



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

Third
Quarterly
Report

第三季度報告

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

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

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

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

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

This report, for which the directors (the “Directors”) of Ultra Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on 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 nine months ended 31 December 2004 amounted to approximately HK\$115.5 million (2003: HK\$68.7 million), representing an increase of approximately 68.1% as compared to the same period last year.
- Net profit attributable to shareholders during the nine months ended 31 December 2004 amounted to approximately HK\$2.1 million (2003: HK\$1.6 million), representing an increase of approximately 32.5% as compared to the same period last year.
- Earnings per share of the Group was approximately HK\$0.4 cents (2003: HK\$0.4 cents) for the nine months ended 31 December 2004.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 31 December 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 and nine months ended 31 December 2004, together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

	Notes	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	39,603	22,421	115,451	68,669
Cost of sales		(26,024)	(12,073)	(74,550)	(37,705)
Gross profit		13,579	10,348	40,901	30,964
Other revenue		157	216	510	558
Selling and distribution costs		(5,234)	(3,669)	(15,051)	(10,628)
Administrative and other operating expenses		(8,229)	(6,225)	(23,924)	(19,607)
Profit from operations		273	670	2,436	1,287
Finance costs		(124)	(13)	(302)	(78)
Profit before taxation		149	657	2,134	1,209
Taxation	3	–	–	–	401
Profit attributable to shareholders		149	657	2,134	1,610
Dividends	4	–	–	–	–
Basic earnings per share (cents)	5	0.03	0.16	0.40	0.40

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 31 December 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 three months and nine months ended 31 December 2004:

	Unaudited Three months ended 31 December				Unaudited Nine months ended 31 December			
	2004		2003		2004		2003	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Hong Kong	7,831	20	8,415	38	30,873	27	25,044	37
The PRC	27,945	70	11,940	53	74,327	64	38,638	56
Overseas	3,827	10	2,066	9	10,251	9	4,987	7
Total	39,603	100	22,421	100	115,451	100	68,669	100

3. Taxation

Taxation in the unaudited consolidated income statement represents:

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax				
– over-provision in previous periods	–	–	–	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.

4. Dividends

The Directors do not recommend the payment of dividend for the nine months ended 31 December 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\$2.1 million (2003: HK\$1.6 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	-	-	-	(9)	-	(9)
Profit for the period	-	-	-	-	1,610	1,610
At 31 December 2003	-	-	-	(57)	8,492	8,435
At 1 April 2004	5,400	9,536	(122)	(48)	(1,752)	13,014
Profit for the period	-	-	-	-	2,134	2,134
At 31 December 2004	5,400	9,536	(122)	(48)	382	15,148

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Due to the favorable market condition in the PRC and Hong Kong in the current year, the Group has sustained a considerable growth in turnover for the three months and nine months ended 31 December 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 nine months ended 31 December 2004 was approximately HK\$39.6 million and HK\$115.5 million respectively, representing an increase of approximately 76.6% and 68.1% as compared to the turnover of approximately HK\$22.4 million and HK\$68.7 million for the three months and nine months ended 31 December 2003.

Gross profit margin of the Group for the three months and nine months ended 31 December 2004 was approximately 34.3% and 35.4% respectively. The decrease in gross profit margin, as compared to the three months and nine months ended 31 December 2003 of approximately 46.2% and 45.1%, 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 profit margin was resulted from the drastic increase in price of raw materials and transportation costs in the current year. Such raw materials were mainly 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 its customers in the short run in order to maintain a long term customers relationships. As a result, this contributed to a lower gross profit 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 to review the price of its products with reference 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\$39.3 million for the three months and nine months ended 31 December 2004 respectively. The higher costs incurred by approximately 37.1% and 29.6% as compared to the same period of approximately HK\$9.9 million and HK\$30.3 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 in the formation of 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 the previous year.

Management believes that it is significant 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 for the period ended 31 December 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\$2.1 million for the three and nine months ended 31 December 2004 respectively. The Group's net profit was increased by approximately 32.5% as compared to the net profit of approximately HK\$1.6 million for the nine months ended 31 December 2003. The move from a net loss for the year ended 31 March 2004 to a net profit for the nine months ended 31 December 2004 was an encouraging turning point for the Group's recent business development.

As at 31 December 2004, the Group had bank and cash balances of approximately HK\$18.4 million (as at 31 March 2004: HK\$17.2 million) and short terms bank loans and overdrafts of approximately HK\$12.8 million (as at 31 March 2004: HK\$7.3 million) respectively.

Business Review

With the successful promotion programme of the European brand Vitra through the private movie screening in October 2004, positive feedbacks and numerous enquiries were received from various design firms and end customers. The Group has stepped out to penetrate the high-end market with the high-end products of premium quality and designs.

The Group's strategy to expand the customers' base and sales turnover in order to maintain the mid-range market with the exploration of high-end market has been reflected in the substantial increase in turnover for the three months and nine months ended 31 December 2004. The sales projects achieved in this period are mainly for multinational corporations such as the prestigious professional firms and financially strong local companies. The Group is well positioned to capitalize on the opportunities in offering broaden range and higher quality products to meet the significant growth potential of dealers and end-users market in the PRC, Hong Kong and overseas.

By expanding both the depth and breadth of its product lines with the introduction of new products and product enhancements such as the European brand, Vitra, and New Zealand brand, Formway, more choices were available to customers to meet their needs. The Group has entered into a distribution agreement with Formway for the distribution of "Life Chair" products and an OEM & distribution arrangement for the distribution of the desking system "Free and Grid". The localization progress of production for "Free and Grid" is substantially completed. The Group has hosted another product launch to promote the Formway's brand product "Life Chair" and the desking system "Free and Grid" in November 2004. The Group expected the new features and the stylish design of this product brand will be attractive to the customers and will bring contribution to the Group's future income.

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 nine months ended 31 December 2004 as compared to the previous year. The increasing business opportunities in the PRC market have 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 70% and 64% of the Group's turnover for the three months and nine months ended 31 December 2004 respectively. The turnover attributable to the Hong Kong and overseas markets was approximately 20% and 10% for the three months ended 31 December 2004 respectively, and approximately 27% and 9% for the nine months ended 31 December 2004 respectively.

Outlook

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. Notwithstanding the drastic growth in turnover, the Group is pressurized in the slimmed margin resulting from rising raw material and transportation costs. One of the Group's aims is to strengthen the procurement and research & development team to improve the material efficiency and the profit margin of the Group.

The continuous establishment of the dealership networks in both the PRC and overseas markets have shown progress. More dealers were appointed in the PRC with a total of eighteen 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, Jinan and Xian. The Group is currently under negotiations with several dealers and expects approximately five more dealers to be appointed by the 2005 financial year end in other major cities to achieve wider geographical coverage in the PRC. The Group has currently expanded overseas dealers' coverage to mainly twelve

Asia Pacific countries including the Philippines, India, Taiwan, Singapore, Thailand, Indonesia and Sri Lanka, Vietnam, Malaysia, New Zealand, Australia and United States. The Group expects to appoint dealers to explore the markets in Europe and Middle East as well.

Management remains optimistic about the long term prospects of the Group, and this confidence has in part been based on the continuous expansion of sales and distribution networks of the Group. Therefore, management is confident that the Group's turnover will maintain a steady growth in the foreseeable future.

OTHER INFORMATION

1. Interests and Short Positions of Directors and Chief Executives in Shares, Underlying Shares and Debentures

As at 31 December 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, 2 & 3	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 respectively.
- Huge Mars International Limited is wholly owned by Cho Yuen Yi, Wendy whom is deemed interested in all the shares held by Huge Mars International Limited under the SFO.
- Excel Formation Limited is owned as to 50% by Cho Yuen Yi, Wendy and 50% by Cho Chun Man, each of whom 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 31 December 2004.

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

As at 31 December 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 (Long position)	1 & 5	32.63%
Gold Master Business Limited	Beneficial owner	81,000,000 (Long position)	2	15.00%
Chan Pak Hung	Interest of a controlled corporation	81,000,000 (Long position)	2	15.00%
Chan Pat Leung	Interest of a controlled corporation	81,000,000 (Long position)	2	15.00%
Cho Chun Man	Interest of controlled corporations	199,057,500 (Long position)	3, 4 & 5	36.86%

Notes:

1. 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".

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.
3. These shares are held as to 22,882,500 shares by Formation Wealth Limited and 176,175,000 shares by Excel Formation Limited respectively.
4. Formation Wealth Limited is wholly owned by Cho Chun Man whom is deemed interested in all the shares held by Formation Wealth Limited under the SFO.
5. Excel Formation Limited is owned as to 50% by Cho Yuen Yi, Wendy and 50% by Cho Chun Man, each of whom is deemed interested in all the shares of the Company held by Excel Formation Limited under the SFO.

Save as disclosed above, as at 31 December 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 31 December 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 31 December 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 quarterly results for the nine months ended 31 December 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 nine months ended 31 December 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 during the nine months ended 31 December 2004.

By order of the Board
Cho Yuen Yi, Wendy
Chairman

Hong Kong, 8 February 2005