



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

I n t e r i m

R e p o r t

中 期 業 績 報 告

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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 six months ended 30 September 2004 amounted to approximately HK\$75.8 million (2003: HK\$46.2 million), representing an increase of approximately 64.0% as compared to the same period last year.
- Net profit attributable to shareholders during the six months ended 30 September 2004 amounted to approximately HK\$2.0 million (2003: HK\$0.9 million), representing an increase of approximately 113.4% as compared to the same period last year.
- Earnings per share of the Group was approximately HK\$0.4 cents (2003: HK\$0.2 cents) for the six months ended 30 September 2004.

INTERIM RESULTS

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 and six months ended 30 September 2004, together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	40,033	21,809	75,848	46,248
Cost of sales		(26,569)	(11,649)	(48,526)	(25,632)
Gross profit		13,464	10,160	27,322	20,616
Other revenue		243	77	353	342
Selling and distribution costs		(5,380)	(3,357)	(9,817)	(6,960)
Administrative and other operating expenses		(8,073)	(6,704)	(15,695)	(13,404)
Profit from operations	3	254	176	2,163	594
Finance costs		(112)	(13)	(178)	(65)
Profit before taxation		142	163	1,985	529
Taxation	4	–	210	–	401
Profit attributable to shareholders		142	373	1,985	930
Dividends	5	–	–	–	–
Basic earnings per shares (<i>cents</i>)	6	0.03	0.09	0.37	0.23

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited as at 30 September 2004 HK\$'000	Audited as at 31 March 2004 HK\$'000
Non-current assets			
Fixed assets		13,163	13,535
Current assets			
Inventories		7,703	5,493
Trade receivables	7	20,662	12,543
Deposits, prepayments and other receivables		4,623	3,348
Pledged bank deposits		5,000	5,000
Bank and cash balances		14,074	12,155
		52,062	38,539
Less: Current liabilities			
Bills payables and trust receipt loans		428	–
Trade payables	8	20,365	17,147
Other payables and accruals		13,293	11,298
Dividend payables		556	580
Sales deposits received		5,556	2,425
Provision for taxation		52	140
Bank loans and overdrafts		9,976	7,323
		50,226	38,913
Net current assets/(liabilities)		1,836	(374)
Total assets less current liabilities		14,999	13,161
Non-current liabilities			
Bank loans – secured		–	147
NET ASSETS		14,999	13,014
Capital and reserves			
Share capital	9	5,400	5,400
Reserves		9,599	7,614
SHAREHOLDERS' FUNDS		14,999	13,014

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Net cash generated from/(used in) operating activities	116	(653)
Net cash used in investing activities	(704)	(620)
Net cash generated from/(used in) financing activities	2,474	(601)
Net increase/(decrease) in cash and cash equivalents	1,886	(1,874)
Effect of foreign exchange rate changes	–	(12)
Cash and cash equivalents at 1 April	7,187	6,589
Cash and cash equivalents at 30 September	9,073	4,703
Analysis of cash and cash equivalents		
Bank and cash balances	14,074	4,703
Bank overdrafts – secured	(5,001)	–
	9,073	4,703

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange fluctuation reserve HK\$'000	(Accumulated losses)/ retained profit HK\$'000	
At 1 April 2003	-	-	-	(48)	6,882	6,834
Deficit arising from change of exchange rate	-	-	-	(12)	-	(12)
Profit for the period	-	-	-	-	930	930
At 30 September 2003	-	-	-	(60)	7,812	7,752
At 1 April 2004	5,400	9,536	(122)	(48)	(1,752)	13,014
Profit for the period	-	-	-	-	1,985	1,985
At 30 September 2004	5,400	9,536	(122)	(48)	233	14,999

NOTES TO THE 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 periods. 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 September 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 Institute of Certified Public Accountants. They have been prepared under the historical cost convention and in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules. The accounting policies adopted are consistent with those adopted in the audited financial statements for the year ended 31 March 2004.

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 six months ended 30 September 2004:

	Unaudited Three months ended 30 September				Unaudited Six months ended 30 September			
	2004		2003		2004		2003	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Hong Kong	12,310	31	6,918	32	23,041	30	16,629	36
The PRC	23,515	59	13,833	63	46,382	61	26,698	58
Overseas	4,208	10	1,058	5	6,425	9	2,921	6
Total	40,033	100	21,809	100	75,848	100	46,248	100

3. Profit from operations

Profit from operations is stated after crediting and charging the following:

	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Crediting				
Net exchange gain/(losses)	19	(18)	22	(19)
Bad debts recovered	42	-	42	-
Charging				
Auditors' remuneration				
– current year	192	-	362	-
– under-provision in previous periods	-	-	-	74
Depreciation				
– owned assets	507	603	1,063	1,136
– leased assets	7	7	13	13
Operating lease rentals in respect of land and buildings	1,225	1,211	2,321	2,645
Staff costs (including directors' emoluments)				
Basic salaries, bonuses, allowances and benefits in kind	6,221	4,794	12,122	9,865
Retirement benefits scheme contributions	573	466	1,100	824
Provision for doubtful debts	-	11	-	11

4. Taxation

Taxation in the unaudited consolidated income statement represents:

	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax				
– over-provision in previous periods	–	210	–	401

No provision for profits tax in the Cayman Islands or the 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 for the periods after the estimated assessable profit less allowable losses brought forward by 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.

5. Interim dividend

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

6. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders during the period of HK\$2.0 million (2003: HK\$0.9 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.

7. 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:

	Unaudited as at 30 September 2004 HK\$'000	Audited as at 31 March 2004 HK\$'000
0 – 30 days	6,770	3,561
31 – 60 days	5,485	2,541
61 – 90 days	3,018	1,147
Over 90 days	7,955	7,860
Less: Provision	(2,566)	(2,566)
Trade receivables, net	<u>20,662</u>	<u>12,543</u>

8. 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:

	Unaudited as at 30 September 2004 HK\$'000	Audited as at 31 March 2004 HK\$'000
0 – 30 days	6,245	5,709
31 – 60 days	5,460	5,580
61 – 90 days	3,163	1,052
Over 90 days	5,497	4,806
	<u>20,365</u>	<u>17,147</u>

9. Share capital

	Unaudited as at 30 September 2004		Audited as at 31 March 2004	
	Number of shares	Par value HK\$'000	Number of shares	Par value HK\$'000
Authorized:				
Ordinary shares of HK\$0.01 each	<u>10,000,000,000</u>	<u>100,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.01 each	<u>540,000,000</u>	<u>5,400</u>	<u>540,000,000</u>	<u>5,400</u>

10. Commitments

As at 30 September 2004, the Group had no material commitments contracted but not provided for in respect of purchase of fixed assets (2004: Nil).

11. Segmental information

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 period and segment assets and liabilities are attributable to the segments based on the location of customers.

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

For the six months ended 30 September 2004

	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Overseas <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
Sales to external customers	<u>23,041</u>	<u>46,382</u>	<u>6,425</u>	<u>75,848</u>
Result				
Segment results	<u>201</u>	<u>8,292</u>	<u>2,067</u>	10,560
Unallocated corporate expenses				(8,750)
Other revenue (excluding interest income)				<u>350</u>
Operating profit				2,160
Finance costs				(178)
Interest income				<u>3</u>
Profit before taxation				1,985
Taxation				<u>-</u>
Profit attributable to shareholders				<u>1,985</u>

As at 30 September 2004

	Hong Kong HK\$'000	The PRC HK\$'000	Overseas HK\$'000	Unallocated HK\$'000	Total HK\$'000
Assets					
Segment assets	9,342	15,400	611	39,872	65,225
Total assets	9,342	15,400	611	39,872	65,225
Liabilities					
Segment liabilities	6,420	6,587	289	36,930	50,226
Total liabilities	6,420	6,587	289	36,930	50,226
Other information					
Capital expenditure	-	-	-	704	704
Depreciation	294	434	-	348	1,076

For the six months ended 30 September 2003

	Hong Kong HK\$'000	The PRC HK\$'000	Overseas HK\$'000	Total HK\$'000	
Revenue					
Sales to external customers	17,354	25,973	2,921	46,248	
Result					
Segment results	724	4,871	1,227	6,822	
Unallocated corporate expenses				(6,570)	
Other revenue (excluding interest income)				334	
Operating profit				586	
Finance costs				(65)	
Interest income				8	
Profit before taxation				529	
Taxation				401	
Profit attributable to shareholders				930	
As at 31 March 2004					
	Hong Kong HK\$'000	The PRC HK\$'000	Overseas HK\$'000	Unallocated HK\$'000	Total HK\$'000
Assets					
Segment assets	6,680	9,045	614	35,735	52,074
Total assets	6,680	9,045	614	35,735	52,074
Liabilities					
Segment liabilities	6,092	2,604	107	30,257	39,060
Total liabilities	6,092	2,604	107	30,257	39,060
Other information					
Capital expenditure	175	464	–	1,772	2,411
Depreciation	788	923	–	660	2,371
Provision for doubtful debts	245	954	–	–	1,199

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In terms of market segmentation, the office furniture industry is generally divided into three main categories: high-end market, mid-end market, and low-end market. The higher price market is dominated by overseas imports and high quality European products. These high-end products are usually of premium quality and designs. In view of this, the Group has successfully gained an exclusive distribution rights in contract furniture in the PRC and Hong Kong markets from a famous European vendor, Vitra, in September 2004. To celebrate in getting such exclusive distribution rights, the Group hosted a private movie screening to promote the launch of Vitra's products in the Mid-Autumn festival this year. Hundreds of the prestigious customers and design firms were invited to this function with excellent and positive feedbacks.

The Group's strategy is to expand the customers' base and sales turnover in order to maintain the mid-end market with the exploration of high-end market. The targeted customers of this market are mainly multinational corporations and financially strong local companies. Management believes that the high-end market offers significant growth potential and that the Group is well positioned to capitalize on these opportunities. Management will also continue focus on maximizing sales and leveraging its dealer and end-user relationships in the PRC and overseas. In addition to continuing to expand and enhance its office systems product lines, the Group is also expanding both the depth and breadth of its product lines by introduction of new products and product enhancements. The broaden range of products such as the European brand, Vitra, and New Zealand brand, Formway, are expected to provide more choices to customers and to meet their needs.

With the continuous development of the sizable multinational corporations and international professional firms in the PRC, the Group has a drastic growth in the turnover for the six months ended 30 September 2004 as compared to the previous year. The increasing business opportunities in the PRC market has strengthened the Group's PRC distribution network. The PRC market remained a major portion of the Group's turnover. This was reflected by the turnover attributable to the PRC market of approximately 59% and 61% of the Group's turnover for the three months and six months ended 30 September 2004 respectively. The turnover attributable to the Hong Kong and overseas markets were approximately 31% and 10% respectively for the three months ended 30 September 2004, and approximately 30% and 9% respectively for the six months ended 30 September 2004.

OUTLOOK

Management is aware that economic uncertainty, slowing growth of the contract furniture industry and the rising production costs may provide a more challenging environment for growth. However, today's business environment increasingly requires business organization to utilize office space more effectively, improve the work environment and increase employee productivity. Pressures for improvement developing within business organizations, coupled with global economic factors and rapid growth in the PRC market such as the major forthcoming events 2008 Olympic Games in Beijing will continue to create business opportunities in the office furniture industry in the PRC. The Group's customers are primarily large and mid-sized multinational corporations operating in a wide range of industries. Management believes that many of the Group's customers are leaders in their respective industries and that the Group will continue to benefit from the future development and growth of these customers.

The Group's sales growth has been primarily internally generated from direct sales rather than from dealership. The Group will continue to evaluate and establish the dealership networks in both the PRC and overseas markets. More dealers were appointed in the PRC with a total of seventeen dealers up to now covering the various cities including Shangxi, Chengdu, Chongqing, Dalian, Suzhou, Wuxi, Wuhan, Changsha, Hangzhou, Qingdao, Shengyang, Changchun, Harbin, Zhengzhou, Xiamen, Shenzhen, and Jinan. The Group is currently under negotiations with several dealers and expects approximately six more dealers to be appointed by the end of 2004 in other major cities to achieve wider geographical coverage in the PRC. The Group has also expanded the number of overseas dealers to twelve countries including the Philippines, India, Taiwan, Singapore, Thailand, Indonesia, Sri Lanka, Vietnam, Malaysia, New Zealand, Australia and United States. It is an encouraging result of the overseas dealers' spreading over the world with the coverage in Asia Pacific and United States. The Group expects to appoint dealers to explore the markets in Europe and Middle East as well.

Management will continue to focus sales and marketing efforts which it believes will drive the Group's sales growth and market expansion in the future.

FINANCIAL REVIEW

After suffering from a period of economic recession, Hong Kong finally has shown signs of a moderate market recovery with a moderate increase in GDP and property prices. The PRC is considered to be a lucrative market with business opportunities and market potential, attracting continuous money inflows of multinational corporations. The PRC market environment has been dynamic and fast growing

with many new offices being set up. In particular, the office furniture industry sector has benefited from this bullish market environment. The Group had shown substantial growth in turnover for the three months and six months ended 30 September 2004. Nevertheless, the overall volatility of raw materials and rising transportation costs have adversely affected the profit margin of the Group.

The Group's turnover for the three months and six months ended 30 September 2004 was approximately HK\$40.0 million and HK\$75.8 million respectively, represented an increase of approximately 83.6% and 64.0% as compared to the turnover of approximately HK\$21.8 million and HK\$46.2 million for the three months and six months ended 30 September 2003.

Gross profit margin of the Group for the three months and six months ended 30 September 2004 was approximately 33.6% and 36.0% respectively. The decrease in gross profit margin, as compared to the three months and six months ended 30 September 2003 of approximately 46.6% and 44.6%, was mainly attributable to an increase in sales discounts granted to customers because of fierce market competition and higher cost of sales incurred. The lower gross margin was resulted from the drastic increase in price of raw materials and transportation rate in the previous half a year. The raw materials costs increase was primarily comprised of particle board, metals, oil by products, chemicals and paintings. Due to the competitive market environment, the Group had been absorbing additional cost without shifting the burden to the customers in the short run in order to maintain a long term customers relationships. As a result, this contributed to a lower margin despite a great increase in the turnover. The Group will continuously review the cost structure and source alternative vendors to strive for the material efficiency in the production process. The Group will also consider the price review with responses to the continuous cost increase and balancing of demand from customers and market competition.

The total expenses were approximately HK\$13.6 million and HK\$25.7 million for the three months and six months ended 30 September 2004. The higher costs incurred by approximately 34.7% and 25.8% as compared to the same period of approximately HK\$10.1 million and HK\$20.4 million in the 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.

Management believes that it is very important for the Group to continue to invest significantly in areas such as product development, sales and marketing programs, information technology, staff upgrade and training, which are essential to the Group's growth strategy and increasing its market share in the office furniture market on a worldwide basis. Consequently, the selling, general and administrative expenses were increased in the period ended 30 September 2004 as compared to the same period in the previous year. The Group is in the stage of pacing for a long term business growth, and management believes that the increased cost of retaining quality staff and providing better services to customers will create long term benefit to the Group's business, which is expected to reflect in the financial performance in the foreseeable future.

Overall, the Group recorded a net profit attributable to shareholders of approximately HK\$0.1 million and HK\$2.0 million for the three and six months ended 30 September 2004. The Group's net profit margin was increased by approximately 113.4% as compared to the net profit of approximately HK\$0.9 million for the six months ended 30 September 2003. The move from a net loss for the year ended 31 March 2004 to a net profit for the six months ended 30 September 2004 was an encouraging turning point for the Group's recent business development.

Liquidity and Financial Resources

As at 30 September 2004, the Group had bank and cash balances of approximately HK\$19.1 million (2004: HK\$17.2 million) and short terms bank loans and overdrafts of approximately HK\$10.0 million (2004: HK\$7.3 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\$Nil (2004: HK\$0.15 million).

As at 30 September 2004, the Group has been granted banking facilities totaling of HK\$12.9 million (2004: HK\$11.5 million) of which HK\$9.9 million (2004: HK\$6.5 million) were utilized and were secured by pledge of fixed deposits, property 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 0.77 (2004: 0.75)

Capital Structure

The shares of the Group were listed on GEM of the Stock Exchange on 20 January 2004. There has been no change in the capital structure of the Group since its listing on GEM. Up to the period ended 30 September 2004, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders as at 30 September 2004 was approximately HK\$15 million (2004: HK\$13 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 arrangement to reduce the currency risk has 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 30 September 2004, the pledged assets of the Group are bank deposits amounted HK\$5 million (2004: HK\$5 million) and the property owned by the Group in PRC.

Human Resources

As at 30 September 2004, the Group employed approximately 725 staff and 71 staff in the PRC and Hong Kong respectively. The Group continues to employ, promote and reward its staff based on their performance and experience. The Group also consistently adopts a policy of human resources enrichment, and provides training programmes 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 emphasis on the staff quality.

Contingent Liabilities

As at 30 September 2004, the Group did not have any material contingent liabilities.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of actual business progress for the six months ended 30 September 2004 and the business objectives for the same period as set out in the prospectus.

Business objectives as set out in the prospectus	Actual business progress for the six months ended 30 September 2004
<p>Strengthening of marketing and promotional activities and brand name recognition</p> <ul style="list-style-type: none"> <li data-bbox="87 587 527 671">– Advertise and promote the brand name of Ultra in India, Malaysia, Singapore and Taiwan <li data-bbox="87 882 527 1082">– Modify the sales cycle in order to enhance the overall efficiency and success rate in obtaining new customers through the development and enhancement of the internal customer relationship management system <li data-bbox="87 1118 527 1203">– Enrich the corporate website by uploading the new products' specifications 	<ul style="list-style-type: none"> <li data-bbox="555 587 995 850">– The Group's image and Ultra brand name was promoted through the marketing activities such as private screening of movie in Hong Kong, and advertising in professional magazines. The promotional activities in other countries were postponed. <li data-bbox="555 882 995 1023">– The Group's tailor-made sales quotation and invoicing system was continuously enhanced to provide better functions and improve the overall efficiency. <li data-bbox="555 1118 995 1174">– The Group continued to enrich the corporate website.

Expansion of sales and distribution network in the PRC

- Expand the sales force of the Beijing and Guangzhou sales offices

- Provide training to the Shanghai, Beijing and Guangzhou sales teams, and the existing dealers in the PRC

- Study and evaluate potential dealers in the major PRC cities such as Chengdu, Chongqing, Shenyang, Xian, Wuhan, Qingdao, Tianjin, etc

Expansion of sales and distribution network in the overseas markets

- Appoint dealers in Indonesia, the United Kingdom and Australia. Travel to these cities to arrange marketing events and print marketing materials for them.

- The sales offices in Beijing and Guangzhou formed additional sales team to expand its customer base and sales coverage in nearby cities such as Dongguang and Shenzhen.

- In order to improve the quality and the professionalism of the sales teams and the project management teams, regular training was provided. The Group also conducted training courses and provided training materials for the PRC dealers.

- Progress of the PRC dealership arrangement was faster than the initial plan. A total of seventeen dealers were appointed in various major PRC cities.

- A better progress was achieved with additional seven overseas dealers being appointed for the six months ended 30 September 2004 including Indonesia, Sri Lanka, Vietnam, Malaysia, Australia, New Zealand and the United States. Agreement with a dealer in the United Kingdom is in progress and expected to be signed in the next quarter.

<p>Enhancement of the Group's existing products and the launch of new products</p> <ul style="list-style-type: none"> - Soft launch of new wall systems and enhance the features of the new wall systems - Design and develop new chairs - Study the feasibility of developing new panel systems - Staff recruitment of one product engineer 	<ul style="list-style-type: none"> - In accordance to the market needs, the wall system development was rescheduled. The Group had expanded other revenue streams to compensate for the slowdown in this segment. - The Group was granted the exclusive distribution rights in the PRC and Hong Kong for the distribution of chairs under the prestigious European and New Zealand brands. - The research was slowed down but the Group is continuing with the feasibility study. - The new product engineer was on board.
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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 planned to be applied to achieving the business objectives as set out in the Prospectus, of which an amount of approximately HK\$3.4 million was planned to be applied for the six months ended 30 September 2004, as follows:

	Use of the net proceeds as set out in the Prospectus <i>HK\$'000</i>	Actual amount utilized for six months ended 30 September 2004 <i>HK\$'000</i>	<i>Notes</i>
Strengthening of marketing and promotional activities and brand name recognition	1,200	1,164	1
Expansion of sales and distribution network in the PRC and oversea market	1,430	697	2
Enhancement of the Group's existing products and the launch of new products	800	678	3
Total	3,430	2,539	

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 net proceeds were applied in accordance with the actual development of the market.

1. The spending on strengthening of marketing and promotional activities and brand name recognition was on track and quite close to the planned business objectives as set in the prospectus.
2. The Group has gradually expanded the sales and dealership teams in line with the market situation. The Group is continuously reviewing the sales team structure to employ good quality staff. As the sales team was not yet fully filled up, the actual amount spent was less than planned.
3. The Group has been granted the exclusive rights from external source of vendors and launched new products. Enhancement of existing products is in progress with spending less than planned.

OTHER INFORMATIONS

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

As at 30 September 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	<i>Notes</i>	Percentage of shareholding
Cho Yuen Yi, Wendy	Interest of controlled corporations	199,057,500 (Long position)	1, 2 & 3	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. Huge Mars International Limited is wholly owned by Cho Yuen Yi, Wendy, she is interested in all the shares held by Huge Mars International Limited.
3. Excel Formation Limited is owned as to 50% by Cho Yuen Yi, Wendy, she 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 September 2004.

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

As at 30 September 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%
Cho Chun Man	Interest of controlled corporations	199,057,500	3, 4 & 5	36.86%

Notes:

- Relevant shares have been included in the interests of 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".
- 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.
- These shares are held as to 22,882,500 shares by Formation Wealth Limited and 176,175,000 shares by Excel Formation Limited.
- Formation Wealth Limited is wholly owned by Cho Chun Man, he is interested in all the shares held by Formation Wealth Limited.
- Excel Formation Limited is owned as to 50% by Cho Chun Man, he is deemed interested in all the shares of the Company held by Excel Formation Limited under the SFO.

Save as disclosed above, as at 30 September 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 September 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 September 2004, neither Deloitte & Touche Corporate Finance Ltd. ("DTCF") nor its directors, employees or associates, as defined in the GEM Listing Rules, had any interest in the securities of the Company or right to subscribe for or to nominate person to subscribe for securities of the Company.

Pursuant to 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 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The 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 Institute of Certified Public 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 three independent non-executive directors, namely Siu Siu Ling, Robert, Wong Yun Kuen and Kong Tze Wing and Kong Tze Wing is the chairman of the audit committee.

The unaudited interim results for the six months ended 30 September 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. Securities transactions by Directors

During the six months ended 30 September 2004, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

9. 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, 12 November 2004