



# VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

## SUMMARISED INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of Victory Group Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 (the “Period”) together with the comparative figures for the corresponding period last year (the “Last Period”) as follows:

		<b>Six months ended 30 June</b>	
		<b>2003</b>	<b>2002</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	1	<b>4,284</b>	5,102
Cost of sales		<b>(4,115)</b>	(4,534)
Gross profit		<b>169</b>	568
Other revenue	2	<b>240</b>	306
Selling and distribution costs		<b>(71)</b>	(228)
Administrative expenses		<b>(1,448)</b>	(2,484)
Other operating expenses		<b>(10)</b>	–
<b>Loss from operating activities</b>	3	<b>(1,120)</b>	(1,838)
Finance costs	4	<b>(1,032)</b>	(892)
Loss before taxation		<b>(2,152)</b>	(2,730)
Taxation	5	<b>–</b>	–
<b>Net loss from ordinary activities attributable to shareholders</b>		<b>(2,152)</b>	(2,730)
Interim dividend	6	<b>–</b>	–
Accumulated losses at beginning of year		<b>(56,065)</b>	(53,550)
Accumulated losses at end of the periods		<b>(58,217)</b>	(56,280)
<b>Loss per share</b>	7	<b>(0.81 cents)</b>	(1.28 cents)

*Notes:*

### 1. Turnover

Turnover represents the invoiced value of inventories sold, net of discounts and returns, and rental income. There had been no change in the Group’s principal activities during the Period, focusing mainly on the marketing and distribution of left-hand-drive motor vehicles and property holding for rental income purposes. The results of operations of the Group by principal activities and geographical locations are summarised as follows:

	<b>Six months ended 30 June</b>		
	<b>2003</b>	<b>2002</b>	
	<b>HK\$'000</b>	<b>HK\$'000</b>	<i>Effect</i>
<i>Business segments:</i>			
Turnover			
Trading of motor vehicles	<b>4,284</b>	5,102	(16.0%)
Rental income	<b>–</b>	180	(100.0%)
Miscellaneous	<b>240</b>	126	190.5%
	<b>4,524</b>	<b>5,408</b>	(16.3%)
Operating profit/(loss)			
Trading of motor vehicles	<b>(1,263)</b>	(1,984)	36.3%
Rental income	<b>(97)</b>	20	(585.0%)
Miscellaneous	<b>240</b>	126	190.5%
	<b>(1,120)</b>	<b>(1,838)</b>	39.1%

*Geographical segments:*

Turnover			
Hong Kong	973	4,223	(77.0%)
China	3,551	1,185	299.7%
	<u>4,524</u>	<u>5,408</u>	(16.3%)
Operating profit/(loss)			
Hong Kong	(192)	(1,411)	86.4%
China	(928)	(427)	(217.3%)
	<u>(1,120)</u>	<u>(1,838)</u>	39.1%

**2. Other revenue**

	<b>Six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Rental income	–	180
Interest income	1	22
Miscellaneous	239	104
	<u>240</u>	<u>306</u>

**3. Loss from operating activities**

Loss from operating activities was arrived at after charging/(crediting) the following:

	<b>Six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation	1	13
Foreign exchange loss, net	–	–
Staff costs (including directors' remuneration)	756	1,534
Mandatory Provident Fund contribution	30	53
Bad debt recovered	(144)	(96)
Cost of inventories	4,115	4,534
Interest income	(1)	(22)
Gross and net rental income	–	(180)
	<u>–</u>	<u>–</u>

**4. Finance costs**

	<b>Six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on:		
Bank loans, overdrafts and trust receipt loans	1,032	892
Finance leases	–	–
	<u>1,032</u>	<u>892</u>

**5. Taxation**

No provision for Hong Kong profits tax had been provided as there were no assessable profits earned in or derived from Hong Kong during the Period (Last Period: nil).

**6. Interim dividend**

The Board did not recommend the payment of an interim dividend for the Period (Last Period: nil).

**7. Loss per share**

The calculation of basic loss per share for the Period was based on the net loss attributable to shareholders for the Period of HK\$2,152,000 (Last Period: HK\$2,730,000) and on the weighted average of 264,611,600 ordinary shares in issue for the Period (Last Period: weighted average of 213,855,400 issued ordinary shares).

**MANAGEMENT DISCUSSION AND ANALYSIS**

**Interim Results**

Although the unaudited turnover slipped 16 per cent as compared to that in Last Period, the unaudited net loss attributable to shareholders for the Period, amounting to HK\$2.15 million, improved by 21.2 per cent. Despite the shrinkage of gross profit margins, the tightening of the unaudited net loss attributable to shareholders in the last six months was resulted primarily from the effective control of operating costs. The directors of the Company (the "Directors") are pleased to achieve an remarkable 43.6 per cent decrease in the overall running costs through the strict cost control measures adopted years ago. Number of employees had been maintained at minimal level to produce maximum productivity, resulting in a significant cut of 50.3 per cent and 70.8 per cent in staff costs in the Period as compared to that of Last Period and the last financial year respectively. Other revenue for the Period, however, experienced a drop of 21.6 per cent from that of Last Period as a reflection of the market slump in rental business and low interest rates.

## Business Review

The import automotive market in China has been greatly improving ever since the country became a member of the World Trade Organisation (the "WTO") in late 2001. The mainland has a quota of 100,000 imported cars this year. Vehicle imports surged more than a double of last corresponding period in the first half of this year. As auto imports tariffs continue to slide since WTO accession, imports are expected to hit 180,000 vehicles this year, a conservative 42 per cent increase from last year's imports. Yet, the Company did not have sufficient merchandise to satisfy the expansion of the market. The principal reason was that the banking facilities granted to the Group had been largely shrunk as a result of our business performance over the past four years.

Another reason was about the change of market practice in respect of imported vehicles in China. Traditionally, there had been a healthy balance in our customer base, in which neither the individual end-users nor any wholesalers played a dominating part. Once China entered into the WTO, larger capital has been pumping in to form bigger trading groups across the country. Foreign automakers keep on flocking to China to establish joint-venture ("JV") production plants and direct marketing and distribution channels nationwide. The rationale behind is that local production allows foreign-brand vehicles to be sold at a significantly lower sticker price than the fully imported ones, which are subject to tariff-rated quotas and a hefty retail business licence charge. China's auto industry has become one of the five biggest industries in the nation, producing 903,000 vehicles in the first half of this year (almost the total production quantity in last year). To sustain a better bargaining position, a market originally dominated by groups of retailers has rapidly transforming into a wholesale networking in regional basis. Early this year, the Group began to suffer loss of orders from individual end-users who could obtain better offers from the wholesalers whose sources of merchandise also come directly from the JV automakers in China. As the conventional vast group of individual end-users retreats from our supply quickly, we are now forced to deal mostly with a small group of regional retailers. Consequently, the profit margins are inevitably reduced drastically. The Directors believe that this trend would consistently prolong in the mainland automobile market.

To further reduce the burden of financial expenses, the Group disposed of one of its investment properties at a consideration of HK\$2.80 million during the Period. Another disposal of the Group's investment properties took place after the Period at a consideration of HK\$8.38 million. Unlike last financial year, the Company did not raise funds within the Period, but the Company entered into 4 subscription agreements with 4 independent investors for the placing of 52,000,000 new shares of the Company (the "Placing Shares") to the 4 placees at a price of HK\$0.02 per Placing Share on 18 August 2003 (the "Placing"). The Stock Exchange of Hong Kong Limited (the "Stock Exchange") had approved, on a conditional basis, the listing of and dealing in the Placing Shares on 4 September 2003. Assuming the Placing is completed, a net proceeds of about HK\$950,000 would be raised. The Company intends to apply approximately HK\$600,000 for repayment of debts and the remaining HK\$350,000 for other general working capital purposes.

## Financial Summary

During the Period, the Group had no exposure to credit risk, inventory risk, fluctuation in exchange rates and any related hedges because our tight control of working capital management on the credit policies, inventory, funding and treasury planning was proven effective. Almost identical as that in the last year-end date, the Group's trade receivables at 30 June 2003 stayed at HK\$190,000. Since most of the receivables were less than 2-month old, the Directors considered unnecessary to provide provision for doubtful debts for the Period.

Within the Period, the Group successfully maintained insignificant amount of slow-moving inventories. Up to 30 June 2003, the Group reduced holding of inventories by 18.7 per cent to \$670,000 (31 December 2002: HK\$824,000) and of which more than 80 per cent were less than half-year old. The Group has undertaken a highly efficient inventory system by maximising our funding availability in response to market demand. The Directors believed that the Company carried the least inventory risk by holding updated inventories at 30 June 2003 and therefore it was unnecessary to make any provision for the Period.

As at 30 June 2003, the Group's net current liabilities and net liabilities amounted to HK\$32,329,000 and HK\$15,526,000 respectively (31 December 2002: HK\$33,029,000 and HK\$13,428,000 respectively). At the same day, the Group's cash and bank balances amounted to HK\$1,314,000 (31 December 2002: HK\$3,360,000). The total bank loans and overdrafts at 30 June 2003 were HK\$21,640,000, a 7.6 per cent decrease from such balances at 31 December 2002. No time deposits were pledged to back the banking facilities granted to the Group at 30 June 2003 (31 December 2002: HK\$ nil).

In terms of liquidity, the current ratio at the end of the Period was 0.07 (31 December 2002: 0.12). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital, was 11.9 at 30 June 2003 (31 December 2002: 12.6).

For the Period, the Directors are not aware of any significant change from the position as at 31 December 2002 and the information published in the report and accounts for the year ended 31 December 2002. The capital structure of the Company only consists of share capital, no other capital instrument was issued by the Company.

## Future Outlook

Right now, the Group is facing with two main business issues. First, the availability of working funds for the Group to sustain its automotive business in the forthcoming years. Second, how do we cope successfully with the recent changes of market practice in China. Given the unsatisfactory performance in the past four years, the existing banking facilities have been greatly diminished. The Board admits that the grant of banking facilities from other banks is extremely difficult but the Directors would carry on the attempts with all necessary means to explore new sources of banking facilities. Negotiations with existing bankers and discussions with new bankers have been the first priority job for the Board to restore the Group's purchasing powers.

In line with the country's expanding economy and increasing personal-income levels, China is so far the fastest-growing car market with the greatest potential in the world. The mainland has pledged to slash tariffs on auto imports to 25 per cent by July 2006 from between 40 and 50 per cent now, and to abolish all quotas by January 2005, in compliance with commitments made as a member of the WTO. As a result, the market conditions in China have changed quite a bit over the past few years. Mergers and acquisitions of mainland carmakers go on and on. Instead of waiting for the complete opening of the automotive market to foreign competitors, many foreign automakers; such as General Motors, BMW, Toyota and Honda, have developed JV production projects in China in recent years. Most JV projects aim to assemble foreign-brand sedans for the domestic market in China. The foreign carmakers successfully form strategic alliance with their mainland counterparts because the cooperation gives both more space to develop in China and also brings in international standards for the production and service of vehicles, which are crucial to the future of the nation's auto industry. To facilitate the expansion in the booming market, the JV automakers speed up the building of sales and service outlets across the country. The outlets market both imported and domestically made vehicles, establishing a direct marketing channel to the end-users.

The impact of outlet marketing on offshore distributors such as the Company is acute because the major source of merchandise is restricted to own outlets, expelling outsiders from the sale and distribution network. Therefore, the Board is now determined to seek for any possible opportunities to establish the agency relationship with those JV automakers. The Directors believe that running franchised outlets in mainland is the most effective way of overturning the Group's future performance.

#### **Contingent Liabilities**

At 30 June 2003, contingent liabilities not provided for in the interim results were banking facilities amounting to HK\$21,640,000 (31 December 2002: HK\$23,409,000) guaranteed by the Company which were utilized by its subsidiaries.

#### **Significant Issues**

During the Period, there was no significant investment and material acquisitions or disposals of subsidiaries or associated companies. Also, there is no plan for material investments or capital assets in the near future mainly because of the Group's limited funding position.

Since all the purchases of our merchandise had been fixed at an agreed exchange rate prior to the confirmation of purchase orders by the Group to its vendors, the Group had no exposure to fluctuation in exchange rates and any related hedges. Furthermore, the Company and the Group had no significant commitments during the Period (Last Period and the year ended 31 December 2002: nil).

#### **Pledge of Assets**

The Group's land and buildings and investment properties with an aggregate net book value of HK\$16.8 million (31 December 2002: HK\$19.6 million) were pledged to secure bank loans and overdraft of the Group.

#### **Purchase, Sale or Redemption of Shares in the Company**

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the Period (Last Period and the year ended 31 December 2002: nil).

#### **Corporate Governance**

None of the Directors is aware of any information that would reasonably indicate that the Company had not complied with the Code of Best Practices as set out in Appendix 14 of the Listing Rules of the Stock Exchange during the Period. The Company's audit committee had reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim accounts for the Period.

#### **Other information**

The Company will submit a CD ROM to the Stock Exchange containing all the information in relation to the interim report required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules for publication on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) at the earliest practicable opportunity.

On behalf of the Board  
**Chan Chun Choi**  
*Chairman*

Hong Kong, 8 September 2003

Please also refer to the published version of this announcement in The Standard.