



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)

Stock Code: 8203 股票代號: 8203



2006 Interim Report  
中期報告



## **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.**

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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.*

- Turnover of the Group for the six months ended 30 September 2006 amounted to approximately HK\$149.6 million (2005: HK\$119.5 million), representing an increase of approximately 25.2% as compared to the same period last year.
- Net profit attributable to equity holders of the Company for the six months ended 30 September 2006 amounted to approximately HK\$9.8 million (2005: HK\$8.4 million), representing an increase of approximately 17.7% as compared to the same period last year.
- Earnings per share of the Group was approximately HK cents 1.8 (2005: HK cents 1.6) for the six months ended 30 September 2006.

**02 CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

The board of directors (the “Board” or the “Directors”) of Ultra Group Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 September 2006, together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

|   | Notes | Unaudited<br>Three months ended<br>30 September |                  | Unaudited<br>Six months ended<br>30 September |                  |
|---|-------|---|------------------|---|------------------|
|   |       | 2006<br>HK\$'000                                | 2005<br>HK\$'000 | 2006<br>HK\$'000                              | 2005<br>HK\$'000 |
| Turnover  | 3     | 77,854  | 62,730           | 149,583                                       | 119,483          |
| Cost of sales   |       | (52,069)  | (41,815)         | (99,146)                                      | (79,652)         |
| Gross profit  |       | 25,785  | 20,915           | 50,437  | 39,831           |
| Other income  |       | 280   | 295              | 759   | 601              |
| Selling and distribution costs  |       | (9,686)   | (6,972)          | (18,325)                                      | (12,916)         |
| Administrative and other<br>operating expenses                            |       | (11,249)  | (9,581)          | (22,676)                                      | (18,843)         |
| Profit from operations  | 4     | 5,130   | 4,657            | 10,195  | 8,673            |
| Finance costs   |       | (175)   | (107)            | (347)   | (280)            |
| Profit before taxation  |       | 4,955   | 4,550            | 9,848   | 8,393            |
| Taxation  | 5     | –   | (23)             | –   | (23)             |
| Profit for the period attributable<br>to equity holders of<br>the Company |       | 4,955   | 4,527            | 9,848   | 8,370            |
| Dividends   | 6     | –   | –                | –   | –                |
| Basic earnings per shares<br>(cents)                                      | 7     | 0.92  | 0.84             | 1.82  | 1.55             |

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 SEPTEMBER 2006

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|  | <i>Note</i> | <b>Unaudited<br/>as at<br/>30 September<br/>2006<br/>HK\$'000</b> | <b>Audited<br/>as at<br/>31 March<br/>2006<br/>HK\$'000</b> |
|--|-------------|---|---|
| <b>Non-current assets</b>                                  |             |   |   |
| Fixed assets   |             | 15,639  | 13,142  |
| Prepaid land lease payments                                |             | 1,343   | 1,363   |
| Intangible assets  |             | 373   | –   |
|  |             | <u>17,355</u>   | <u>14,505</u>   |
| <b>Current assets</b>                                      |             |   |   |
| Inventories  |             | 11,753  | 11,957  |
| Trade and bills receivables                                | 8           | 53,403  | 50,775  |
| Deposits, prepayments and other receivables                |             | 4,394   | 2,811   |
| Tax recoverable  |             | –   | 198   |
| Pledged bank deposits                                      |             | 3,521   | 3,521   |
| Bank and cash balances                                     |             | 32,707  | 24,362  |
|  |             | <u>105,778</u>  | <u>93,624</u>   |
| <b>Less: Current liabilities</b>                           |             |   |   |
| Trade and bills payables                                   | 9           | 36,892  | 32,167  |
| Other payables and accruals                                |             | 24,182  | 21,431  |
| Dividend payables  |             | 22  | 98  |
| Sales deposits received                                    |             | 6,272   | 8,618   |
| Short term borrowings                                      |             | 7,386   | 7,116   |
| Current portion of long term borrowings                    |             | 277   | 318   |
|  |             | <u>75,031</u>   | <u>69,748</u>   |
| <b>Net current assets</b>                                  |             | <u>30,747</u>   | <u>23,876</u>   |
| <b>Total assets less current liabilities</b>               |             | <u>48,102</u>   | <u>38,381</u>   |
| <b>Non-current liabilities</b>                             |             |   |   |
| Long term borrowings                                       |             | 654   | 781   |
| <b>NET ASSETS</b>  |             | <u>47,448</u>   | <u>37,600</u>   |
| <b>Capital and reserves</b>                                |             |   |   |
| Share capital  | 10          | 5,400   | 5,400   |
| Reserves   |             | 42,048  | 32,200  |
| <b>EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY</b> |             | <u>47,448</u>   | <u>37,600</u>   |

**04 CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

|   | <b>Unaudited<br/>Six months ended<br/>30 September</b> |                  |
|---|--|------------------|
|   | <b>2006<br/>HK\$'000</b>                               | 2005<br>HK\$'000 |
| Net cash generated from operating activities              | <b>12,481</b>  | 5,271            |
| Net cash used in investing activities                     | <b>(4,239)</b>   | (1,342)          |
| Net cash generated from/(used in)<br>financing activities | <b>103</b>   | (2,408)          |
| Net increase in cash and cash equivalents                 | <b>8,345</b>   | 1,521            |
| Cash and cash equivalents at 1 April                      | <b>24,362</b>  | 11,370           |
| Cash and cash equivalents at 30 September                 | <b>32,707</b>  | 12,891           |
| Analysis of cash and cash equivalents                     |  |                  |
| Bank and cash balances                                    | <b>32,707</b>  | 12,899           |
| Bank overdrafts   | –  | (8)              |
|   | <b>32,707</b>  | 12,891           |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

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|                       | Reserves                     |                              |                               |   |                                | Total<br>HK\$'000 |
|-----------------------|------------------------------|------------------------------|-------------------------------|---|--------------------------------|-------------------|
|                       | Share<br>capital<br>HK\$'000 | Share<br>premium<br>HK\$'000 | Merger<br>reserve<br>HK\$'000 | Foreign<br>currency<br>translation<br>reserve<br>HK\$'000 | Retained<br>profit<br>HK\$'000 |                   |
| At 1 April 2005       | 5,400                        | 9,536                        | (122)                         | (48)  | 1,355                          | 16,121            |
| Profit for the period | –                            | –                            | –                             | –   | 8,370                          | 8,370             |
| At 30 September 2005  | <u>5,400</u>                 | <u>9,536</u>                 | <u>(122)</u>                  | <u>(48)</u>   | <u>9,725</u>                   | <u>24,491</u>     |
| At 1 April 2006       | 5,400                        | 9,536                        | (122)                         | 483   | 22,303                         | 37,600            |
| Profit for the period | –                            | –                            | –                             | –   | 9,848                          | 9,848             |
| At 30 September 2006  | <u>5,400</u>                 | <u>9,536</u>                 | <u>(122)</u>                  | <u>483</u>  | <u>32,151</u>                  | <u>47,448</u>     |

## 06 NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is 3/F., Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong. The Company's shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 January 2004.

### 2. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies.

The accounting policies and basis of the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2006.

### 3. Turnover

The Group is principally engaged in the manufacturing and sales of office furniture. 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 (the "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.

## NOTES TO THE FINANCIAL STATEMENTS

**3. Turnover (continued)**

The following table sets out the turnover breakdown of the Group by geographical region for the three months and six months ended 30 September 2006:

|           | Unaudited<br>Three months ended<br>30 September |            |               |            | Unaudited<br>Six months ended<br>30 September |            |                |            |
|-----------|---|------------|---------------|------------|---|------------|----------------|------------|
|           | 2006  |            | 2005          |            | 2006  |            | 2005           |            |
|           | HK\$'000  | %          | HK\$'000      | %          | HK\$'000                                      | %          | HK\$'000       | %          |
| Hong Kong | 27,419  | 35         | 22,923        | 37         | 48,424  | 32         | 37,582         | 31         |
| The PRC   | 34,665  | 45         | 27,569        | 44         | 72,854  | 49         | 62,817         | 53         |
| Overseas  | 15,770  | 20         | 12,238        | 19         | 28,305  | 19         | 19,084         | 16         |
| Total     | <u>77,854</u>                                   | <u>100</u> | <u>62,730</u> | <u>100</u> | <u>149,583</u>                                | <u>100</u> | <u>119,483</u> | <u>100</u> |

**08 NOTES TO THE FINANCIAL STATEMENTS**

**4. Profit from operations**

Profit from operations is stated after charging the following:

|   | Unaudited<br>Three months ended<br>30 September |                  | Unaudited<br>Six months ended<br>30 September |                  |
|---|---|------------------|---|------------------|
|   | 2006<br>HK\$'000                                | 2005<br>HK\$'000 | 2006<br>HK\$'000                              | 2005<br>HK\$'000 |
| <b>Charging</b>   |   |                  |   |                  |
| Auditors' remuneration  | 153   | 106              | 320   | 347              |
| Cost of inventories sold<br>(included net allowance<br>of obsolete inventories) | 40,226  | 31,517           | 76,037  | 62,318           |
| Depreciation  |   |                  |   |                  |
| – owned assets  | 603   | 508              | 1,224   | 1,074            |
| – leased assets   | 65  | 79               | 130   | 79               |
|   | 668   | 587              | 1,354   | 1,153            |
| Amortisation of intangible assets   | 16  | –                | 16  | –                |
| Operating lease rentals in<br>respect of land and buildings                     | 1,806   | 1,276            | 3,489   | 2,398            |
| Staff costs (including directors'<br>emoluments)                                |   |                  |   |                  |
| Basic salaries, bonuses,<br>allowances and benefits in kind                     | 10,470  | 7,728            | 20,800  | 15,038           |
| Retirement benefits scheme<br>contributions                                     | 733   | 662              | 1,363   | 1,314            |
| Allowance for doubtful debts  | 225   | –                | 225   | –                |
| Net exchange losses   | 322   | 43               | 534   | 24               |

## NOTES TO THE FINANCIAL STATEMENTS

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## 5. Taxation

|  | Unaudited<br>Three months ended<br>30 September |                  | Unaudited<br>Six months ended<br>30 September |                  |
|--|---|------------------|---|------------------|
|  | 2006<br>HK\$'000                                | 2005<br>HK\$'000 | 2006<br>HK\$'000                              | 2005<br>HK\$'000 |
| Hong Kong profits tax<br>– underprovision in pervious<br>years | –   | 23               | –   | 23               |

No provision for Hong Kong profits tax is required since the Group has sufficient tax losses brought forward to set off against current year's assessable profit for the year. Certain allowable losses of the subsidiaries of the Company incorporated in Hong Kong are yet to be agreed by the Inland Revenue Department.

Pursuant to the relevant laws and regulations in the PRC, Zhaoqing Ultra Furniture Company Limited, a wholly-owned subsidiary of the Company established in Zhaoqing, the PRC is subject to enterprise income tax rate at 24% on its taxable profit in accordance with 中華人民共和國外商投資企業和外國企業所得稅法. However, it is exempted from enterprise income tax for two years starting from the first year of profitable operation 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 tax effect of temporary differences is not material to the Group.

## 6. Dividends

The Directors do not recommend the payment of dividend for the six months ended 30 September 2006 (2005: HK\$Nil).

**10 NOTES TO THE FINANCIAL STATEMENTS****7. Earnings per share**

The calculation of basic earnings per share is based on the consolidated profit attributable to equity holders of the Company for the six months ended 30 September 2006 of HK\$9.8 million (2005: HK\$8.4 million) and 540,000,000 (2005: 540,000,000) ordinary shares of the Company in issue throughout the six months ended 30 September 2006.

No diluted earnings per share have been presented as the Company did not have any diluted potential ordinary shares during the six months ended 30 September 2006.

**8. Trade and bills receivables**

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

|                                    | <b>Unaudited<br/>as at<br/>30 September<br/>2006<br/>HK\$'000</b> | Audited<br>as at<br>31 March<br>2006<br>HK\$'000 |
|------------------------------------|---|--|
| 0 – 30 days                        | <b>19,182</b>   | 15,886   |
| 31 – 60 days                       | <b>7,681</b>  | 7,663  |
| 61 – 90 days                       | <b>10,355</b>   | 14,084   |
| Over 90 days                       | <b>18,475</b>   | 15,207   |
| Less: Allowance for doubtful debts | <b>(2,290)</b>  | (2,065)  |
| Trade and bills receivables, net   | <b><u>53,403</u></b>  | <u>50,775</u>                                    |

## NOTES TO THE FINANCIAL STATEMENTS

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**9. Trade and bills payables**

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

|              | <b>Unaudited<br/>as at<br/>30 September<br/>2006<br/>HK\$'000</b> | Audited<br>as at<br>31 March<br>2006<br>HK\$'000 |
|--------------|---|--|
| 0 – 30 days  | 18,897  | 13,912   |
| 31 – 60 days | 11,179  | 9,010  |
| 61 – 90 days | 4,018   | 4,777  |
| Over 90 days | 2,798   | 4,468  |
|              | <u>36,892</u>   | <u>32,167</u>                                    |

**10. Share capital**

|  | <b>Unaudited<br/>as at<br/>30 September<br/>2006<br/>HK\$'000</b> | Audited<br>as at<br>31 March<br>2006<br>HK\$'000 |
|--|---|--|
| Authorised:  |   |  |
| 10,000,000,000 ordinary shares<br>of HK\$0.01 each | <u>100,000</u>  | <u>100,000</u>                                   |
| Issued and fully paid:                             |   |  |
| 540,000,000 ordinary shares<br>of HK\$0.01 each    | <u>5,400</u>  | <u>5,400</u>                                     |

**12** NOTES TO THE FINANCIAL STATEMENTS**11. Contingent liabilities**

A subsidiary company of the Group is currently a co-defendant with the company's driver in a lawsuit brought by a party in a personal injury claim involving a traffic accident. The Group and its insurance company have been contesting the claim. Though the final outcome of the proceedings is still uncertain, the Directors are of the opinion that the ultimate liability of the Group arising from the claim, if any, should not have a material adverse impact upon the Group's financial position (as at 31 March 2006: HK\$Nil).

**12. Capital commitments**

Details of capital commitments were as follows:

|                                    | <b>Unaudited<br/>as at<br/>30 September<br/>2006<br/>HK\$'000</b> | Audited<br>as at<br>31 March<br>2006<br>HK\$'000 |
|------------------------------------|---|--|
| Contracted but not provided for    |   |  |
| – construction of factory premises | 453   | 871  |
| – machinery                        | 596   | –  |
| – non-current investments          | 5,226   | 5,226  |
|                                    | <u>6,275</u>  | <u>6,097</u>                                     |

**13. Lease commitments**

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

|  | <b>Unaudited<br/>as at<br/>30 September<br/>2006<br/>HK\$'000</b> | Audited<br>as at<br>31 March<br>2006<br>HK\$'000 |
|--|---|--|
| Within one year                        | 8,100   | 5,793  |
| In the second to fifth years inclusive | 11,622  | 9,411  |
|  | <u>19,722</u>   | <u>15,204</u>                                    |

## NOTES TO THE FINANCIAL STATEMENTS

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**14. 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 year and segment assets and liabilities are attributable to the segments based on the location of customers.

*Geographical segments*

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

**For the six months ended 30 September 2006**

|   | Hong Kong<br>HK\$'000 | The PRC<br>HK\$'000 | Overseas<br>HK\$'000 | Total<br>HK\$'000 |
|---|-----------------------|---------------------|----------------------|-------------------|
| <b>Revenue</b>  |                       |                     |                      |                   |
| Sales to external customers   | <u>48,424</u>         | <u>72,854</u>       | <u>28,305</u>        | <u>149,583</u>    |
| <b>Results</b>  |                       |                     |                      |                   |
| Segment results   | <u>2,521</u>          | <u>9,996</u>        | <u>8,844</u>         | 21,361            |
| Unallocated corporate expenses                                      |                       |                     |                      | (11,925)          |
| Other income (excluding interest income)                            |                       |                     |                      | <u>441</u>        |
| Operating profit  |                       |                     |                      | 9,877             |
| Finance costs   |                       |                     |                      | (347)             |
| Interest income   |                       |                     |                      | <u>318</u>        |
| Profit before taxation  |                       |                     |                      | 9,848             |
| Taxation  |                       |                     |                      | <u>-</u>          |
| Profit for the period attributable to equity holders of the Company |                       |                     |                      | <u>9,848</u>      |

**14** NOTES TO THE FINANCIAL STATEMENTS**14. Segmental information** (continued)

As at 30 September 2006

|                               | Hong Kong<br>HK\$'000 | The PRC<br>HK\$'000 | Overseas<br>HK\$'000 | Unallocated<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------------|-----------------------|---------------------|----------------------|-------------------------|-------------------|
| <b>Assets</b>                 |                       |                     |                      |                         |                   |
| Segment assets                | 18,663                | 32,940              | 7,956                | 63,574                  | 123,133           |
| Total assets                  | <u>18,663</u>         | <u>32,940</u>       | <u>7,956</u>         | <u>63,574</u>           | <u>123,133</u>    |
| <b>Liabilities</b>            |                       |                     |                      |                         |                   |
| Segment liabilities           | 9,592                 | 6,793               | 8,488                | 50,812                  | 75,685            |
| Total liabilities             | <u>9,592</u>          | <u>6,793</u>        | <u>8,488</u>         | <u>50,812</u>           | <u>75,685</u>     |
| <b>Other Information</b>      |                       |                     |                      |                         |                   |
| Capital expenditure           | <u>538</u>            | <u>1,632</u>        | <u>–</u>             | <u>1,680</u>            | <u>3,850</u>      |
| Depreciation and amortisation | <u>416</u>            | <u>396</u>          | <u>–</u>             | <u>558</u>              | <u>1,370</u>      |
| Allowance for doubtful debts  | <u>225</u>            | <u>–</u>            | <u>–</u>             | <u>–</u>                | <u>225</u>        |

## NOTES TO THE FINANCIAL STATEMENTS

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## 14. Segmental information (continued)

For the six months ended 30 September 2005

|   | Hong Kong<br>HK\$'000 | The PRC<br>HK\$'000 | Overseas<br>HK\$'000 | Total<br>HK\$'000 |
|---|-----------------------|---------------------|----------------------|-------------------|
| <b>Revenue</b>  |                       |                     |                      |                   |
| Sales to external customers   | 37,582                | 62,817              | 19,084               | 119,483           |
| <b>Results</b>  |                       |                     |                      |                   |
| Segment results   | 3,445                 | 9,862               | 5,961                | 19,268            |
| Unallocated corporate expenses                                      |                       |                     |                      | (11,196)          |
| Other income (excluding interest income)                            |                       |                     |                      | 576               |
| Operating profit  |                       |                     |                      | 8,648             |
| Finance costs   |                       |                     |                      | (280)             |
| Interest income   |                       |                     |                      | 25                |
| Profit before taxation  |                       |                     |                      | 8,393             |
| Taxation  |                       |                     |                      | (23)              |
| Profit for the period attributable to equity holders of the Company |                       |                     |                      | 8,370             |

As at 31 March 2006

|                               | Hong Kong<br>HK\$'000 | The PRC<br>HK\$'000 | Overseas<br>HK\$'000 | Unallocated<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------------|-----------------------|---------------------|----------------------|-------------------------|-------------------|
| <b>Assets</b>                 |                       |                     |                      |                         |                   |
| Segment assets                | 16,121                | 31,444              | 10,632               | 49,932                  | 108,129           |
| Total assets                  | 16,121                | 31,444              | 10,632               | 49,932                  | 108,129           |
| <b>Liabilities</b>            |                       |                     |                      |                         |                   |
| Segment liabilities           | 8,838                 | 8,524               | 6,627                | 46,540                  | 70,529            |
| Total liabilities             | 8,838                 | 8,524               | 6,627                | 46,540                  | 70,529            |
| <b>Other Information</b>      |                       |                     |                      |                         |                   |
| Capital expenditure           | 1,243                 | 882                 | –                    | 1,933                   | 4,058             |
| Depreciation and amortisation | 606                   | 863                 | –                    | 966                     | 2,435             |
| Allowance for doubtful debts  | 240                   | 471                 | –                    | –                       | 711               |

## 16 MANAGEMENT DISCUSSION AND ANALYSIS

### **Business Review and Outlook**

During the six months ended 30 September 2006 under review, the Group has continued to maintain its steady growth to provide total office furnishing solutions in Hong Kong, the People's Republic of China (the "PRC") and overseas markets.

To pave the way for our business objective to be one of the leading office furniture companies in Asia, the Group has continued to further strengthen its organizational structure by expanding the premier team to formulate marketing strategies to drive distribution performance of import brands, including European-brand Vitra and New Zealand-brand Formway. Marketing campaign was launched among the interior design sector in the Southern China region to enhance market penetration.

In addition to the sales and marketing events, a series of brand building advertising campaigns were launched and advertisements were placed with high-end publications in Hong Kong and major cities in the PRC.

In view of the promising economic growth in Beijing under the PRC's municipal plan to transform the Central Business District (CBD) into Beijing's business hub, the Group has coped with the robust growth by relocating the Beijing sales office and showroom to a premium office premises in the Oriental Plaza.

The Group has continued to put increasing efforts to review dealer performance and to identify quality dealers to enhance market penetration in potential cities and strengthen network establishment. During the period under review, the Group has successfully appointed new dealers in Nanchang, Changsha, Qingdao and Macau, constituting a total of twenty-nine dealers in the PRC and Macau.

In order to enhance the Group's market potential and maintain the competitiveness of its products and brand, the Group has continued to devote resources in (i) product design to incorporate research and development insight in line with the market demand, and (ii) corporate communications to proliferate the Group's brand portfolio which aimed at developing the competitive brand recognition of the Group.

## Financial Review

The turnover of the Group for the three months and six months ended 30 September 2006 were approximately HK\$77.9 million and HK\$149.6 million respectively, representing an increase of approximately 24.1% and 25.2% as compared to the turnover of approximately HK\$62.7 million and HK\$119.5 million for the same periods ended 30 September 2005.

Gross profit of the Group for the three months and six months ended 30 September 2006 were approximately HK\$25.8 million and HK\$50.4 million respectively. The gross profit margin was maintained at similar level of approximately 33% as compared to the same periods last year.

The total expenses for the three months and six months ended 30 September 2006 were approximately HK\$21.1 million and HK\$41.3 million respectively, representing an increase of approximately HK\$4.4 million and HK\$9.3 million as compared to approximately HK\$16.7 million and HK\$32.0 million for the corresponding periods last year. The percentage of total expenses to sales was approximately 27.1% and 27.6% for the three months and six months ended 30 September 2006 respectively, which was close to 26.6% and 26.8% for the corresponding periods of 2005. The increase in expenses was in line with the tremendous increase in turnover.

The Group recorded a net profit attributable to equity holders of approximately HK\$5.0 million and HK\$9.8 million for the three months and six months ended 30 September 2006 respectively. The Group's net profit increased by approximately 9.5% and 17.7% as compared to the net profit of approximately HK\$4.5 million and HK\$8.4 million for the three months and six months ended 30 September 2005 respectively.

### *Liquidity and Financial Resource*

As at 30 September 2006, the Group had bank and cash balances of approximately HK\$36.2 million (as at 31 March 2006: HK\$27.9 million). The Group's bank overdrafts and short term bank loans and obligations under finance leases amounted to approximately HK\$7.7 million (as at 31 March 2006: HK\$7.4 million). These borrowings are denominated in Hong Kong dollars, United States dollars and Renminbi and are repayable within one year and bear interest at prevailing market rates.

**18 MANAGEMENT DISCUSSION AND ANALYSIS**

The Group's long term liabilities, which comprised obligations under finance leases repayable in two to five years, amounted to approximately HK\$0.7 million (as at 31 March 2006: HK\$0.8 million). These finance leases bear interest at prevailing market rates and are denominated in Hong Kong dollars.

*Gearing Ratio*

The Group's gearing ratio as at 30 September 2006, representing the ratio of the Group's total liabilities over the Group's total assets, was 0.61 (as at 31 March 2006: 0.65).

*Capital Structure*

There has been no change in the capital structure of the Company for the six months ended 30 September 2006. During the six months ended 30 September 2006, the Group's net assets were financed by internal resources through its share capital and reserves. Total equity attributable to equity holders as at 30 September 2006 was approximately HK\$47.4 million (as at 31 March 2006: HK\$37.6 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 exposed to significant foreign exchange risk. Hence, no hedging or other arrangements to reduce the Renminbi currency risk have been implemented.

*Charge on the Group's Assets*

Some of the Group's assets are charged to banks as security for general banking facilities granted to the Group. As at 30 September 2006, the assets of the Group charged to banks included bank deposits in the aggregate amount of approximately HK\$3.5 million (as at 31 March 2006: HK\$3.5 million) and the prepaid land lease payments and the buildings owned by the Group in the PRC.

**MANAGEMENT DISCUSSION AND ANALYSIS****19***Human Resources*

As at 30 September 2006, the Group had approximately 918 (as at 31 March 2006: 892) employees in the PRC and approximately 114 (as at 31 March 2006: 103) staff in Hong Kong. The Group continues to employ, promote and reward its staff with reference to their performance and experience. The Group also consistently adopts a policy of human resources enrichment, and provides training programme to its employees. In addition to their basic salaries, the Group's employees also enjoy other fringe benefits such as provident fund. Management will continue to closely monitor the human resources requirements of the Group, and will also put emphasis on the staff quality.

For the six months ended 30 September 2006, the total staff costs, including Directors' emoluments, amounted to approximately HK\$22.2 million (2005:HK\$16.4 million).

*Contingent Liabilities*

A subsidiary company of the Group is currently a co-defendant with the company's driver in a lawsuit brought by a party in a personal injury claim involving a traffic accident. The Group and its insurance company have been contesting the claim. Though the final outcome of the proceedings is still uncertain, the Directors are of the opinion that the ultimate liability of the Group arising from the claim, if any, should not have a material adverse impact upon the Group's financial position (as at 31 March 2006: HK\$Nil).

**20 OTHER INFORMATION****1. Interests and Short Positions of Directors and Chief Executives in Shares, Underlying Shares and Debentures**

As at 30 September 2006, 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 Rules 5.48 to 5.67 of the GEM Listing Rules were as follows:

*Interests in the shares of the Company (the "Shares")*

| <b>Name of Director</b> | <b>Capacity</b>                     | <b>No. of Shares</b>          | <b>Notes</b> | <b>Percentage of shareholding</b> |
|-------------------------|-------------------------------------|-------------------------------|--------------|-----------------------------------|
| Ms. Cho Yuen Yi, Wendy  | Interest of controlled corporations | 83,826,500<br>(Long Position) | 1, 2 & 3     | 15.52%                            |

*Notes:*

1. These Shares are held as to 22,882,500 Shares by Huge Mars International Limited and 60,944,000 Shares by Excel Formation Limited.
2. Huge Mars International Limited is wholly owned by Ms. Cho Yuen Yi, Wendy who is deemed to be interested in the 22,882,500 Shares held by Huge Mars International Limited under the SFO.
3. Excel Formation Limited is wholly owned by Ms. Cho Yuen Yi, Wendy who is deemed to be interested in the 60,944,000 Shares held by Excel Formation Limited under the SFO.

Save as disclosed above, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, 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 Rules 5.48 to 5.67 of the GEM Listing Rules as at 30 September 2006.

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

As at 30 September 2006, 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 |
|-------------------------------|--------------------------------------|--------------------------------|-------|----------------------------|
| Plowright Investments Limited | Beneficial owner                     | 115,231,000<br>(Long position) | 1     | 21.34%                     |
| Harmony Asset Limited         | Interest of a controlled corporation | 115,231,000<br>(Long position) | 1     | 21.34%                     |
| Gold Master Business Limited  | Beneficial owner                     | 81,000,000<br>(Long position)  | 2     | 15.00%                     |
| Mr. Chan Pak Hung             | Interest of a controlled corporation | 81,000,000<br>(Long position)  | 2     | 15.00%                     |
| Mr. Chan Pat Leung            | Interest of a controlled corporation | 81,000,000<br>(Long position)  | 2     | 15.00%                     |
| Excel Formation Limited       | Beneficial owner                     | 60,944,000<br>(Long position)  | 3     | 11.29%                     |

**22 OTHER INFORMATION***Notes:*

1. Plowright Investments Limited is a wholly-owned subsidiary of Harmony Asset Limited, the shares of which are listed on the Main Board of the Stock Exchange. Harmony Asset Limited is deemed to be interested in the 115,231,000 Shares held by Plowright Investments Limited.
2. Gold Master Business Limited is owned as to 50% by Mr. Chan Pak Hung and 50% by Mr. Chan Pat Leung. Each of Mr. Chan Pak Hung and Mr. Chan Pat Leung is deemed to be interested in the 81,000,000 Shares held by Gold Master Business Limited under the SFO.
3. Excel Formation Limited is wholly owned by Ms. Cho Yuen Yi, Wendy. Ms. Cho Yuen Yi, Wendy is deemed to be interested in the 60,944,000 Shares held by Excel Formation Limited. Relevant disclosure has been made under the paragraph headed "Interests and Short Positions of Directors and Chief Executives in Shares, Underlying Shares and Debentures" above.

Save as disclosed above, as at 30 September 2006, no person had registered an interest or short position in the Shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

**3. Share Options**

A 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 2006, no option had been granted or agreed to be granted under the Scheme.

**4. Directors' Interest in Competing Business**

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

## 5. 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 those matters 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 Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen, and Mr. Liew Swee Yean is the chairman of the audit committee.

The unaudited interim results for the six months ended 30 September 2006 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## 6. Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the six months ended 30 September 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30 September 2006.

## 7. Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 September 2006. The Company has also made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard of dealings under the GEM Listing Rules and its code of conduct regarding securities transactions by Directors.

**24 OTHER INFORMATION****8. Code on Corporate Governance Practices**

The Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 September 2006, except the Code Provision A.2.1.

The Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the six months ended 30 September 2006, Ms. Cho Yuen Yi, Wendy (“Ms. Cho”) was the Chairman of the Company and no chief executive officer has been appointed. The responsibilities of chief executive officer have been performed by Ms. Cho. The Directors consider that Ms. Cho possesses in-depth knowledge of the Group and has developed extensive and valuable business network in the industry and therefore can enable the Group to make and implement decisions promptly and efficiently which is beneficial to the business prospects of the Group. The Directors also consider that this structure will not impair the balance of power and authority between the Directors and the management since the Board, which comprises experienced and high calibre individuals, meets regularly to discuss issues in connection with the operations of the Group.

By order of the Board  
**Cho Yuen Yi, Wendy**  
*Chairman*

Hong Kong, 9 November 2006

As at the date of this report, the executive Directors are Ms. Cho Yuen Yi, Wendy and Ms. Wong Ching Ngor. The independent non-executive Directors are Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen.