



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

F i r s t
Q u a r t e r l y
R e p o r t

第一季度報告

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

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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 GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Group during the three months ended 30 June 2004 amounted to approximately HK\$35.8 million (2003: HK\$24.4 million), representing an increase of approximately 46.5% as compared to the same period last year.
- Net profit attributable to shareholders during the three months ended 30 June 2004 amounted to approximately HK\$1.8 million (2003: HK\$0.6 million), representing an increase of approximately 230.5% as compared to the same period last year.
- Earnings per share of the Group was approximately HK\$0.3 cents (2003: HK\$0.1 cents) for the three months ended 30 June 2004.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2004

The board of director (the “Board” or the “Directors”) of Ultra Group Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30 June 2004, together with the unaudited comparative figures for the corresponding period in 2003 as follows:

	Notes	Three months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	35,815	24,439
Cost of sales		(21,957)	(13,983)
Gross profit		13,858	10,456
Other revenue		110	265
Selling and distribution costs		(4,436)	(3,602)
Administrative and other operating expenses		(7,623)	(6,700)
Profit from operations		1,909	419
Finance costs		(65)	(52)
Profit before taxation		1,844	367
Taxation	3	–	191
Profit attributable to shareholders		1,844	558
Dividends	4	–	–
Basic earnings per shares (<i>cents</i>)	5	0.34	0.14

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. **Company reorganisation and basis of preparation**

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 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 period ended 30 June 2003. 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.

The unaudited consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June 2004. The results of subsidiaries acquired or disposed of during the period 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.

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.

2. Turnover

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

The Group's operations are located in Hong Kong, the People's Republic of China ("PRC") and other overseas countries. No activity analysis is provided as substantially all the Group's turnover and contribution to profit from operations were derived from the sale of office furniture.

The following table sets out the turnover breakdown of the Group by geographical region for the three months ended 30 June 2004:

	2004		2003	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Hong Kong	10,731	30.0	9,711	39.7
The PRC	22,867	63.8	12,865	52.7
Overseas	2,217	6.2	1,863	7.6
Total	35,815	100.0	24,439	100.0

3. Taxation

Taxation in the unaudited consolidated income statement represents:

	Unaudited	
	Three months ended	
	30 June	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current year	–	–
– over-provision in previous years	–	(191)
PRC enterprise income tax		
– current year	–	–
	<u>–</u>	<u>(191)</u>
	<u>–</u>	<u>(191)</u>

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

No provision for Hong Kong profit tax is required since the Group has no taxable profit of the periods after the estimated assessable profit less allowable losses brought forward of the individual companies within the Group arising in Hong Kong for the periods respectively.

Pursuant to the relevant laws and regulations in the PRC, Zhaoqing 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 中國外商投資企業和外國企業所得稅法. However, it is exempted from enterprise income tax for two years starting from the first year of profitable operation after off-setting prior year tax losses, followed by a 50% reduction for the next three years.

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

4. Dividends

The Directors do not recommend the payment of dividend for the three months ended 30 June 2004 (2003: Nil).

5. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders during the period of HK\$1.84 million (2003: HK\$0.56 million) and 540,000,000 ordinary shares of the Company in issue during the period (2003: 405,000,000 ordinary shares of the Company deemed to be issued).

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

6. Reserve and Capital

	Reserves					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange fluctuation reserve HK\$'000	(Accumulated losses)/ retained profits HK\$'000	
At 1 April 2003	-	-	-	(48)	6,882	6,834
Deficit arising from change of exchange rate	-	-	-	(12)	-	(12)
Profit for the period	-	-	-	-	558	558
At 30 June 2003	-	-	-	(60)	7,440	7,380
At 1 April 2004	5,400	9,536	(122)	(48)	(1,752)	13,014
Profit for the period	-	-	-	-	1,844	1,844
At 30 June 2004	5,400	9,536	(122)	(48)	92	14,858

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The economies in Hong Kong and PRC have exhibited a V-shape recovery from the setback caused by severe acute respiratory syndrome ("SARS"). Most companies have geared up to the set up of new offices, expansion and relocation. With the prevailing upturn and the improving global macro-environment, there is an official Gross Domestic Product ("GDP") growth in the Greater China for the first half year of 2004. The office furniture market is also benefiting from this upturn in the economy. The Group's sales orders on hand have been picking gradually, and has reflected a better performance in the first quarter for the financial year ending 31 March 2005 as compared to the same period in previous year.

The Group's turnover for the three months ended 30 June 2004 was approximately HK\$35.8 million, represented an increase of 46.5% as compared to the turnover of approximately HK\$24.4 million for the three months ended 30 June 2003.

Gross profit margin of the Group for the three months ended 30 June 2004 was approximately 38.7%. The decrease in gross profit margin, as compared to the three months ended 30 June 2003 of approximately 42.8%, was mainly attributable to an increase in sales discounts granted to customers because of fierce market competition and higher cost of sales incurred. While there is not much difference in the gross profit margin for the current period as compared to the last year ended 31 March 2004.

The total expenses were approximately HK\$12.1 million for the three months ended 30 June 2004. The higher costs incurred by approximately 17.1% as compared to the same period of approximately HK\$10.4 million in previous year was mainly attributable to the increase in staff costs including sales commission, which is in line with the increase in turnover. Besides, additional staff costs were incurred for the upgrade of staff quality to form a stronger support team to provide better services and prepare for the Group's expansion to meet the market recovery. Moreover, the percentage of total expenses to sales was still relatively lower for the current period as compared to same period in previous year.

Overall, the Group recorded a net profit attributable to shareholders of approximately HK\$1.8 million for the three months ended 30 June 2004. The Group's net profit was increased by approximately 230.5% as compared to the net profit of approximately HK\$0.6 million for the three months ended 30 June 2003. The move from a net loss for the year ended 31 March 2004 to a net profit for the first quarter ended 30 June 2004 was an encouraging turning point for the Group's recent business development.

As at 30 June 2004, the Group had bank and cash balances of approximately HK\$17.9 million (as at 31 March 2004: HK\$17.2 million) and short terms bank loans and overdrafts of approximately HK\$8.3 million (as at 31 March 2004: HK\$7.3 million).

Business Review

Notwithstanding a harsh market environment in the office furniture industry in last year ended 31 March 2004, the Group continued to maintain its core business to design, manufacture and provide total office furnishing solutions to customers during the period under review. The Group has consistently followed its concrete and clear business strategy to expand its direct sales teams with more focus on the multinational companies, and speed up its dealership business in both PRC and overseas. At the same time, management will also closely monitor its market pace to forge ahead of competitors to meet the customers' needs with an aim to become the market leader in the industry.

With the establishment and continuous development of regional offices by multinational companies in PRC, the office leasing market was very active recently. The Group has grasped the business opportunity to meet the increasing demand for the total office solutions. The Group has also successfully won some large projects and corporate clients during the first quarter ended 30 June 2004. These clients are sizeable multinational companies including the professional firms and Fortune 500 companies which are establishing and expanding their offices in various locations in the Greater China region.

With increasing business opportunities in the PRC market, the Group has further strengthened its PRC distribution network. This was reflected by the turnover attributable to the PRC market which has been increased to 63.8% of the Group's turnover for the three months ended 30 June 2004 as compared to 52.7% of the same period in last year. The turnover attributable to the Hong Kong market and overseas markets were 30.0% and 6.2% respectively for the three months ended 30 June 2004.

Outlook

The big challenge ahead is the foreseeable growing business environment in the Greater China region. The Hong Kong Closer Economic Partnership Arrangement ("CEPA") gives Hong Kong the opportunity to break out and access the PRC market. The economic integration of the nine provinces in Southern China, plus Macau and Hong Kong ("9 plus 2") further strengthens ties with the mainland provinces in the dynamic Pearl River Delta region. Together with the major forthcoming events such as the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai, most companies in the world would try to share a piece of cake in this market. These activities drive the rising demand in office leasing as well as the good quality office furniture. To cope with the rapid growth in PRC market, the Group has strategically planned to equip itself by the enhancement of its sales force, manufacturing and operations, and the development of dealership networks.

The Group is critically reviewing the production capacity of its production plant and has planned for the gradual increase in machinery and work force. It will widen the product range by continuously developing its own products internally and sourcing stylish products from overseas vendors externally. The localisation of production regarding the OEM and distribution arrangement with a New Zealand manufacturer of a desking system is in progress. The Group is also under negotiation with famous overseas vendors for the sole distribution rights in the Greater China market.

The dealership networks have been speeded up in both PRC and overseas. More dealers were appointed in PRC with a total of twelve dealers up to now covering the various cities including Shanxi, Chengdu, Chongqing, Dalian, Suzhou, Wuxi, Wuhan, Changsha, Hangzhou, Qingdao, Shenyang and Harbin. The Group expects approximately ten more dealers to be appointed by end of this year in other major cities to achieve wider geographical coverage in PRC. The Group has seven overseas dealers currently including the Philippines, India, Taiwan, Singapore, Thailand, Indonesia and Sri Lanka and expects to appoint approximately seven additional dealers in other major countries such as United States, United Kingdom, and Australia by end of this year.

In light of the positive business prospects, the Group will strive to achieve the best performance in improving the financial results in the coming years.

OTHER INFORMATIONS

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

As at 30 June 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 5.46 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:

- These shares are held as to 22,882,500 shares by Huge Mars International Limited and 176,175,000 shares by Excel Formation Limited.
- These shares are held as to 22,882,500 shares by Formation Wealth Limited and 176,175,000 shares by Excel Formation Limited.
- Huge Mars International Limited is wholly owned by Cho Yuen Yi, Wendy.
- Formation Wealth Limited is wholly owned by Cho Chun Man.
- 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 5.46 of the GEM Listing Rules as at 30 June 2004.

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

As at 30 June 2004, the interests and short positions of substantial 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 30 June 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.

3. 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. The principal purpose of the Scheme is to enable the Company to grant share options to eligible persons as incentives or rewards for their contributions to the Group.

As at 30 June 2004, no option had been granted or agreed to be granted under the Scheme.

4. Competing Interests

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

5. Sponsor’s Interests

As at 30 June 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.

6. 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.

The unaudited quarterly results for the three months ended 30 June 2004 has been reviewed by the audit committee.

7. Purchase, Sale or Redemption of Shares

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

8. Board Practices and Procedures

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.

By order of the Board
Cho Yuen Yi, Wendy
Chairman

Hong Kong, 13 August 2004