended 31 March 2004 attributed to a drastic rise in the cost of sales. The recent enforcement of the PRC government in the transportation capacity also gave rise to higher inland transportation costs in the PRC. The Group was under pressure to grant a higher discount rate in selling price to customers in order to be more competitive in the market. All the above factors, together with the impact of a relatively higher percentage of manufacturing overheads being absorbed as a result of the lower volume of turnover, worsened the gross profit margin for the year ended 31 March 2004. Besides, the varied product mix with higher proportion of low margin items sold during this year also resulted in an overall decrease in gross profit.

For the year ended 31 March 2004, the total operating expenses were increased by approximately 2.2% which was mainly due to the overall increase in the retirement benefits scheme contributions being included under staff costs, and legal and professional fees. The higher legal and professional fees were mainly attributable to the costs incurred by professional parties in performing the additional compliance work required for a listed company. The Group will continuously review the costs structure and the possibility of streamlining to gain better efficiency and profitability.

The Group recorded a net loss attributable to shareholders of approximately HK\$8.6 million for the year ended 31 March 2004. The net loss was mainly due to lower turnover and gross profit margin resulted from the sluggish office furniture market not yet recovered from the outbreak of SARS. Since the operating expenses were relatively fixed, the lower proportion in turnover and gross profit margin led to the result of net loss attributable to shareholders for the year ended 31 March 2004.

Liquidity and Financial Resources

As at 31 March 2004, the Group had bank and cash balances which amounted to approximately HK\$17.2 million (2003: HK\$8.7 million) and short term bank loans and overdrafts which amounted to approximately HK\$7.3 million (2003: HK\$1.8 million). These borrowings are denominated in Hong Kong dollars, repayable within one year and interest-bearing at prevailing market rates.

The long term liabilities represented the bank loans repayable in two to five years, interest-bearing at prevailing market rates and denominated in Hong Kong dollars amounted to HK\$0.15 million (2003: HK\$0.6 million).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 March 2004, the Group has been granted banking facilities totaling HK\$11.5 million (2003: HK\$3.2 million) of which HK\$6.5 million (2003: HK\$2.4 million) were utilised and were secured by pledge of fixed deposits and corporate guarantee provided by the Company.

Gearing Ratio

The Group's gearing ratio, defined as the ratio between total liabilities over total assets, was 0.75 (2003: 0.88).

Capital Structure

The shares of the Company were listed on GEM of the Stock Exchange on 20 January 2004. There has been no change in the capital structure of the Company since the Company's listing on that date. Up to the year ended 31 March 2004, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders as at 31 March 2004 was approximately HK\$13 million (2003: HK\$6.9 million)

Foreign Exchange Exposure

The income and expenditure of the Group are mainly denominated in Hong Kong dollars and Renminbi. In view of the stability of the exchange rates of Renminbi, the Directors do not consider that the Group is significantly exposed to foreign exchange risk. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

Charge on Group Assets

Certain of the Group's assets are pledged to banks as security for general banking facilities granted. As at 31 March 2004, the pledged assets of the Group are bank deposits amounted to HK\$5 million (2003: HK\$1 million).

Human Resources

As at 31 March 2004, the Group employed approximately 560 employees in the PRC and approximately 65 staff in Hong Kong. The Group continues to employ, promote and reward its staff based upon their performance and experience. The Group also consistently adopts a policy of human resources enrichment, and provides training programme to employees. In addition to their basic salaries, employees also enjoy other fringe benefits such as provident fund. Management will streamline the business to closely monitor the headcounts while it will also put emphasis on the staff quality.

The total staff costs, including Directors' emoluments, amounted to approximately HK\$23.2 million for the year under review.

Contingent Liabilities

As at 31 March 2004, the Group did not have any material contingent liabilities.

COMPARISON OF BUSINESS PROGRESS AND USE OF PROCEEDS

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following is a comparison of actual business progress for the period from 16 December 2003 to 31 March 2004 ("Review Period") and the business objectives for the same period as set out in the prospectus of the Company dated 31 December 2003 ("Prospectus").

| Business objective for the Review Period as set out in the Prospectus | Actual business progress in the Review Period |
|--|--|
|--|--|

Strengthening of marketing and promotional activities and brand name recognition

- | | |
|---|---|
| <ul style="list-style-type: none"> - advertise & promote the Group's image via advertising in professional magazines and sponsor activities in Hong Kong & the PRC - Introduce the new corporate service department to the target customers by mass marketing | <ul style="list-style-type: none"> - To align with the Group's new product launch schedule and development of dealership business, the Group has postponed the marketing campaign to the second quarter of the year ended 31 March 2005. - The Group has expanded its corporate services team with several expatriate staff in Beijing, Shanghai and Hong Kong offices to serve mainly multinational companies. |
|---|---|

Expansion of sales and distribution network in the PRC

- | | |
|---|---|
| <ul style="list-style-type: none"> - Expand the sales force of the Shanghai sales office and provide training to the sales team - Negotiate new dealership agreements with existing PRC dealers to commit annual sales turnover | <ul style="list-style-type: none"> - Three new sales teams have been formed in the Shanghai office to increase the coverage of local companies and government authorities. - In order to increase the quality and the professionalism of the sales teams and the project management teams, a training team has been formed in each branch to provide regular training to them. - Progress of PRC dealership arrangement was faster than the initial plan. The Group has appointed five new dealers to make a total of eight dealers in the PRC. The Group expects these dealers to have contribution to the Group's dealership business in the second half year. |
|---|---|

COMPARISON OF BUSINESS PROGRESS AND USE OF PROCEEDS

Business objective for the Review Period as set out in the Prospectus

Expansion of sales and distribution network in the overseas markets

- Appoint dealers in Malaysia, Singapore & Thailand. Travel to these cities to arrange marketing events and print marketing materials for them

Actual business progress in the Review Period

- The Group has also achieved great progress in overseas dealership. Dealers in Singapore and Thailand have been appointed, and dealers in Vietnam, Malaysia, United Kingdom, United States, the Middle East and Australia have been confirmed and it is expected that agreements will be signed in July 2004.

Enhancement of the Group's existing products and the launch of new products

- Design new wall system
- Study the feasibility of developing new chair design

- In accordance to the market needs, the Group has rescheduled the wall system development to the later future.

- The Group has developed several new chairs and veneer desking system. Also, the Group is negotiating the dealership arrangement to sell chairs of several reputable foreign brands.

COMPARISON OF BUSINESS PROGRESS AND USE OF PROCEEDS

USE OF PROCEEDS FROM THE GROUP'S INITIAL PUBLIC OFFERING ("IPO")

The net proceeds from the Public Offer, after deduction of expenses payable by the Company, were approximately HK\$13.85 million. The net proceeds were applied in the following areas:

| | As budgeted in the Prospectus for the period up to 31 March 2004 <i>HK\$'000</i> | Actual amount utilised up to 31 March 2004 <i>HK\$'000</i> | <i>Notes</i> |
|--|--|--|--------------|
| Strengthening of marketing and promotional activities and brand name recognition | 600 | 266 | 1 |
| Expansion of sales and distribution network in the PRC and overseas market | 880 | 167 | 2 |
| Enhancement of the Group's existing products and the launch of new products | 600 | 202 | 3 |
| Total | <u>2,080</u> | <u>635</u> | |

Notes:

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds were applied in accordance with the actual development of the market.

1. Certain promotional activities were postponed due to unfavorable market condition, therefore proceeds applied in this area is less than expected.
2. In accordance with the changes in market strategy by putting more focus on expanding our coverage to local PRC companies, especially government authorities and more emphasis on PRC dealership, the Group has expanded the sales and dealership teams with mainly PRC staff, which made the actual increase in staff cost lower than expected.
3. In accordance to the market needs, the Group has rescheduled the wall system development to a future date, which lowered the actual product development cost during the Review Period.
4. The remaining balance of net proceeds approximately HK\$0.85 million reserved as general working capital of the Group has been utilised of approximately HK\$0.45 million during the Review Period.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Ms. Cho Yuen Yi, Wendy, aged 35, is one of the founders and the Chairman of the Group. Ms. Cho is the sister of Mr. Cho Chun Man. Ms. Cho graduated from New York University in the United States and holds a bachelor degree of Arts in Economics and East Asian Studies. She has over 10 years of experience in office furniture industry, specialising in sales and marketing and business development in the Asia Pacific region. Ms. Cho is responsible for the overall corporate direction, strategic vision, key operation decision and guiding the Group in pursuit of its corporate business objectives. She is also responsible for the Group's business development and corporate communication strategies. Ms. Cho was accredited as one of the Innovative Entrepreneurs of the Year in 1996 by DSCI (國際傑人會港澳總會及中小型企業聯合會), one of the Young Industrialists of Hong Kong 2003 by Federation of Hong Kong Industries (香港工業總會), and Young Achiever of the Year for Women of Influence Awards 2003 by the American Chamber of Commerce in Hong Kong and International Women's Forum Hong Kong.

Mr. Cho Chun Man, aged 37, is one of the founders of the Group. Mr. Cho is responsible for the overall management of the Group. He graduated from University of California, Los Angeles, United States and holds a bachelor degree of Arts in Economics. He has over 10 years experience in office furniture industry, specialising in business operations and product development.

Ms. Wong Ching Ngor, aged 37, joined the Group in June 2003 and is the Chief Financial Officer and company secretary of the Group. Ms. Wong is an associate member of the Hong Kong Society of Accountants, a fellow member of the Association of Chartered Certified Accountants, and a Certified Public Accountant. She graduated from Hong Kong Polytechnic University with a professional diploma in Accountancy. Ms. Wong has over 14 years of experience in audit, accounting and finance with a strong background in manufacturing and trading field. She has worked as the audit manager in one of the largest international accounting firms in Hong Kong. She has also been a finance manager/financial controller in various multinational corporations and listed companies to oversee the finance functions in Hong Kong and the PRC.

Independent Non-executive Directors

Mr. Siu Siu Ling, Robert, aged 52, joined the Group in December 2002 and is a sole practitioner of the firm Messrs. Robert Siu & Co., Solicitors and an independent non-executive director of Incutech Investments Limited, a company listed on the Main Board of the Stock Exchange. Mr. Siu holds a bachelor degree in laws and a postgraduate certificate in laws. He has been a solicitor since 1992 and has been admitted as solicitor of England and Wales since 1993. His practice is mainly in the field of commercial and corporate finance.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Kong Tze Wing, aged 52, joined the Group in December 2002 and is a fellow member of the Association of Chartered Certified Accountants since 1985 and became a fellow member of Hong Kong Society of Accountants in 1995. He is also a board member and chairman of China Liaison Committee of Hong Kong Association of Accounting Technicians as well as the chairman of the Institute of Financial Accountants in Hong Kong. Mr. Kong has been a Certified Public Accountant since 1981. Mr. Kong holds a first bachelor degree in Accounting and a second bachelor degree in Business Administration. He is a sole practitioner of the firm Messrs. James T.W. Kong & Co., Certified Public Accountants. Mr. Kong is an active participant in community services and is currently an elected District Council member. Mr. Kong was awarded the medal of honour in July 2002 by Hong Kong SAR Government.

Senior Management

Ms. Leung Wai Yin, aged 39, is the Chief Operation Officer of the Group and is responsible for the formulation of corporate policies and the overall management of all of the Group's branches. Ms. Leung holds a bachelor degree in Applied Economics & Computer Science from the University of Manitoba in Canada, and a master degree in Economics from the University of Hong Kong. She has over 12 years of experience in the area of finance & management. Prior to joining the Group, she worked in a telecom company in Hong Kong for four years in the area of accounting, internal audit and strategic planning and has eight years of China experience in merger and acquisition, direct investment and project management gained from a global real estate consulting firm and a reputable developer in both Hong Kong and the PRC.

Mr. Lam Yuen Shun, aged 42, is the head of sales department of the Hong Kong branch. He is responsible for the business development and strategic planning in Hong Kong market. Mr. Lam has worked for various office furniture companies in Hong Kong and has over 18 years of sales experiences in the office furniture market. Mr. Lam worked for the Group from 1993 to 1996 and rejoined the Group in June 1999. By virtue of such experience, he has a good understanding of the competitive environment facing the Group.

Mr. Lui Wing Sang, aged 43, is the head of sales department of the Beijing branch. Prior to joining the Group in August 2002, Mr. Lui has worked for a number of multi-national companies with exposure to different industries, and at senior management levels as general sales manager, general manager and directors. Mr. Lui holds a master degree in Business Administration from the University of New England and has over 10 years experience in customer service, sales and marketing.

Mr. Gu Guo Guang, aged 31, is the head of sales department of the Shanghai branch. Mr. Gu has over 10 years sales and marketing experience in the office furniture business and has a good understanding of the Shanghai market. Mr. Gu joined the Group in April 1998 and in-charge of our Shanghai sales team to develop our Shanghai market and eastern China markets.

Mr. Tam Yiu Fai, aged 48, is the head of the Dealership department. He is responsible for all the overseas business and PRC dealership business of the Group. Mr. Tam holds a bachelor degree in Business Administration from the Chinese University of Hong Kong, and has over 15 years experience in export sales, marketing and management.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Ng Kit Hang, aged 38, is the Chief Production Officer of the Group and is responsible for overseeing the day-to-day operations of the production plant. Mr. Ng possesses over 12 years of operations experience in the office furniture industry, including project management, production, quality control and warehouse management. Mr. Ng graduated from the University of East Asia in Macau with a bachelor degree in Business Administration.

Mr. Leung Kai Chuen, aged 35, is the senior operation manager of the Group. He is responsible for overseeing the implementation of policy and the management of operation team of all branches in the Group. Mr. Leung holds a bachelor degree in Business Administration from the Chinese University of Hong Kong. He has been working in the shipping and manufacturing industries since his graduation and has over 10 years experience in sales, marketing and operation.

Mr. Li Wei, aged 34, is the plant manager of the factory operated by Zhaoqing Ultra Furniture Company Limited. He is primarily responsible for factory management and government relations. Mr. Li holds a diploma in Business Management from Guangxi Economic College. He has over 13 years of experience in managing manufacturing plants.

REPORT OF THE DIRECTORS

The directors of the Company ("Directors") submit their report together with the audited financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 13 to the financial statements.

An analysis of the Group's performance for the year by geographical segments is set out in note 25 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 23.

The Directors do not recommend the payment of a final dividend in respect of the current year.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 28 to 29.

DONATIONS

The Group has not made charitable and other donations during the year.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Particulars of the share capital of the Company are set out in note 21(a) to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2004 amounted to HK\$9,511,658 (2003: HK\$Nil). Under Section 34 of the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution shall be paid to shareholders out of the share premium unless the Company shall be able to pay its debts as they fall due in the ordinary course of business.

THREE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years is set out on page 56.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTIONS

Share option scheme (the "Scheme") was adopted by the then shareholders of the Company by way of written resolution passed on 9 December 2003. Details of the Scheme are as follows:

The principal purpose of the Scheme is to enable the Company to grant share options to subscribe for shares ("Options") to the following eligible persons as incentives or rewards for their contributions to the Group:

- (1) any full time employee or director of any member of the Group;
- (2) any part time employee of any member of the Group who has spent not less than 10 hours per week in providing services to such member of the Group, determined by averaging out the total number of hours so spent in a period of four weeks immediately preceding the week in which a grant of the Option is offered to such part time employee; or
- (3) any consultant or adviser of or to any member of the Group who has provided technical know-how and consultancy services to such member of the Group in accordance with the terms of a contractual relationship entered into between the consultant or adviser with such member of the Group.

The total number of shares which may be issued upon exercise of all Options granted or to be granted under the Scheme is 54,000,000 shares representing 10% of the issued share capital of the Company as at the date of this annual report.

The total number of shares issued and to be issued upon exercise of the Options granted a Participant, being any eligible person who accepted the offer of any Option, under the Scheme in any 12-month period must not exceed 1 per cent of the shares in issue from time to time unless prior approval obtained from independent shareholders.

The Option may be exercised in accordance with the terms of the Scheme at any time during the option period. The Scheme does not require a minimum period for which an Option must be held or a performance target which must be achieved before any Option can be exercised. The Board shall be entitled at its absolute discretion to decide the option period subject to the Scheme, which shall not exceed 10 years from the date upon the Option is deemed to be granted and accepted.

Upon acceptance of the Option, the eligible person shall pay HK\$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 28 days from the date on which the Option is offered to an eligible person.

REPORT OF THE DIRECTORS

The subscription price for the shares subject to Options will be a price determined by the Board and notified to each Participant and shall be at least the highest of (i) the closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant of the Option, which must be a business day; (ii) the average closing price of the shares on GEM as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The Scheme will remain valid for a period of 10 years commencing on 9 December 2003.

As at 31 March 2004, no Option had been granted or agreed to be granted under the Scheme.

DIRECTORS

The Directors during the year and up to the date of this report were:

| | |
|-----------------------|---|
| Cho Yuen Yi, Wendy | (appointed on 1 August 2002) |
| Cho Chun Man | (appointed on 1 August 2002) |
| Siu Siu Ling, Robert* | (appointed on 1 December 2002) |
| Kong Tze Wing* | (appointed on 1 December 2002) |
| Wong Ching Ngor | (appointed on 23 June 2003) |
| Theresa L. Pearson | (appointed on 29 June 2002 and resigned on 1 August 2002) |
| Leung Siu Fai, James | (appointed on 1 December 2002 and resigned on 23 June 2003) |

* *Independent non-executive directors*

In accordance with Article 87(1) of the Company's Articles of Association, one-third of the Directors for the time being, other than a Director holding office as chairman of the Board and/or the managing director, shall retire at each annual general meeting and shall then be eligible for re-election at the meeting.

Accordingly, Wong Ching Ngor will retire at the forthcoming Annual General Meeting but, being eligible, offer herself for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a Director's Service Contract with the Company with no fixed term beginning on 1 January 2004. The contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing.

The three Executive Directors together are entitled to a fixed salary of HK\$1,980,000 per annum in aggregate. Cho Yuen Yi, Wendy is entitled to a performance bonus in respect of each financial year at such percentage of the audited consolidated net profits of the Group after taxation as approved by the Board (with Cho Yuen Yi, Wendy abstaining from voting and not being counted in the quorum in respect of such resolution) provided that Cho Yuen Yi, Wendy is entitled to advanced payment of HK\$20,000 per month up to HK\$240,000 for each financial year.

The independent non-executive Directors have been appointed for a term of one year commencing from 1 January 2004.

REPORT OF THE DIRECTORS

Save as disclosed above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

SPONSOR'S INTERESTS

As at 31 March 2004, neither Deloitte & Touche Corporate Finance Ltd. ("DTCF") nor its directors, employees or associates, as defined in the Rules Governing the Listing of Securities on Growth Enterprises Market operated by the Stock Exchange of Hong Kong Limited ("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 the sponsor's agreement dated 19 January 2004 which was entered into 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 20 January 2004 to 31 March 2006 or until the agreement is terminated upon the terms and conditions set out therein.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

No disclosable connected transactions were entered into by the Group under the GEM Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

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

As at 31 March 2004, 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 31 March 2004.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31 March 2004, 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 31 March 2004, 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

| | |
|-----------------------------------|--------|
| Purchases | |
| – the largest supplier | 9.61% |
| – five largest suppliers combined | 32.23% |
| Sales | |
| – the largest customer | 3.89% |
| – five largest customers combined | 11.83% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company was in compliance with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules since listing of its shares on GEM of the Stock Exchange on 20 January 2004.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules since listing of its shares on GEM of the Stock Exchange on 20 January 2004 and having made specific enquiry of all Directors, the Company's Directors have complied with such code of conduct and required standard of dealings since then.

AUDIT COMMITTEE

The Company has established an audit committee on 9 December 2003 with written terms of reference in compliance with Rules 5.29 to 5.33 of the GEM Listing Rules. The Company will appoint another non-executive director into the audit committee by 30 September 2004. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The audit committee comprises two independent non-executive directors, namely Siu Siu Ling, Robert and Kong Tze Wing and Kong Tze Wing is the chairman of the audit committee. Two meetings were held for the financial year ended 31 March 2004.

The annual results have been reviewed by the audit committee.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors of the Company had interest in a business which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Memorandum of Association and there are no restrictions against such rights under the laws in the Cayman Islands.

AUDITORS

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

There is no change in auditors of the Company since its incorporation.

For and on behalf of the Board

Cho Yuen Yi, Wendy

Chairman

Hong Kong, 23 June 2004

AUDITORS' REPORT

RSM! Nelson Wheeler

羅 申 美 會 計 師 行

Certified Public Accountants

TO THE SHAREHOLDERS OF
ULTRA GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 March 2004 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong, 23 June 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2004

| | <i>Note</i> | 2004 HK\$ | 2003 HK\$ |
|---|-------------|---------------------------|--------------------------|
| Turnover | 3 | 91,949,559 | 118,714,960 |
| Cost of sales | | <u>(56,896,046)</u> | <u>(55,996,164)</u> |
| Gross profit | | 35,053,513 | 62,718,796 |
| Other revenue | 3 | 822,031 | 1,090,985 |
| Selling and distribution costs | | (16,629,082) | (18,294,007) |
| Administrative and other operating expenses | | <u>(28,239,080)</u> | <u>(25,435,602)</u> |
| (Loss)/profit from operations | 4 | (8,992,618) | 20,080,172 |
| Finance costs | 5 | <u>(96,920)</u> | <u>(285,156)</u> |
| (Loss)/profit before taxation | | (9,089,538) | 19,795,016 |
| Taxation | 6(i) | <u>455,379</u> | <u>(904,776)</u> |
| (Loss)/profit attributable to shareholders | 7 | <u><u>(8,634,159)</u></u> | <u><u>18,890,240</u></u> |
| Dividends | 8 | <u><u>–</u></u> | <u><u>11,000,000</u></u> |
| Basic (loss)/earnings per share (cents) | 9 | <u><u>(1.99)</u></u> | <u><u>4.66</u></u> |

The notes on pages 30 to 55 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 March 2004

| | Note | 2004 HK\$ | 2003 HK\$ |
|--|-------|-------------------|--------------------|
| Non-current assets | | | |
| Fixed assets | 12 | 13,534,692 | 13,494,163 |
| Current assets | | | |
| Inventories | 14 | 5,493,257 | 5,088,583 |
| Trade receivables | 15 | 12,543,124 | 24,769,757 |
| Deposits, prepayments and other receivables | 16 | 3,347,720 | 6,743,036 |
| Pledged bank deposits | 23(i) | 5,000,038 | 1,035,731 |
| Bank and cash balances | 17 | 12,154,686 | 7,669,340 |
| | | <u>38,538,825</u> | <u>45,306,447</u> |
| Less: Current liabilities | | | |
| Bills payables and trust receipt loans | | – | 401,282 |
| Trade payables | 18 | 17,146,793 | 20,777,594 |
| Other payables and accruals | 19 | 11,297,418 | 17,561,338 |
| Dividend payables | | 580,393 | 5,738,099 |
| Sales deposits received | | 2,424,839 | 1,633,153 |
| Amounts due to related companies | | – | 45,000 |
| Current portion of obligation under finance leases | | – | 37,292 |
| Provision for taxation | 6(ii) | 140,379 | 3,279,619 |
| Bank loans and overdrafts | 20 | 7,322,520 | 1,796,215 |
| | | <u>38,912,342</u> | <u>51,269,592</u> |
| Net current liabilities | | <u>(373,517)</u> | <u>(5,963,145)</u> |
| Total assets less current liabilities | | <u>13,161,175</u> | <u>7,531,018</u> |
| Non-current liabilities | | | |
| Bank loans | 20 | 146,864 | 598,937 |
| NET ASSETS | | <u>13,014,311</u> | <u>6,932,081</u> |
| Capital and reserves | | | |
| Share capital | 21(a) | 5,400,000 | 98,000 |
| Reserves | | 7,614,311 | 6,834,081 |
| SHAREHOLDERS' FUNDS | | <u>13,014,311</u> | <u>6,932,081</u> |

Approved by the Board of Directors on 23 June 2004.

Cho Yuen Yi, Wendy
Director

Wong Ching Ngor
Director

The notes on pages 30 to 55 form an integral part of these financial statements.

BALANCE SHEET

At 31 March 2004

| | <i>Note</i> | 2004 HK\$ | 2003 HK\$ |
|----------------------------------|-------------|--------------|--------------|
| Non-current assets | | | |
| Investments in subsidiaries | 13 | 2,061,902 | – |
| Current assets | | | |
| Other receivables | | 25,400 | – |
| Pledged bank deposits | 23(i) | 5,000,038 | – |
| Bank balances | | 8,259,111 | – |
| | | 13,284,549 | – |
| Less: Current liabilities | | | |
| Other payables | | 434,793 | – |
| | | 12,849,756 | – |
| Net current assets | | | |
| | | 14,911,658 | – |
| NET ASSETS | | | |
| Capital and reserves | | | |
| Share capital | 21(a) | 5,400,000 | – |
| Reserves | | 9,511,658 | – |
| | | 14,911,658 | – |
| SHAREHOLDERS' FUNDS | | | |
| | | 14,911,658 | – |

Approved by the Board of Directors on 23 June 2004.

Cho Yuen Yi, Wendy
Director

Wong Ching Ngor
Director

The notes on pages 30 to 55 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

| <i>Note</i> | 2004 HK\$ | 2003 HK\$ |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| (Loss)/profit before taxation | (9,089,538) | 19,795,016 |
| Adjustments for: | | |
| Depreciation of fixed assets | 2,370,770 | 1,740,591 |
| Gain on disposal of fixed assets | (53,000) | – |
| Interest expenses | 96,920 | 285,156 |
| Interest income | (11,623) | (45,262) |
| | <hr/> | <hr/> |
| Operating (loss)/profit before working capital changes | (6,686,471) | 21,775,501 |
| (Increase)/decrease in inventories | (404,674) | 4,459,884 |
| Decrease/(increase) in trade receivables | 12,226,633 | (14,831,927) |
| Decrease/(increase) in deposits, prepayments and other receivables | 3,395,316 | (3,140,655) |
| (Increase)/decrease in amounts due from directors | (5,177,706) | 1,045,449 |
| Decrease in amounts due from related companies | – | 18,535 |
| Decrease in trade payables | (3,630,801) | (782,595) |
| (Decrease)/increase in amounts due to related companies | (45,000) | 45,000 |
| Increase/(decrease) in sales deposits received | 791,686 | (2,593,412) |
| Decrease in bills payables and trust receipt loans | (401,282) | (2,809,920) |
| Decrease in other payables and accruals | (6,263,920) | (2,121,573) |
| | <hr/> | <hr/> |
| Cash (used in)/generated from operations | (6,196,219) | 1,064,287 |
| Interest paid | (96,920) | (285,156) |
| Interest received | 11,623 | 45,262 |
| Hong Kong profits tax paid | (2,476,382) | – |
| PRC Enterprise Income Tax paid | (207,479) | (326,315) |
| | <hr/> | <hr/> |
| Net cash (used in)/generated from operating activities | (8,965,377) | 498,078 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets | (2,411,299) | (3,337,491) |
| Proceeds from disposal of fixed assets | 53,000 | – |
| (Increase)/decrease in pledged bank deposits | (3,964,307) | 2,029,369 |
| | <hr/> | <hr/> |
| Net cash used in investing activities | (6,322,606) | (1,308,122) |

The notes on pages 30 to 55 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

| | <i>Note</i> | 2004 HK\$ | 2003 HK\$ |
|---|-------------|-------------------------|-------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 22 | 28,350,000 | 97,984 |
| Share issue expenses | 22 | (13,613,613) | – |
| Net borrowing of bank loans | 22 | 1,187,049 | 33,388 |
| Payment of finance lease capital element | 22 | (37,292) | (95,522) |
| | | <u>15,886,144</u> | <u>35,850</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | | 598,161 | (774,194) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | | |
| Exchange reserve movement | | 2 | (128,784) |
| | | <u>598,163</u> | <u>(902,978)</u> |
| CASH AND CASH EQUIVALENTS AT 1 APRIL | | | |
| | | <u>6,588,619</u> | <u>7,491,597</u> |
| CASH AND CASH EQUIVALENTS AT 31 MARCH | | | |
| | | <u><u>7,186,782</u></u> | <u><u>6,588,619</u></u> |
| ANALYSIS OF CASH AND CASH EQUIVALENTS | | | |
| Bank and cash balances | | 12,154,686 | 7,669,340 |
| Bank overdrafts-secured | 20 | (4,967,904) | (1,080,721) |
| | | <u><u>7,186,782</u></u> | <u><u>6,588,619</u></u> |

The notes on pages 30 to 55 form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2004

Group

| | Reserves | | | | | Total HK\$ |
|--|-------------------------------------|--------------------------------------|--|--------------------------------------|---|---------------|
| | Share capital (note (i)) HK\$ | Share premium (note (ii)) HK\$ | Merger reserve (note (iii)) HK\$ | Exchange fluctuation reserve HK\$ | (Accumulated losses)/retained profits HK\$ | |
| At 1 April 2002 | - | - | - | (131,052) | (1,008,083) | (1,139,135) |
| Surplus arising from change of exchange rate | - | - | - | 82,976 | - | 82,976 |
| Profit for the year | - | - | - | - | 18,890,240 | 18,890,240 |
| Dividends | - | - | - | - | (11,000,000) | (11,000,000) |
| At 31 March 2003 | - | - | - | (48,076) | 6,882,157 | 6,834,081 |
| Effect of reorganisation | 200,000 | - | (122,000) | - | - | 78,000 |
| Capitalisation issue of shares | 3,850,000 | (3,850,000) | - | - | - | - |
| Proceeds from issue of shares | 1,350,000 | 27,000,000 | - | - | - | 28,350,000 |
| Share issue expenses | - | (13,613,613) | - | - | - | (13,613,613) |
| Surplus arising from change of exchange rate | - | - | - | 2 | - | 2 |
| Loss for the year | - | - | - | - | (8,634,159) | (8,634,159) |
| At 31 March 2004 | 5,400,000 | 9,536,387 | (122,000) | (48,074) | (1,752,002) | 13,014,311 |

The notes on pages 30 to 55 form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2004

Company

| | Share capital | Reserves | | Total |
|--------------------------------------|------------------|--|-----------------------|-------------------|
| | | Share premium <i>(note (ii))</i> | Accumulated losses | |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| At 29 July 2002 and at 31 March 2003 | – | – | – | – |
| Capitalisation issue of shares | 3,850,000 | (3,850,000) | – | – |
| Proceeds from issue of shares | 1,350,000 | 27,000,000 | – | 28,350,000 |
| Effect of reorganisation | 200,000 | – | – | 200,000 |
| Share issue expenses | – | (13,613,613) | – | (13,613,613) |
| Loss for the year | – | – | (24,729) | (24,729) |
| | <u>5,400,000</u> | <u>9,536,387</u> | <u>(24,729)</u> | <u>14,911,658</u> |
| At 31 March 2004 | <u>5,400,000</u> | <u>9,536,387</u> | <u>(24,729)</u> | <u>14,911,658</u> |

Notes:

- (i) Share capital stated in the consolidated balance sheet as at 31 March 2003 was accounted for using merger accounting pursuant to the corporate reorganisation (note 1).
- (ii) Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and a solvency test on the Company.
- (iii) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the corporate reorganisation (note 1).

The notes on pages 30 to 55 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

1. ORGANISATION AND OPERATION

The Company was incorporated in the Cayman Islands on 29 July 2002 under the Companies Law of the Cayman Islands, as an exempted company limited by shares. Pursuant to the corporate reorganisation ("Group Reorganisation") of the Group in preparation for the listing of the Company's shares on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the Company acquired the entire issued share capital of Ultra Group Company Limited, the holding company of the subsidiaries and became the ultimate holding company of the Group on 9 December 2003. Further details of the Group Reorganisation are set out in the Company's prospectus dated 31 December 2003 ("Prospectus").

Shares of the Company have been listed on the GEM of the Stock Exchange on 20 January 2004. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 13 to the financial statements.

The Group Reorganisation is accounted for using merger accounting in accordance with the requirements of the Hong Kong Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions". Accordingly, the group financial statements are prepared as if the Company had been the holding company of the Group throughout the accounting periods presented. In the opinion of the directors, the group financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

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.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the Board of Directors; or to cast majority of votes at the meetings of the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

In the Company's balance sheet the investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed to customers.
- (ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(d) Fixed assets

Land use rights and buildings and other fixed assets are stated at cost less accumulated depreciation and any impairment losses. Land use rights and buildings are depreciated over the period of the leases while other fixed assets are depreciated on the straight-line basis to write off the cost of each asset over its estimated useful life less any estimated residual value. The principal annual rates used for this purpose are as follows:

| | |
|-------------------------------|-----------|
| Land use rights and buildings | 2% – 4.5% |
| Leasehold improvements | 30% |
| Plant and machinery | 9% |
| Office equipment | 15% – 18% |
| Furniture and fixtures | 10% |
| Moulds | 30% |
| Motor vehicles | 18% – 30% |

The gain or loss on disposal of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Major costs incurred in restoring an asset to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

(f) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statements' items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary, the related cumulative exchange difference is included in the income statement as part of the gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. At inception finance lease is capitalised at the lower of the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Lease payments are allocated between the capital and finance charges. The corresponding rental obligations, net of finance charges, are recorded as obligations under finance leases. Finance charges are charged to the income statement in proportion to the capital balances outstanding.

(j) Operating leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(k) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

(l) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of cash flow statement, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Employee benefits

The Group's contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the income statement as incurred.

Pursuant to the People's Republic of China ("PRC") laws and regulations, contributions to the retirement benefit scheme for staff of the Company's subsidiary operating in the PRC are to be made monthly to a government agency at a certain percentage of the basic salaries of the employees. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The contributions are charged to the income statement as they become payable.

(o) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(p) Borrowing costs

All borrowing costs are charged to the income statement in the year in which they are incurred.

(q) Event after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. TURNOVER AND REVENUE

The Group is principally engaged in manufacturing and sales of office furniture to customers. Revenues recognised during the year are as follows:

| | Group | |
|----------------------------------|--------------------------|---------------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Turnover | | |
| Sales of goods | <u>91,949,559</u> | <u>118,714,960</u> |
| Other revenue | | |
| Bad debts recovered | 98,010 | – |
| Interest income | 11,623 | 45,262 |
| Gain on disposal of fixed assets | 53,000 | – |
| Sundry income | <u>659,398</u> | <u>1,045,723</u> |
| | <u>822,031</u> | <u>1,090,985</u> |
| Total revenue | <u><u>92,771,590</u></u> | <u><u>119,805,945</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is stated after crediting and charging the following:

| | Group | |
|--|---------------|--------------|
| | 2004 HK\$ | 2003 HK\$ |
| Crediting | | |
| Gain on disposal of fixed assets | 53,000 | – |
| Reversal of provision of inventories | 1,056,797 | – |
| Bad debts recovered | 98,010 | – |
| Charging | | |
| Auditors' remuneration | | |
| – current year | 450,000 | 218,000 |
| – underprovision in previous years | 44,000 | – |
| Cost of inventories sold (net of reversal of provision of inventories or provision of inventories) | 45,430,546 | 40,275,845 |
| Depreciation | | |
| – owned assets | 2,370,770 | 1,715,419 |
| – leased assets | – | 25,172 |
| Operating lease rentals in respect of land and buildings | 4,716,501 | 5,283,218 |
| Staff costs (including directors' emoluments (note 10)) | | |
| Basic salaries, bonuses, allowances and benefits in kind | 21,513,011 | 21,537,177 |
| Retirement benefits scheme contributions | 1,664,027 | 1,341,734 |
| Provision for doubtful debts | 1,198,554 | 1,586,470 |
| Provision of inventories | – | 600,000 |
| Net exchange losses | 33,478 | 4,033 |
| | <u>33,478</u> | <u>4,033</u> |

5. FINANCE COSTS

| | Group | |
|--|---------------|----------------|
| | 2004 HK\$ | 2003 HK\$ |
| Interest on import and export bills | 1,109 | 112,766 |
| Interest on bank loans and overdrafts wholly repayable within five years | 89,019 | 155,284 |
| Finance lease charges | 6,792 | 17,106 |
| | <u>96,920</u> | <u>285,156</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. TAXATION

- (i) Taxation in the income statement represents:

| | Group | |
|-----------------------------------|------------------|----------------|
| | 2004 HK\$ | 2003 HK\$ |
| Hong Kong profits tax | | |
| – current year | – | 694,000 |
| – overprovision in previous years | (512,253) | – |
| PRC Enterprise Income Tax | | |
| – current year | 56,874 | 210,776 |
| | <u>(455,379)</u> | <u>904,776</u> |

No provision for Hong Kong profits tax is required since the Group has no assessable profit for the year. The amount provided for the year ended 31 March 2003 was calculated at 16% based on the estimated assessable profits for the year less allowable losses brought forward. In 2003, the Hong Kong government enacted a change in the profits tax rate from 16% to 17.5% for the year of assessment 2003/04. Certain allowable losses of companies incorporated in Hong Kong are yet to be agreed by the Inland Revenue Department.

Pursuant to the relevant laws and regulations in the PRC, Zhaoqing Ultra Furniture Manufacturing Limited, 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 中華人民共和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 Company Limited, a wholly-owned subsidiary established in Zhaoqing, PRC is subject to enterprise income tax at a rate of 24% in accordance with 中華人民共和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.

- (ii) Taxation in the balance sheet represents:

| | Group | |
|---|----------------|------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Provision for Hong Kong profits tax | 83,365 | 3,072,000 |
| Provision for PRC Enterprise Income Tax | 57,014 | 207,619 |
| | <u>140,379</u> | <u>3,279,619</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. TAXATION (continued)

- (iii) No provision for deferred taxation has been made in the financial statements as the effect of temporary differences is not material to the Group.
- (iv) The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax taxation rate as follows:

| | Group | |
|---|--------------------|-------------------|
| | 2004 HK\$ | 2003 HK\$ |
| (Loss)/profit before taxation | <u>(9,089,538)</u> | <u>19,795,016</u> |
| Tax at applicable rates of 17.5% (2003: 16%) | (1,590,669) | 3,167,203 |
| Tax effect of income that is not taxable in determining current year's taxable profits | (9,634) | (34,139) |
| Tax effect of expenses that is not deductible in determining current year's taxable profits | 54,681 | 51,354 |
| Tax effect of profits that is exempted from PRC tax authority | (111,639) | (2,339,979) |
| Tax effect of profits that is not subject to Hong Kong profits tax | - | (92,716) |
| Tax effect of unused tax losses not recognised | 1,627,735 | 115,074 |
| Temporary difference not recognised | 80,527 | - |
| Increase in opening deferred tax liability resulting from an increase in tax rate | 5,873 | - |
| Overprovision in current year | - | 108,238 |
| Overprovision in previous years | (512,253) | - |
| Tax effect of lower tax rates in the PRC | - | (70,259) |
| | <u>(455,379)</u> | <u>904,776</u> |
| Taxation for the year | <u>(455,379)</u> | <u>904,776</u> |

7. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders includes a loss of HK\$24,729 (2003: HK\$Nil) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

8. DIVIDENDS

| | Group | |
|----------------------------------|--------------|--------------|
| | 2004 HK\$ | 2003 HK\$ |
| Special dividend (<i>Note</i>) | — | 11,000,000 |

Note: A special dividend for the year ended 31 March 2003 was paid by a subsidiary, Ultra Group Company Limited, to the then shareholders. The rates of the dividend and the number of shares ranking for this dividend are not presented as the directors consider that such information is not meaningful for the purpose of these financial statements.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss (2003: earnings) per share is based on the consolidated loss attributable to shareholders for the year of HK\$8,634,159 (2003: profit of HK\$18,890,240) and on the weighted average number of 433,401,639 ordinary shares in issue (2003: 405,000,000 ordinary shares deemed to be issued) throughout the year ended 31 March 2004.

No diluted (loss)/earnings per share have been presented as the Company did not have any diluted potential ordinary shares during the two years ended 31 March 2004.

10. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The directors of the Company who are also directors or employees of the subsidiaries comprising the Group received emoluments during the year as follows:

| | Group | |
|--|------------------|------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Fees | 40,000 | — |
| Basic salaries, bonuses, allowances and benefits in kind | 2,222,454 | 1,728,589 |
| Retirement benefits scheme contributions | 31,267 | 23,431 |
| | <u>2,293,721</u> | <u>1,752,020</u> |

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

No emoluments were paid to any independent non-executive directors of the Company during the year ended 31 March 2003.

No option was granted to any directors under the share option scheme during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

10. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

The number of executive directors and non-executive directors of the Company whose emoluments fell within the following bands are as follows:

| | Group | |
|--------------------------------|----------|----------|
| | 2004 | 2003 |
| Nil to HK\$1,000,000 | 5 | 5 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | – |
| | <u>6</u> | <u>5</u> |

Emoluments of the executive directors are as follows:

| | Group | |
|----------------------|------------------|------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Cho Yuen Yi, Wendy | 1,291,000 | 920,130 |
| Cho Chun Man | 333,500 | 724,000 |
| Wong Ching Ngor | 529,648 | – |
| Leung Siu Fai, James | 99,573 | 107,890 |
| | <u>2,253,721</u> | <u>1,752,020</u> |

Emoluments of the non-executive directors are as follows:

| | Group | |
|----------------------|---------------|--------------|
| | 2004 HK\$ | 2003 HK\$ |
| Siu Siu Ling, Robert | 20,000 | – |
| Kong Tze Wing | 20,000 | – |
| | <u>40,000</u> | <u>–</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

10. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(b) Five highest paid individuals

The five highest paid individuals in the Group during year included two directors (2003: two directors), details of whose emoluments have been disclosed above. The emoluments paid to the remaining non-director, highest paid individuals for the year are as follows:

| | Group | |
|--|------------------|------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Basic salaries, bonuses, allowances and benefits in kind | 1,878,119 | 1,674,088 |
| Retirement benefits scheme contributions | 24,000 | 35,693 |
| | <u>1,902,119</u> | <u>1,709,781</u> |

The number of the remaining highest paid individuals whose emoluments fell within the following band is as follows:

| | Group | |
|----------------------|----------|----------|
| | 2004 | 2003 |
| Nil to HK\$1,000,000 | <u>3</u> | <u>3</u> |

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. RETIREMENT BENEFITS

According to the Mandatory Provident Fund ("MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000 the Group is required to participate in MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation.

Employees of the Group in the PRC participated in a retirement benefit plan (社會保險基金) under which the Group is required to make monthly defined contributions to the plan at rates ranging from 13% to 19% of the employee's basic salary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

12. FIXED ASSETS

| Group | Land use rights and buildings HK\$ | Leasehold improvements HK\$ | Plant and machinery HK\$ | Office equipment HK\$ | Furniture and fixtures HK\$ | Moulds HK\$ | Motor vehicles HK\$ | Total HK\$ |
|-------------------------------------|---|-----------------------------------|--------------------------------|-----------------------------|-----------------------------------|------------------|---------------------------|-------------------|
| Cost | | | | | | | | |
| At 1 April 2003 | 7,332,879 | 2,647,675 | 3,912,741 | 4,629,470 | 2,711,655 | 1,281,289 | 983,365 | 23,499,074 |
| Additions | - | 756,970 | 144,929 | 658,012 | 825,317 | 26,071 | - | 2,411,299 |
| Disposal | - | - | - | - | - | - | (558,604) | (558,604) |
| At 31 March 2004 | <u>7,332,879</u> | <u>3,404,645</u> | <u>4,057,670</u> | <u>5,287,482</u> | <u>3,536,972</u> | <u>1,307,360</u> | <u>424,761</u> | <u>25,351,769</u> |
| Accumulated depreciation | | | | | | | | |
| At 1 April 2003 | 1,326,357 | 950,302 | 2,517,902 | 2,109,984 | 941,896 | 1,235,418 | 923,052 | 10,004,911 |
| Charge for the year | 140,928 | 903,035 | 346,587 | 580,224 | 298,412 | 49,211 | 52,373 | 2,370,770 |
| Written back on disposal | - | - | - | - | - | - | (558,604) | (558,604) |
| At 31 March 2004 | <u>1,467,285</u> | <u>1,853,337</u> | <u>2,864,489</u> | <u>2,690,208</u> | <u>1,240,308</u> | <u>1,284,629</u> | <u>416,821</u> | <u>11,817,077</u> |
| Net book value | | | | | | | | |
| At 31 March 2004 | <u>5,865,594</u> | <u>1,551,308</u> | <u>1,193,181</u> | <u>2,597,274</u> | <u>2,296,664</u> | <u>22,731</u> | <u>7,940</u> | <u>13,534,692</u> |
| At 31 March 2003 | <u>6,006,522</u> | <u>1,697,373</u> | <u>1,394,839</u> | <u>2,519,486</u> | <u>1,769,759</u> | <u>45,871</u> | <u>60,313</u> | <u>13,494,163</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

12. FIXED ASSETS (continued)

The Group's land use rights and buildings are situated in the PRC and held under medium term leases for 45 years expiring in 2042. After the balance sheet date, the land use rights and buildings with net book value of HK\$5,865,594 at 31 March 2004 were pledged as security for the Group's banking facilities.

The Group's land use rights and buildings with net book value of HK\$5,865,594 as at 31 March 2004 were revalued at 30 September 2003 on the basis of their open market values by Grant Sherman Appraisal Limited at HK\$9,810,000 as stated in the Prospectus. The additional depreciation charged against the income statement for the year as if the revaluation of the Group's land use rights and buildings was recognised at 30 September 2003 was HK\$36,021.

The net book value of office equipment held by the Group under finance leases were as follows:

| | <i>HK\$</i> |
|------------------|-------------|
| At 31 March 2004 | — |
| At 31 March 2003 | 109,081 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

13. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|--|--------------|--------------|
| | 2004 HK\$ | 2003 HK\$ |
| Unlisted shares, at cost | 200,000 | — |
| Amounts due from subsidiaries (note (b)) | 1,989,836 | — |
| Amounts due to subsidiaries (note (b)) | (127,934) | — |
| | 2,061,902 | — |

(a) Details of the subsidiaries at 31 March 2004 are as follows:

| Company | Place of incorporation and principal place of operation | Attributable equity interest | Issued and fully paid share capital | Principal activities |
|--------------------------------------|---|---------------------------------|--|--|
| Directly held | | | | |
| Ultra Group Company Limited | British Virgin Islands/ Hong Kong | 100% | US\$10,000 Ordinary | Investment holding |
| Indirectly held | | | | |
| Ultra (HK) Group Holdings Limited | Hong Kong | 100% | HK\$2 Ordinary | Investment holding |
| Ultra Trading (HK) Limited | Hong Kong | 100% | HK\$2 Ordinary | Trading of office furniture in Hong Kong |
| Ultra Development Limited | Hong Kong | 100% | HK\$2 Ordinary | Trading of office furniture and provision of management services |
| Ultra Asia Holdings Limited | Hong Kong | 100% | HK\$2 Ordinary | Export of office furniture |
| Ultra Trading Company Limited | Hong Kong | 100% | HK\$10,000 Ordinary | Domant since July 2001 |
| Kwun Yick International Limited | British Virgin Islands/ Hong Kong | 100% | US\$1 Ordinary | Investment holding |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

13. INVESTMENTS IN SUBSIDIARIES (continued)

| Company | Place of incorporation and principal place of operation | Attributable equity interest | Issued and fully paid share capital | Principal activities |
|--|---|------------------------------|-------------------------------------|---|
| Ultra Trading International Company Limited | Hong Kong | 100% | HK\$2 Ordinary | Domant since September 2002 |
| Europe China Media Asia-Pacific Limited | Hong Kong | 100% | HK\$2 Ordinary | Investment holding |
| Ultra Office Furniture Company Limited | Hong Kong | 100% | HK\$10,000 Ordinary | Investment holding |
| Ultra Asia-Pacific Company Limited | Hong Kong | 100% | HK\$2,000,000 Ordinary | Domant since September 2001 |
| Zhaoqing Ultra Furniture Manufacturing Limited | The PRC | 49.6%* | US\$1,000,500 Equity | Ceased manufacturing activities since July 2002 |
| Zhaoqing Ultra Furniture Company Limited | The PRC | 100% | US\$350,000 Equity | Manufacturing and sale of office furniture |

* The Group has 100% control over Zhaoqing Ultra Furniture Manufacturing Limited even though it has only 49.6% interest in the cooperative joint venture.

(b) Amounts due from/(to) subsidiaries are unsecured, interest-free and are not repayable within the next twelve months.

14. INVENTORIES

| | Group | |
|------------------|--------------|--------------|
| | 2004 HK\$ | 2003 HK\$ |
| Raw materials | 4,594,356 | 5,137,353 |
| Work in progress | 841,580 | 513,020 |
| Finished goods | 1,600,524 | 2,038,210 |
| Less: Provision | (1,543,203) | (2,600,000) |
| | 5,493,257 | 5,088,583 |

At 31 March 2003 and 2004, the inventories are stated at cost less provision for slow-moving and obsolescence.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

15. TRADE RECEIVABLES

The credit terms of trade receivables are in accordance with specific payment schedules agreed with various customers. The aging analysis of trade receivables is as follows:

| | Group | |
|------------------------|--------------------------|--------------------------|
| | 2004 HK\$ | 2003 HK\$ |
| 0 – 30 days | 3,561,267 | 9,453,465 |
| 31 – 60 days | 2,541,183 | 4,596,041 |
| 61 – 90 days | 1,146,849 | 2,974,908 |
| Over 90 days | 7,859,648 | 14,997,388 |
| Less: Provision | <u>(2,565,823)</u> | <u>(7,252,045)</u> |
| Trade receivables, net | <u><u>12,543,124</u></u> | <u><u>24,769,757</u></u> |

16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | Group | |
|-------------------|-------------------------|-------------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Deposits | 1,800,738 | 747,364 |
| Prepayments | 120,104 | 3,669,927 |
| Other receivables | <u>1,426,878</u> | <u>2,325,745</u> |
| | <u><u>3,347,720</u></u> | <u><u>6,743,036</u></u> |

17. BANK AND CASH BALANCES – GROUP

Included in the bank and cash balances of the Group, HK\$1,714,826 (2003: HK\$1,795,617) were denominated in Renminbi ("RMB"), which was not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

18. TRADE PAYABLES

The credit terms of trade payables varies according to the terms agreed with different suppliers. The aging analysis of trade payables is as follows:

| | Group | |
|--------------|-------------------|-------------------|
| | 2004 HK\$ | 2003 HK\$ |
| 0 – 30 days | 5,709,150 | 4,855,295 |
| 31 – 60 days | 5,579,611 | 3,625,899 |
| 61 – 90 days | 1,052,426 | 2,992,958 |
| Over 90 days | 4,805,606 | 9,303,442 |
| | <u>17,146,793</u> | <u>20,777,594</u> |

19. OTHER PAYABLES AND ACCRUALS

| | Group | |
|----------------|-------------------|-------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Other payables | 5,085,825 | 11,849,450 |
| Accruals | 6,211,593 | 5,711,888 |
| | <u>11,297,418</u> | <u>17,561,338</u> |

20. BANK LOANS AND OVERDRAFTS

| | Group | |
|--|------------------|------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Bank overdrafts – secured (note 23) | 4,967,904 | 1,080,721 |
| Bank instalment loans wholly repayable within five years | | |
| – secured (note 23) | 1,529,526 | 1,314,431 |
| – unsecured | 971,954 | – |
| | <u>7,469,384</u> | <u>2,395,152</u> |
| Repayable: | | |
| Within one year | 7,322,520 | 1,796,215 |
| In the second year | 146,864 | 367,208 |
| In the third to fifth years | – | 231,729 |
| | <u>7,469,384</u> | <u>2,395,152</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

21. SHARE CAPITAL

(a) Shares

| | Number of shares | Company Ordinary shares of HK\$0.01 each Par value HK\$ |
|---|-----------------------------|--|
| Authorised: | | |
| Upon incorporation on 29 July 2002 <i>(note (i))</i> | 30,000,000 | 300,000 |
| At 31 March 2003 | 30,000,000 | 300,000 |
| Increase in authorised ordinary share capital <i>(note (ii))</i> | 9,970,000,000 | 99,700,000 |
| At 31 March 2004 | <u>10,000,000,000</u> | <u>100,000,000</u> |
| Issued and fully paid: | | |
| Issue of shares nil paid <i>(note (iii))</i> | 2,000,000 | – |
| At 31 March 2003 | 2,000,000 | – |
| For the acquisition of the entire issued share capital of Ultra Group Company Limited <i>(note (iii))</i> | 18,000,000 | 200,000 |
| Capitalisation issue <i>(note (iv))</i> | 385,000,000 | 3,850,000 |
| New issue on public listing <i>(note (v))</i> | 135,000,000 | 1,350,000 |
| At 31 March 2004 | <u>540,000,000</u> | <u>5,400,000</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

21. SHARE CAPITAL (continued)

(a) Shares (continued)

Notes:

- (i) Upon incorporation, the Company had an authorised share capital of HK\$300,000 divided into 30,000,000 ordinary shares of HK\$0.01 each.
- (ii) On 9 December 2003, the authorised share capital of the Company was increased to HK\$100,000,000 by the creation of a further 9,970,000,000 shares of HK\$0.01 each.
- (iii) On 1 August 2002, 2,000,000 ordinary shares of HK\$0.01 each were issued at par and nil paid. Pursuant to the Group Reorganisation as set out in the Prospectus, (a) 2,000,000 ordinary shares of HK\$0.01 each issued nil paid were credited as fully paid; and (b) 18,000,000 ordinary shares of HK\$0.01 each were allotted and issued at par, credited as fully paid, as consideration for the acquisition of the entire issued share capital of Ultra Group Company Limited by the Company on 9 December 2003.
- (iv) Pursuant to the Group Reorganisation as set out in the Prospectus, the directors were authorised to capitalise HK\$3,850,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 385,000,000 shares for allotment and issue to shareholders on the register of members at the close of business on 17 December 2003 (or as they may direct) in proportion as nearly as may be to their then existing holdings.
- (v) On 15 January 2004, 135,000,000 ordinary shares of HK\$0.01 each were issued at HK\$0.21 each for a total cash consideration, before issue expenses, of HK\$28,350,000 through an initial public offering by way of public offer.

(b) Share option scheme

A share option scheme was adopted by the then shareholders of the Company by way of written resolution passed on 9 December 2003. Details of the scheme are set out in the Report of the Directors.

As at 31 March 2004, no option has been granted or agreed to be granted under the share option scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

Analysis of changes in financing during the year is as follows:

| | Obligation under finance leases | Share capital | Share premium | Bank loans |
|---|--|--------------------------|--------------------------|-----------------------|
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| At 1 April 2002 | 132,814 | – | – | 1,281,043 |
| Repayment of finance lease obligations | (95,522) | – | – | – |
| New bank loans obtained | – | – | – | 1,200,000 |
| Repayment of bank loans | – | – | – | (1,166,612) |
| | <u>37,292</u> | <u>–</u> | <u>–</u> | <u>1,314,431</u> |
| At 31 March 2003 | 37,292 | – | – | 1,314,431 |
| Repayment of finance lease obligations | (37,292) | – | – | – |
| Proceeds from issue of shares | – | 1,350,000 | 27,000,000 | – |
| Share issue expenses | – | – | (13,613,613) | – |
| Capitalisation issue | – | 3,850,000 | (3,850,000) | – |
| Issue of share to acquire Ultra Group Company Limited | – | 200,000 | – | – |
| New bank loans obtained | – | – | – | 1,974,608 |
| Repayment of bank loans | – | – | – | (787,559) |
| | <u>–</u> | <u>5,400,000</u> | <u>9,536,387</u> | <u>2,501,480</u> |
| At 31 March 2004 | <u>–</u> | <u>5,400,000</u> | <u>9,536,387</u> | <u>2,501,480</u> |

23. BANKING FACILITIES

As at 31 March 2004, the Group has been granted banking facilities totaling HK\$11.5 million (2003: HK\$3.2 million) of which HK\$6.5 million (2003: HK\$2.4 million) were utilised and were secured by the following:

- (i) Pledge of fixed deposits of not less than HK\$5 million or its equivalent in other currencies plus subsequent accrued interest;
- (ii) Corporate guarantee executed by the Company;
- (iii) Personal guarantees executed by two executive directors of the Company and a related party for not less than HK\$900,000; and
- (iv) Legal charge on properties owned by a related company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

24. LEASE COMMITMENTS

The Group had the following outstanding lease commitments under non-cancellable operating leases in respect of land and buildings payable as follows:

| | Group | |
|---|---------------------|---------------------|
| | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> |
| Within one year | 3,921,085 | 4,470,220 |
| In the second to fifth years, inclusive | 2,607,399 | 6,489,365 |
| | <u>6,528,484</u> | <u>10,959,585</u> |

25. SEGMENTAL INFORMATION

Segment information is required by SSAP 26 "Segment reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis; and (ii) on a secondary segment reporting basis.

Sale of office furniture is the only major business segment of the Group. Accordingly no further business segment information is provided.

In determining the Group's geographical segments, the Group's revenue and results for the year and segment assets and liabilities are attributable to the segments based on the location of customers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

25. SEGMENTAL INFORMATION (continued)

Geographical segments

Segmental information about the geographical markets for the year is presented as follows:

For the year ended 31 March 2004

| | Hong Kong HK\$ | The PRC HK\$ | Asia except Hong Kong and the PRC HK\$ | Total HK\$ |
|---|--------------------|-------------------|---|--------------------|
| Revenue | | | | |
| Sales to external customers | <u>34,376,157</u> | <u>51,008,985</u> | <u>6,564,417</u> | <u>91,949,559</u> |
| Results | | | | |
| Segment results | <u>(2,097,118)</u> | <u>4,186,323</u> | <u>2,329,480</u> | 4,418,685 |
| Unallocated corporate expenses | | | | (14,233,334) |
| Other revenue (excluding interest income) | | | | <u>810,408</u> |
| Operating loss | | | | (9,004,241) |
| Finance costs | | | | (96,920) |
| Interest income | | | | <u>11,623</u> |
| Loss before taxation | | | | (9,089,538) |
| Taxation | | | | <u>455,379</u> |
| Loss attributable to shareholders | | | | <u>(8,634,159)</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

25. SEGMENTAL INFORMATION (continued)

Geographical segments (continued)

| | Hong Kong HK\$ | The PRC HK\$ | Asia except Hong Kong and the PRC HK\$ | Unallocated HK\$ | Total HK\$ |
|------------------------------|-------------------|------------------|---|---------------------|-------------------|
| Assets | | | | | |
| Segment assets | 6,680,392 | 9,044,580 | 614,410 | 35,734,135 | 52,073,517 |
| Total assets | <u>6,680,392</u> | <u>9,044,580</u> | <u>614,410</u> | <u>35,734,135</u> | <u>52,073,517</u> |
| Liabilities | | | | | |
| Segment liabilities | 6,092,173 | 2,604,008 | 107,019 | 30,256,006 | 39,059,206 |
| Total liabilities | <u>6,092,173</u> | <u>2,604,008</u> | <u>107,019</u> | <u>30,256,006</u> | <u>39,059,206</u> |
| Other information | | | | | |
| Capital expenditure | <u>175,021</u> | <u>464,089</u> | <u>-</u> | <u>1,772,189</u> | <u>2,411,299</u> |
| Depreciation | <u>788,229</u> | <u>923,029</u> | <u>-</u> | <u>659,512</u> | <u>2,370,770</u> |
| Provision for doubtful debts | <u>244,778</u> | <u>953,776</u> | <u>-</u> | <u>-</u> | <u>1,198,554</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

25. SEGMENTAL INFORMATION (continued)

Geographical segments (continued)

For the year ended 31 March 2003

| | Hong Kong HK\$ | The PRC HK\$ | Asia except Hong Kong and the PRC HK\$ | Total HK\$ |
|---|-------------------|-------------------|---|--------------------|
| Revenue | | | | |
| Sales to external customers | <u>56,466,006</u> | <u>57,630,563</u> | <u>4,618,391</u> | <u>118,714,960</u> |
| Results | | | | |
| Segment results | <u>11,946,478</u> | <u>16,212,027</u> | <u>2,332,687</u> | 30,491,192 |
| Unallocated corporate expenses | | | | (11,502,005) |
| Other revenue (excluding interest income) | | | | <u>1,045,723</u> |
| Operating profit | | | | 20,034,910 |
| Finance costs | | | | (285,156) |
| Interest income | | | | <u>45,262</u> |
| Profit before taxation | | | | 19,795,016 |
| Taxation | | | | <u>(904,776)</u> |
| Profit attributable to shareholders | | | | <u>18,890,240</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

25. SEGMENTAL INFORMATION (continued)

Geographical segments (continued)

| | Hong Kong HK\$ | The PRC HK\$ | Asia except Hong Kong and the PRC HK\$ | Unallocated HK\$ | Total HK\$ |
|------------------------------|-------------------|-------------------|---|---------------------|-------------------|
| Assets | | | | | |
| Segment assets | 16,924,858 | 14,013,381 | 574,555 | 27,287,816 | 58,800,610 |
| Total assets | <u>16,924,858</u> | <u>14,013,381</u> | <u>574,555</u> | <u>27,287,816</u> | <u>58,800,610</u> |
| Liabilities | | | | | |
| Segment liabilities | 12,618,323 | 6,461,957 | 114,210 | 32,674,039 | 51,868,529 |
| Total liabilities | <u>12,618,323</u> | <u>6,461,957</u> | <u>114,210</u> | <u>32,674,039</u> | <u>51,868,529</u> |
| Other information | | | | | |
| Capital expenditure | <u>111,147</u> | <u>2,905,887</u> | <u>–</u> | <u>320,457</u> | <u>3,337,491</u> |
| Depreciation | <u>920,176</u> | <u>416,114</u> | <u>–</u> | <u>404,301</u> | <u>1,740,591</u> |
| Provision for doubtful debts | <u>891,952</u> | <u>694,518</u> | <u>–</u> | <u>–</u> | <u>1,586,470</u> |
| Provision of inventories | <u>600,000</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>600,000</u> |

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

FINANCIAL HIGHLIGHTS

A Summary of the results and of the assets and liabilities of the Group for the last three financial years is set out below:

RESULTS

| | Year ended 31 March | | |
|--|---------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Turnover | <u>91,950</u> | <u>118,715</u> | <u>118,353</u> |
| (Loss)/profit before taxation | (9,089) | 19,795 | 14,912 |
| Taxation | <u>455</u> | <u>(905)</u> | <u>(378)</u> |
| (Loss)/profit attributable to shareholders | <u>(8,634)</u> | <u>18,890</u> | <u>14,534</u> |

ASSETS AND LIABILITIES

| | As at 31 March | | |
|-------------------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Total assets | 52,073 | 58,801 | 52,107 |
| Total liabilities | <u>(39,059)</u> | <u>(51,869)</u> | <u>(53,246)</u> |
| Shareholders' funds/(deficit) | <u>13,014</u> | <u>6,932</u> | <u>(1,139)</u> |

Notes:

- The results of the Group for the two years ended 31 March 2003 has been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's share were list on the Stock Exchange, had been in existence throughout the years concerned. The figures for the two years ended 31 March 2003 have been extracted from the Company's Prospectus dated 31 December 2003.
- The Company was incorporated in the Cayman Islands on 29 July 2002 and became the holding company of the Group with effect from 20 January 2004 as a result of the group reorganisation, details of which are set out in the Company's Prospectus dated 31 December 2003. Accordingly, the balance sheets of the Group that have been prepared are those set out above.