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If you have sold or transferred all your shares in Victory Group Limited, you should at once hand this document and the accompanying form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

PLACING OF NEW SHARES, LOAN CAPITALISATION, CONNECTED TRANSACTION AND WHITEWASH WAIVER

Financial adviser to Victory Group Limited



ASIAN CAPITAL

(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

Independent financial adviser to the Independent Shareholders



REXCAPITAL (Hong Kong) Limited

A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 20 of this document. A letter from RexCapital containing its advice to the Independent Board Committee is set out on pages 21 to 34 of this document.

A notice convening the SGM to be held at 9:30 a.m. on 1 April 2004 at Garden Room A & B, 2nd Floor, Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong is set out on pages 85 to 86 of this document. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tengis Limited, at 28th Floor, BEA Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the SGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned SGM should you so desire.

9 March 2004

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DEFINITIONS

In this document, the following expressions have the following meanings:

“Announcement”	the announcement of the Company dated 17 February 2004 in relation to the Placing of new Shares, Loan Capitalisation, connected transaction and Whitewash Wavier
“Asian Capital”	Asian Capital (Corporate Finance) Limited, a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the financial adviser to the Company
“Board”	the board of Directors
“Business Day”	a day on which banks in Hong Kong are generally open for business (other than a Saturday)
“Company”	Victory Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s), including independent non-executive director(s), of the Company
“EVEI”	Eternal Victory Enterprises Inc., a company incorporated in British Virgin Islands, as trustee of a unit trust, the units of which are held by a discretionary trust established for the family members of Mr. Chan Chun Choi. EVEI is wholly and beneficially owned by Mr. Chan Chun Choi
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Forex”	Forex Investment Development Limited, a company incorporated in the British Virgin Islands wholly and beneficially owned by Mr. Shao Jianxiong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors and established for the purpose of advising the Independent Shareholders

DEFINITIONS

“Independent Shareholders”	Shareholders other than EVEI and who are not involved or interested in the Placing and the Loan Capitalisation other than their interest as Shareholders
“Latest Practicable Date”	5 March 2004, being the latest practicable date prior to the printing of this document for ascertaining certain information referred to in this document
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Capitalisation”	the subscription for 430,000,000 Shares at HK\$0.018 per Share pursuant to the Loan Capitalisation Agreement
“Loan Capitalisation Agreement”	a conditional subscription agreement dated 4 February 2004 and entered into between the Company and Winsley
“Loan Capitalisation Price”	HK\$0.018 per Loan Capitalisation Share
“Loan Capitalisation Shares”	430,000,000 Shares in the capital of the Company to be subscribed by Winsley pursuant to the Loan Capitalisation Agreement
“Placing”	the placing of 265,100,000 Shares at HK\$0.018 per Share to Forex pursuant to the Placing Agreement
“Placing Agreement”	a conditional subscription agreement dated 4 February 2004 and entered into between the Company and Forex
“Placing Price”	HK\$0.018 per Placing Share
“Placing Shares”	265,100,000 Shares in the capital of the Company to be placed to Forex pursuant to the Placing Agreement
“Relevant Period”	the period commencing from 18 August 2003 (i.e. the date of the commencement of the six month period to the date of the Announcement) and ending on the Latest Practicable Date
“RexCapital”	REXCAPITAL (Hong Kong) Limited, a deemed licensed corporation to conduct type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee

DEFINITIONS

“SFC”	the Securities and Futures Commission in Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held for the purpose of passing the relevant resolutions in relation to the Placing, the Loan Capitalisation and the Whitewash Waiver
“Share(s)”	ordinary share(s) of par value of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Whitewash Waiver”	a waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of Winsley and parties acting in concert with it to make a general offer for all the Shares of the Company not already owned or agreed to be acquired by them upon completion of the Loan Capitalisation
“Winsley”	Winsley Investment Limited, a company incorporated in Hong Kong and is jointly controlled by Mr. Chan Chun Choi and Ms. Lam Mo Kuen, Anna, both of them being executive Directors
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

EXPECTED TIMETABLE

2004

Latest time for lodging forms of proxy for the SGM	9:30 a.m. on Tuesday, 30 March
SGM	9:30 a.m. on Thursday, 1 April
Announcement of results of the SGM	Friday, 2 April
Completion of the Placing and the Loan Capitalisation	Monday, 19 April
Announcement of the completion of the Placing and the Loan Capitalisation	Tuesday, 20 April

Notes:

1. All time references contained in this document refer to Hong Kong Time.

LETTER FROM THE BOARD



VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Executive Directors:

Chan Chun Choi
Lam Mo Kuen, Anna
Lu Su Hua

Non-executive Director:

Liu Kwok Fai Alvan

Independent Non-executive Directors:

Ng Chi Shing
Yuen Kwok Wah, Bernard

Registered Office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal

Place of Business:

Suite 1609
New East Ocean Centre
9 Science Museum Road
Tsimshatsui East
Kowloon
Hong Kong

9 March 2004

To the Shareholders

Dear Sir,

PLACING OF NEW SHARES, LOAN CAPITALISATION, CONNECTED TRANSACTION AND WHITEWASH WAIVER

1. INTRODUCTION

It was announced on 17 February 2004 that the Company entered into the Placing Agreement and the Loan Capitalisation Agreement on 4 February 2004 with Forex and Winsley respectively.

Winsley is a connected party of the Company as defined under Rule 14.26 of the Listing Rules, as such the Loan Capitalisation constitutes a connected transaction for the Company and will be subject to the approval by the Independent Shareholders at the SGM.

EVEI and parties acting in concert with it and its associates (as defined under the Listing Rules) will abstain from the resolutions approving the Placing, the Loan Capitalisation and the Whitewash Waiver at the SGM.

LETTER FROM THE BOARD

Under Rule 26 of the Takeovers Code, upon completion of the Placing and the Loan Capitalisation, Winsley and parties acting in concert with it would be interested in 50.27% of the then issue share capital of the Company and would therefore be obligated to make a mandatory unconditional general offer for all the Shares in issue other than those already owned or agreed to be acquired by Winsley and/or parties acting in concert with it. Winsley has applied to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted, subject to the approval of the Independent Shareholders on a vote taken by way of a poll at the SGM.

Mr. Chan Chun Choi and Ms. Lam Mo Kuen, Anna are both executive Directors and directors and shareholders of Winsley. Ms. Lu Su Hua is an executive Director and in principle a salaried employee of the Group although she has not received any salary from the Group since her appointment as a Director. Mr. Liu Kwok Fai Alvan is a non-executive Director and a partner to a solicitors' firm which provided legal advice to the Company in relation to its placement in September 2003 and pursuant to the Listing Rules, Mr. Liu Kwok Fai Alvan, is not considered independent for the purpose of considering any connected transaction of the Company. Under these circumstances, the aforesaid Directors are not considered to be independent to give advice in relation to the Loan Capitalisation and the Whitewash Waiver. Accordingly, the Independent Board Committee comprising Mr. Ng Chi Shing and Mr. Yuen Kwok Wah, Bernard, both being independent non-executive directors of the Company, has been formed to advise the Independent Shareholders on the terms of the Loan Capitalisation and the Whitewash Waiver. RexCapital has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

The purpose of this document is to provide you with further information in relation to the Placing, the Loan Capitalisation and the Whitewash Waiver, to set out the advice of the Independent Board Committee to the Independent Shareholders, to set out the advice of RexCapital to the Independent Board Committee, and to give you the notice of the SGM.

2. THE PLACING AGREEMENT DATED 4 FEBRUARY 2004

Subscriber

Forex, an investment holding company incorporated in the British Virgin Islands wholly and beneficially owned by Mr. Shao Jianxiong.

Forex, together with Mr. Shao Jianxiong, are independent of, and not connected with, and not acting in concert with (i) Winsley and its directors and substantial shareholders; and (ii) the directors, chief executives and substantial shareholders of the Company and its subsidiaries or an associate of any of them (as defined under the Listing Rules).

Number of Shares to be placed

265,100,000 Shares at HK\$0.018 each

The Placing Shares represent approximately 69.78% of the existing issued share capital of the Company, approximately 41.10% of the enlarged share capital of the Company upon completion of the Placing and approximately 24.66% of the enlarged share capital of the Company upon completion of the Placing and the Loan Capitalisation. Upon completion of the Placing, Forex will become a substantial Shareholder (as defined under the Listing Rules).

LETTER FROM THE BOARD

Consideration

The consideration for the Placing of HK\$4,771,800, representing HK\$0.018 for each Placing Share, will be satisfied in cash by Forex upon completion of the Placing.

Placing Price

The Placing Price of HK\$0.018 has been arrived at after arm's length negotiation between the Company and Forex and taking into account the thin trading volume of the Shares (the daily average turnover of the Shares during the six calendar months immediately preceding the last trading day prior to the date of the Announcement was approximately HK\$41,000) and the latest financial condition of the Company. The Placing Price represents:

- (i) a discount of approximately 59.09% to the closing price of HK\$0.044 per Share quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 35.71% to the closing price of HK\$0.028 per Share quoted on the Stock Exchange on 4 February 2004, being the last trading day prior to the date of the Announcement;
- (iii) a discount of approximately 50.00% to the average of the closing prices per Share as quoted on the Stock Exchange of approximately HK\$0.036 for the 10 trading days ended 4 February 2004; and
- (iv) a premium of approximately 151.43% and 143.90% with reference to the Group's unaudited consolidated net liabilities per Share (based on (a) the audited consolidated net liabilities of the Group of approximately HK\$13.43 million as stated in the annual report of the Company for the year ended 31 December 2002; (b) the unaudited consolidated net liabilities of the Group of approximately HK\$15.53 million as stated in the interim report of the Company for the 6 months ended 30 June 2003; and (c) 379,911,600 Shares outstanding as at the date of the Announcement).

Conditions of Placing

Completion of the Placing Agreement shall be conditional upon:

- (i) the satisfaction of any conditions or requirements imposed on the Company and/or Forex by the Stock Exchange pursuant to the Listing Rules in connection with the transactions contemplated by the Placing Agreement;
- (ii) the Stock Exchange granting approval for the listing of, and permission to deal in, the Placing Shares;
- (iii) the approval of the Placing Agreement and the transactions therein contemplated by the Shareholders in a SGM in accordance with the requirements of the Listing Rules;

LETTER FROM THE BOARD

- (iv) if necessary, all consents of all relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, Bermuda, or elsewhere which are required or appropriate for the entering into and the implementation of the Placing Agreement having been given or made;
- (v) save for any temporary suspension of the trading of the Shares on the Stock Exchange, no indication being received on or before the completion of the Placing from the SFC or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange will or may be withdrawn or objected to as a result of the completion of the Placing or in connection with the terms of or any transactions contemplated by the Placing Agreement (including but not limited to in connection with an allegation that the Company is no longer suitable for listing); and
- (vi) the Loan Capitalisation Agreement being unconditional in all respects.

Forex has stated that it will not waive the conditions (ii), (iii) and (vi) above. It may at its discretion at any time waive in writing any of the conditions (i), (iv) or (v) above, and such waiver may be made subject to such terms and conditions to be determined by Forex.

EVEI and parties acting in concert with it and its associates (as defined under the Listing Rules) will abstain from voting on the resolution approving the Placing at the SGM.

Completion of Placing

Completion of the Placing Agreement shall take place on or before the third Business Day following the satisfaction of the conditions of the Placing Agreement or such other date as may be agreed by the Company or Forex. If any of the above conditions are not fulfilled or waived on or before 3 August 2004 or such other date as the Company and Forex may agree in writing, the Placing Agreement will lapse and be of no further effect.

Reason for the Placing

The Company is an investment holding company. The Group is principally engaged in the marketing and wholesale distribution of left-hand-drive motor vehicles in Hong Kong and the PRC and property holding for rental income purposes in Hong Kong. The Group has been operating at a loss for each of the five years ended 31 December 2002 and for the six months ended 30 June 2003. According to the interim results of the Group as at 30 June 2003 and after adjusting for (i) the disposal of an investment property on 9 July 2003; (ii) the placing of Shares on 15 September 2003 and 5 December 2003 ; and (iii) the deficit arising on the revaluation of a property as at 31 December 2003, the consolidated net deficit (the “Adjusted Net Deficit”) and net current liabilities (“Adjusted Net Current Liabilities”) of the Group amounted to approximately HK\$14.68 million and HK\$31.48 million respectively.

In view of the financial position of the Group and especially its net current liabilities position, the Board considers that an injection of capital and a restructuring of the Group’s capital structure are necessary for the financial stability and future growth of the Group.

LETTER FROM THE BOARD

The Group has explored various means of raising funds including additional bank financing. However, given the unsatisfactory performance in the past five years, the existing banking facilities have been greatly diminished and the Group admits that the granting of banking facilities from other banks is extremely difficult. As such, the Board considers that the Placing is the best possible opportunity for the Group to raise capital.

The Placing will enable the Group to: (i) reduce its level of indebtedness; (ii) improve its working capital position; and (iii) broaden the Company's shareholder and capital base. Henceforth, the Board considers that the Placing is in the best interest of the Company and its shareholders as a whole.

Use of Proceeds

The Placing will generate a gross amount of proceeds of HK\$4,771,800 and net proceeds of approximately HK\$4,311,800 after payment of financial, legal, printing and publication charges of approximately HK\$460,000. The Company intends to apply approximately HK\$3.09 million for partial repayment of debts and the remaining HK\$1.22 million for other general working capital purposes, including annual listing fees of HK\$145,000, annual audit and result announcement charges of approximately HK\$430,000, Directors' fees of HK\$300,000, share registrars' fees of HK\$35,000, staff costs of approximately HK\$210,000, premises expenses of approximately HK\$40,000 and other office utilities of approximately HK\$60,000.

3. THE LOAN CAPITALISATION AGREEMENT DATED 4 FEBRUARY 2004

Subscriber

Winsley, a company incorporated in Hong Kong and is jointly controlled by Mr. Chan Chun Choi and Ms. Lam Mo Kuen, Anna, both of them being executive Directors. As at the Latest Practicable Date, Winsley and parties acting in concert with it are interested in approximately 29.05% of the existing issued share capital of the Company.

Loan Capitalisation Shares

430,000,000 Shares at HK\$0.018 each

The Loan Capitalisation Shares represent approximately 113.18% of the existing issued share capital of the Company and approximately 40.00% of the enlarged share capital of the Company upon completion of the Placing and the Loan Capitalisation. The consideration of HK\$7,740,000 will be satisfied as to HK\$7,647,163 by setting off against amount owed by the Company to Winsley and the remaining HK\$92,837 by cash upon completion of the Loan Capitalisation.

LETTER FROM THE BOARD

Loan Capitalisation Price

The Loan Capitalisation Price of HK\$0.018 per Loan Capitalisation Share has been arrived at taking into account the Placing Price, the thin trading volume of the Shares and the latest financial condition of the Company. The Loan Capitalisation Price represents:

- (i) a discount of approximately 59.09% to the closing price of HK\$0.044 per Share quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 35.71% to the closing price of HK\$0.028 per share quoted on the Stock Exchange on 4 February 2004, being the last trading day before the date of the Announcement;
- (iii) a discount of approximately 50.00% to the average of the closing prices per Share as quoted on the Stock Exchange of approximately HK\$0.036 for the 10 trading days ended 4 February 2004; and
- (iv) a premium of approximately 151.43% and 143.90% with reference to the Group's unaudited consolidated net liabilities per share (based on (a) the audited consolidated net liabilities of the Group of approximately HK\$13.43 million as stated in the annual report of the Company for the year ended 31 December 2002; (b) the unaudited consolidated net liabilities of the Group of approximately HK\$15.53 million as stated in the interim report of the Company for the 6 months ended 30 June 2003; and (c) 379,911,600 Shares outstanding as at the date of the Announcement).

Connected Transaction

As Winsley is a company jointly controlled by Mr. Chan Chun Choi and Ms. Lam Mo Kuen, Anna, both of them being executive Directors, the Loan Capitalisation constitutes a connected transaction for the Company under Rule 14.26 of the Listing Rules and will be subject to the approval by the Independent Shareholders at the SGM. EVEI and parties acting in concert with it and its associates (as defined under the Listing Rules) will abstain from voting on the resolutions approving the Loan Capitalisation at the SGM. An Independent Board Committee has been formed to consider the terms of the Loan Capitalisation and RexCapital has been appointed to advise the Independent Board Committee in this regard.

Conditions of Loan Capitalisation

Completion of the Loan Capitalisation Agreement shall be conditional upon:

- (i) the satisfaction of any conditions or requirements imposed on the Company and/or Winsley by the Stock Exchange and/or the SFC pursuant to the Listing Rules and/or the Takeovers Code in connection with the transactions contemplated by the Loan Capitalisation Agreement;

LETTER FROM THE BOARD

- (ii) the Stock Exchange granting approval for the listing of, and permission to deal in, the Loan Capitalisation Shares on the Stock Exchange;
- (iii) the SFC having granted a Whitewash Waiver to Winsley together with any party acting in concert with it, if any, to effect that Winsley together with any party acting in concert with it, if any, are under no obligation to make a mandatory offer under Rule 26 of the Takeovers Code in connection with the transactions contemplated by the Loan Capitalisation Agreement;
- (iv) the approval of the Loan Capitalisation Agreement and the transactions therein contemplated by the Independent Shareholders in a SGM in accordance with the requirements of the Listing Rules and/or the Takeovers Code;
- (v) if necessary, all consents of all relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, Bermuda, or elsewhere which are required or appropriate for the entering into and the implementation of the Loan Capitalisation Agreement having been given or made; and
- (vi) saving for any temporary suspension of the trading of the Shares on the Stock Exchange, no indication being received on or before the completion of the Loan Capitalisation from the SFC or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange will or may be withdrawn or objected to as a result of the completion of the Loan Capitalisation or in connection with the terms of or any transactions contemplated by the Loan Capitalisation Agreement (including but not limited to in connection with an allegation that the Company is no longer suitable for listing).

Winsley has stated that it will not waive the conditions (ii), (iii) and (iv) above. **Hence, there will be no general offer made under Rule 26 of the Takeovers Code.** Winsley may at its discretion at any time waive in writing any of the conditions (i), (v) or (vi) above, and such waiver may be made subject to such terms and conditions to be determined by Winsley.

Completion of Loan Capitalisation

Completion of the Loan Capitalisation Agreement shall take place on or before the third Business Day following the satisfaction of the conditions specified in the Loan Capitalisation Agreement and the completion of the Placing Agreement or such other date as may be agreed by the Company and Winsley. If any of the above conditions are not fulfilled or waived on or before 3 August 2004 or such other date as the Company and Winsley may agree in writing, the Loan Capitalisation Agreement will lapse and be of no further effect.

LETTER FROM THE BOARD

Reason for the Loan Capitalisation

As set out in the section headed “Reason for the Placement”, in view of the financial position of the Group and especially its net current liabilities position, the Board considers that an injection of capital and a restructuring of the Group’s capital structure are necessary for the financial stability and future growth of the Group. Moreover, the Loan Capitalisation is a pre-condition imposed by Forex for the Placing for the purpose of reducing the indebtedness of the Group.

The Group has explored various means of raising funds including additional bank financing. However, given the unsatisfactory performance in the past five years, the existing banking facilities have been greatly diminished and the Group admits that the granting of banking facilities from other banks is extremely difficult. As such, the Board considers that the Placing is the best possible opportunity for the Group to raise capital and the Loan Capitalisation is the best possible opportunity for the Group to restructure its capital structure.

The Loan Capitalisation will enable the Group to: (i) repay the entire amount of loan due to Winsley of HK\$7,647,163 as at the date of the Loan Capitalisation Agreement and the date of the Announcement; (ii) improve its working capital position; and (iii) broaden the Company’s capital base. Henceforth, the Board considers that the Loan Capitalisation is in the best interest of the Company and its shareholders as a whole.

The Loan Capitalisation, together with the Placing, will enable the Group to: (i) reduce its level of indebtedness by HK\$10.75 million; (ii) reduce the its Adjusted Net Deficit and Adjusted Net Current Liabilities of the Group from approximately HK\$14.68 million to approximately HK\$2.62 million and from approximately HK\$31.48 million to approximately HK\$19.42 million respectively; and (iii) broaden the Company’s shareholder and capital base.

After completion of the Placing and the Loan Capitalisation, the major debts of the Company will be bank borrowing and amount due to Ms. Lam Mo Kuen, Anna, a Director, the amounts of which outstanding as at 31 December 2003 were HK\$13.26 million and HK\$2.20 million respectively. The bank borrowing is short-term, secured and interest bearing whereas the amount due to Ms. Lam Mo Kuen, Anna, a Director, is short-term, unsecured and interest free.

LETTER FROM THE BOARD

4. CHANGES TO THE SHAREHOLDING AS A RESULT OF THE PLACING AND LOAN CAPITALISATION

The effect of the Placing and the Loan Capitalisation on the shareholding structure of the Company is as follows:

	At present		Immediately after completion of Placing and Loan Capitalisation	
	Number of Shares	Approximate Percentage	Number of Shares	Approximate Percentage
EVEI (<i>Note 1</i>)	110,377,586	29.05%	110,377,586	10.27%
Winsley (<i>Note 2</i>)	—	—	430,000,000	40.00%
Subtotal (<i>Note 3</i>)	—	—	540,377,586	50.27%
Forex	—	—	265,100,000	24.66%
Public	269,534,014	70.95%	269,534,014	25.07%
Total	379,911,600	100%	1,075,011,600	100%

Note 1 – the Shares are held as trustee of a unit trust, the units of which are held by a discretionary trust established for the family members of Mr. Chan Chun Choi. EVEI is wholly and beneficially owned by Mr. Chan Chun Choi.

Note 2 – Winsley is jointly controlled by Mr. Chan Chun Choi and Ms. Lam Mo Kuen, Anna, both of them being executive Directors.

Note 3 – this represents the entire shareholdings of Winsley and parties acting in concert with it in the Company.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or other securities that are convertible into the Shares.

The Placing Shares and Loan Capitalisation Shares will rank *pari passu* in all respects among themselves and with all other Shares in issue or to be issued by the Company on or prior to completion of the Placing and Loan Capitalisation including the rights to all dividends and other distributions declared, made or paid at any time after the date of issue and allotment.

Pursuant to the Takeovers Code, upon completion of the Placing and the Loan Capitalisation, the aggregate shareholding of Winsley and parties acting in concert with it will exceed 50%, Winsley and parties acting in concert with it will be free to acquire additional Shares thereafter without incurring any further obligation under the Takeovers Code to make a general offer.

LETTER FROM THE BOARD

5. INFORMATION OF THE GROUP

Business

The Company is incorporated in Bermuda with limited liability and its Shares are listed on the Stock Exchange. The Company is an investment holding company. Its subsidiaries are principally engaged in the marketing and distribution of left-hand drive motor vehicles and property holding for rental income purposes.

Indebtedness

As at 31 December 2003, the total unaudited indebtedness of the Group was approximately HK\$25.03 million comprising amounts due to Ms. Lam Mo Kuen, Anna, a Director, and Winsley of approximately HK\$2.20 million granted in 1999 and HK\$7.65 million granted in 2001 respectively, trade and other payable of approximately HK\$1.92 million and secured bank loans of approximately HK\$13.26 million. The amount due to Winsley is short-term, unsecured and interest free.

Save as aforesaid, none of the companies of the Group had any outstanding mortgage charge or debenture, loan capital, bank overdraft, loan, debt security or other similar indebtedness or any hire purchase commitment, finance lease commitment, guarantee or other material contingent liability at the close of business as at 31 December, 2003.

Fund raising activities for the past 24 months

During the past 24 months, the Company undertook 3 fund raising exercises:

- (i) The placing of 44,000,000 new shares (the “June Placement Shares”) of HK\$0.01 each at a price of HK\$0.115 per share to 6 independent investors on 10 June 2002 raising net proceeds of approximately HK\$4.50 million for the general working capital of the Company. The Company made announcement in relation the foregoing placing on 28 May 2002. The price for the June Placement Shares of HK\$0.115 per Share represented a discount of approximately 4.96% to the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on 27 May 2002. The June Placement Shares, representing 19.94% of the then issued share capital of the Company, were allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 27 May 2002. The amount of net proceeds raised was approximately HK\$4.50 million, of which approximately HK\$2 million was applied for reducing the bank loans and the approximate remaining amount of HK\$2.50 million was applied for the procurement of updated inventories.
- (ii) The placing of 52,000,000 new shares (the “September Placement Shares”) of HK\$0.01 each at a price of HK\$0.02 per share to 4 independent investors on 15 September 2003 raising net proceeds of approximately HK\$0.95 million for repayment of debts and for general working capital of the Company. The Company made announcement in relation to the foregoing placing on 21 August 2003. The price for the September Placement Shares of HK\$0.02 per share represented a discount of approximately 60.78% to the closing price of HK\$0.051 per Share quoted on the Stock Exchange on

LETTER FROM THE BOARD

18 August 2003. The September Placement Shares, representing 16.42% of the then issued share capital of the Company, were allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 28 May 2003. The amount of net proceeds raised was approximately HK\$949,000, of which approximately HK\$650,000 were applied for repayment of debts and the approximate remaining amount of HK\$299,000 was fully applied for other general working capital purposes, including payroll of HK\$186,000, premises expenses of HK\$48,000, and printing fees of HK\$65,000.

- (iii) The placing of 63,300,000 new shares (the “November Placement Shares”) of HK\$0.01 each at a price of HK\$0.016 per share to not fewer than 6 independent investors on 5 December 2003 raising net proceeds of approximately HK\$0.90 million for repayment of debts and for general working capital of the Company. The Company made announcement in relation to the foregoing placing on 19 November 2003. The price for the November Placement Shares of HK\$0.016 per share represented a discount of approximately 42.86% to the closing price of HK\$0.028 per Share quoted on the Stock Exchange on 10 November 2003. The November Placement Shares, representing 16.66% of the then issued share capital of the Company, were allotted and issued under the general mandate granted to the Directors at the special general meeting of the Company held on 3 November 2003. The amount of net proceeds raised was approximately HK\$900,000, of which approximately HK\$668,000 were applied for repayment of debts and the approximate remaining amount of HK\$232,000 was applied for other general working capital purposes.

6. SGM

The notice for the SGM is set out on pages 85 to 86 of this document. The SGM will be held at 9:30 a.m. on 1 April 2004 at Garden Room A & B, 2nd Floor, Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong at which resolutions will be proposed to consider and approve the Placing, the Loan Capitalisation and the Whitewash Waiver by way of a poll at the SGM.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Tengis Limited, at 28th Floor, BEA Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the SGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned SGM should you so desire.

7. GENERAL

An application will be made to the Stock Exchange for the listing of, and permission to deal in the Shares to be allotted and issued under the Placing Agreement and the Loan Capitalisation Agreement.

Asian Capital has been appointed as the financial adviser to the Company.

LETTER FROM THE BOARD

The Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Loan Capitalisation and the Whitewash Waiver. RexCapital has been appointed to advise the Independent Board Committee in this regard.

8. RECOMMENDATIONS

The Board considers that the terms of the Placing are fair and reasonable so far as the Shareholders are concerned and the entering into of the Placing Agreement is in the interest of the Company and the Shareholders. Accordingly, the Board has recommended the Shareholders to vote in favour of the resolution in respect of the Placing to be proposed at the SGM.

The Independent Board Committee, having considered the advice from RexCapital, considers that the terms of the Loan Capitalisation and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and the Loan Capitalisation and the Whitewash Waiver are in the interest of the Company and the Independent Shareholders. Accordingly, the Independent Board Committee has recommended the Independent Shareholders to vote in favour of the resolutions in respect of the Loan Capitalisation and the Whitewash Waiver to be proposed in the SGM.

The text of the letter from RexCapital, containing its opinion and the principal factors and reasons taken into account in arriving at its opinion as regards the Loan Capitalisation and the Whitewash Waiver, is set out on pages 21 to 34 of this document.

9. ADDITIONAL INFORMATION

Please refer to the Appendices to this document for additional information.

Yours faithfully,
For and on behalf of the Board
Victory Group Limited
Chan Chun Choi
Chairman

LETTER FROM WINSLEY

WINSLEY INVESTMENT LIMITED

Directors:

Chan Chun Choi
Lam Mo Kuen, Anna
Chan Po Choi

Registered Office:

Suite 1609
New East Ocean Centre
9 Science Museum Road
Tsimshatsui East
Kowloon
Hong Kong

9 March 2004

To the Shareholders

Dear Sir,

PLACING OF NEW SHARES, LOAN CAPITALISATION, CONNECTED TRANSACTION AND WHITEWASH WAIVER

1. INTRODUCTION

This letter forms part of the document dated 9 March 2004 (the “Document”) issued by the Company. Terms used in this letter shall, unless the content otherwise requires, have the same meanings as those defined in the Document.

The Company and Winsley entered into the Loan Capitalisation agreement on 4 February 2004 whereby Winsley agreed to subscribe for 430,000,000 Shares at HK\$0.018 each. Details of the terms of the Loan Capitalisation Agreement are set out in the “Letter from the Board”.

2. INFORMATION OF WINSLEY

Winsley is an investment holding company incorporated in Hong Kong and is jointly controlled by Mr. Chan Chun Choi and Ms. Lam Mo Kuen, Anna, both of them being executive Directors.

Directors of Winsley are Mr. Chan Chun Choi, Mr. Chan Po Choi, a brother of Mr. Chan Chun Choi, and Ms. Lam Mo Kuen, Anna.

As at the Latest Practicable Date, Winsley and parties acting in concert with it (including EVEI, Mr. Chan Chun Choi and Ms. Lam Mo Kuen, Anna) are interested in approximately 29.05% of the existing issued share capital of the Company. As at the Latest Practicable Date, the Company owed Winsley an interest free loan of approximately HK\$7.65 million.

LETTER FROM WINSLEY

3. FUTURE INTENTIONS OF WINSLEY

As set out in the “Letter from the Board”, in view of the financial position of the Group and especially its net current liabilities position, the Company considers that an injection of capital and a restructuring of the Group’s capital structure are necessary for the financial stability and future growth of the Group. Moreover, the Loan Capitalisation is a pre-condition imposed by Forex for the Placing.

Upon completion of the Placing and the Loan Capitalisation, Winsley will become the single largest Shareholder. It is the intention of Winsley to continue with the existing business of the Group. Currently, Winsley has no plan to inject any assets or businesses into the Group or to redeploy the fixed assets and make any significant changes to the existing businesses of the Group. Winsley intends to continue the employment of existing employees of the Group and has no intention to make any material changes to the existing senior management or the employees of the Group. It also has no intention of appointing any directors to the Company but may elect to do so in the future. The Company will inform the Shareholders in this regard as and when appropriate.

Winsley does not have any intention to transfer any Shares acquired pursuant to the Loan Capitalisation Agreement after completion of the Placing and the Loan Capitalisation.

The Stock Exchange has also stated that if the Company remains a listed company, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has indicated that it has the discretion to require the Company to issue an announcement and a circular to its shareholders irrespective of the size of the proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of transactions of the Company and any such transactions may result in the Company being treated as if it was a new listing applicant as set out in the Listing Rules.

4. WHITEWASH WAIVER

As at the Latest Practicable Date, Winsley and parties acting in concert with it are interested in approximately 29.05% of the existing issued share capital of the Company.

Immediately upon completion of the Placing and the Loan Capitalisation, Winsley and parties acting in concert with it will be interested in 50.27% of the enlarged issued share capital of the Company. Accordingly, under Rule 26 of the Takeovers Code, Winsley and parties acting in concert with it would be obligated to make a mandatory unconditional general offer for all the Shares in issue other than those already owned or agreed to be acquired by Winsley and/or parties acting in concert with it.

An application has been made by Winsley to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders on a vote taken by way of a poll at the SGM. If the Whitewash Waiver is not approved by the Independent Shareholders, the Loan Capitalisation will lapse.

LETTER FROM WINSLEY

Pursuant to the Takeovers Code, upon completion of the Placing and the Loan Capitalisation, the aggregate shareholding of Winsley and parties acting in concert with it will exceed 50%, Winsley and parties acting in concert with it will be free to acquire additional Shares thereafter without incurring any further obligation under the Takeovers Code to make a general offer.

Winsley and parties acting in concert with it have not dealt in any securities of the Company for the period of six months prior to the date of the Announcement.

Yours faithfully,
For and on behalf of
Winsley Investment Limited
Chan Chun Choi
Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

9 March 2004

To the Independent Shareholders

Dear Sir,

LOAN CAPITALISATION, CONNECTED TRANSACTION AND WHITEWASH WAIVER

We refer to the document of the Company dated 9 March 2004 (the “Document”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Document unless the context otherwise requires.

We have been appointed by the Board as members to constitute the Independent Board Committee and to advise you in relation to the Loan Capitalisation and the Whitewash Waiver.

RexCapital has been appointed to advise the Independent Board Committee as to whether the terms of the Loan Capitalisation and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 21 to 34 of the Document.

Your attention is also drawn to the letter form the Board set out on pages 5 to 16 of the Document and the additional information set out in the appendices of the Document.

Having considered the terms of the Loan Capitalisation and the Whitewash Waiver and the advice of RexCapital, we are of the opinion that the terms of the Loan Capitalisation and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and that the entering into the Loan Capitalisation with Winsley and the Whitewash Waiver are in the interest of the Company and the Independent Shareholders. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Loan Capitalisation and the Whitewash Waiver.

Yours faithfully,
Independent Board Committee of
Victory Group Limited

Ng Chi Shing
Independent
Non-executive Director

Yuen Kwok Wah, Bernard
Independent
Non-executive Director

LETTER FROM REXCAPITAL

The following is the text of the letter from RexCapital in connection with the Loan Capitalisation and the Whitewash Waiver which has been prepared for the purpose of inclusion in this circular:



REXCAPITAL (Hong Kong) Limited

34th Floor, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

9 March 2004

The Independent Board Committee
Victory Group Limited
Suite 1609
New East Ocean Centre
9 Science Museum Road
Tsimshatsui East
Kowloon
Hong Kong

Dear Sirs,

LOAN CAPITALISATION, CONNECTED TRANSACTION AND WHITEWASH WAIVER

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Loan Capitalisation and the Whitewash Waiver, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company dated 9 March 2004 (the "Circular"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

On 4 February 2004, the Company entered into the Placing Agreement in relation to the placing of 265,100,000 Shares at HK\$0.018 per Share to Forex, an independent third party. The Placing is conditional, among others, the completion of the Loan Capitalisation. On the same date, the Company and Winsley entered into the Loan Capitalisation Agreement whereby Winsley agreed to subscribe for 430,000,000 Shares at HK\$0.018 per Share. Completion of the Loan Capitalisation will take place simultaneously with that of the Placing. Immediately upon completion of the Placing and the Loan Capitalisation, Winsley and parties acting in concert with it will be interested in approximately 50.27% of the enlarged issued share capital of the Company and under Rule 26 of the Takeovers Code, be obliged to make a mandatory unconditional general offer for all the Shares in issue other than those already owned or agreed to be acquired by Winsley and/or parties acting in concert with it. Winsley has applied to the Executive for the grant of the Whitewash Waiver.

The Board currently comprises three executive Directors, one non-executive Director and two independent non-executive Directors. Of the executive Directors, Mr. Chan Chun Choi ("Mr. Chan") and Ms. Lam Mo Kuen, Anna ("Ms. Lam") are the ultimate controlling shareholders of Winsley and Ms. Lu

LETTER FROM REXCAPITAL

Su Hua is in principle a salaried employee of the Group although she has not received any salary from the Group since her appointment as an Director. The non-executive Director, Mr. Liu Kwok Fai Alvan is a partner to a solicitors' firm which provided legal advice to the Company in relation to the placing of the Group as announced in August 2003 and pursuant to the Listing Rules, Mr. Liu is not considered independent for the purpose of considering any connected transaction of the Company. As such, both of the executive Directors and the non-executive Director are considered not independent in the context of the Loan Capitalisation. The remaining Directors Mr. Ng Chi Shing and Mr. Yuen Kwok Wah, Bernard have been appointed as the Independent Board Committee to consider, among other matters, the Loan Capitalisation and the Whitewash Waiver.

In our capacity as the independent financial adviser to the Independent Board Committee, our role is to provide you with an independent opinion and recommendations as to whether the terms of the Loan Capitalisation and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and facts supplied and representations made by the Directors and/or the management of the Group. We have been advised by the Directors and/or the management of the Group that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and representations untrue, inaccurate or misleading.

We have assumed that the information contained and representations made or referred to in the Circular were complete, true and accurate at the time they were made and continue to be so at the date of despatch of the Circular.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the Loan Capitalisation and the Whitewash Waiver and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us. We have not, however, conducted an independent in-depth investigation into the business and affairs or the future prospects of the Company, the Group and their respective associates nor have we carried out any independent verification on the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Loan Capitalisation and the Whitewash Waiver, we have considered, among other things, the following principal factors and reasons:

I. Background to and reasons for the Loan Capitalization

The Company, through its subsidiaries, is principally engaged in marketing and distribution of left-hand drive motor vehicles and property holding for rental income purposes. The Board considers that the Loan Capitalization, the completion of which is a condition to the Placing, is

LETTER FROM REXCAPITAL

essential to enhance the Group's ability to operate as a going concern. The Board's opinion is based on the following factors:

- the Group had been operating at a loss for each of the five years ended 31 December 2002 and for the six months ended 30 June 2003. It recorded net losses of approximately HK\$10.86 million, HK\$2.52 million and HK\$2.15 million for the two years ended 31 December 2002 and the six months ended 30 June 2003 respectively;
- the Group had audited consolidated net deficit of approximately HK\$13.43 million and net current liabilities of approximately HK\$33.03 million as at 31 December 2002 and unaudited consolidated net deficit of approximately HK\$15.53 million and net current liabilities of approximately HK\$32.33 million as at 30 June 2003;
- the Group had total outstanding bank loans owed to a financial institution in Hong Kong of approximately HK\$23.41 million and HK\$21.64 million as at 31 December 2002 and 30 June 2003 respectively;
- the Group had amount due to a Director and Winsley of approximately HK\$2.20 million and HK\$7.78 million respectively as at 31 December 2002 and approximately HK\$2.20 million and HK\$7.72 million respectively as at 30 June 2003; and
- the auditors' report dated 16 April 2003 contains a disclaimer of opinion of the Group's 2002 accounts in respect of the fundamental uncertainty relating to the appropriateness of the going concern basis. The auditors consider the validity of the adoption of the going concern basis in preparing financial statements depends upon the successful outcome of the Group's funding plans, the ongoing support of the Group's bankers and the attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements.

In view of the Group's continuous operating losses and its dire financial position especially its net current liabilities position, we concur with the Directors that it is imperative for the Group to reduce its level of indebtedness, improve its working capital position, inject fresh capital and restructure the Group's capital structure. As advised by the Directors, the Company has exhaustively explored other means of raising funds, including additional bank borrowings, rights issue and placement of new Shares through securities firms, but to no avail. We concur with the Directors' view that the Group faces much difficulties in attracting lenders for commercial loans and/or underwriters for equity fund raising exercises under the circumstances, and the Placing is therefore the only avenue available to the Group to raise additional funds and the Loan Capitalisation is the best possible opportunity for the Group to restructure its capital structure. With the Loan Capitalisation being one of the conditions to the Placing, completion of both would be critical in relieving the Group's pressing financial difficulties.

II. Current Financial position of the Group

In formulating our opinion on the Loan Capitalisation, we have considered the current financial position of the Group.

LETTER FROM REXCAPITAL

(a) Net deficit in shareholders' funds

As shown in Appendix I to the Circular, the Group had net deficit in shareholders' funds of approximately HK\$21.31 million and HK\$13.43 million as at 31 December 2001 and 31 December 2002 respectively and the net deficit in shareholders' funds again increased to approximately HK\$15.53 million as at 30 June 2003.

(b) Indebtedness

As stated in the paragraph headed "Information of the Group" in the Letter from the Board, the Group had total outstanding borrowings of approximately HK\$25.03 million as at 31 December 2003. Such borrowings comprised amounts due to Ms. Lam and Winsley of approximately HK\$2.20 million granted in 1999 and HK\$7.65 million granted in 2001 respectively, trade and other payable of approximately HK\$1.92 million and secured bank loans of approximately HK\$13.26 million. The Directors consider that it is important to at least pay down part of the outstanding loans with the proceeds from the Placing in order to negotiate for continued support from this lender. In addition, the Loan Capitalization will be viewed by the bank as commitments of Mr. Chan and Ms. Lam in supporting the Group.

(c) Losses

As shown in Appendix I to the Circular, the Group recorded a net loss of approximately HK\$10.85 million and HK\$2.52 million respectively for the two years ended 31 December 2002, representing a loss per Share of approximately HK\$0.074 and HK\$0.01 for the respective years. The Group continued to record an unaudited net loss from ordinary activities attributable to Shareholders of approximately HK\$2.15 million, or approximately HK\$0.081 per Share, for the six months ended 30 June 2003. The Directors are of the view that the unsatisfactory results of the Group in recent years were mainly due to changes in the People's Republic of China (the "PRC") automotive market environment. Increasing number of foreign automakers have established joint-venture production plants and distribution channels in the PRC. Local production allows foreign-branded vehicles to be sold at significantly lower prices than the imported ones which are subject to tariff-rated quotas and retail business licence charges. We reckon that the Group's ability to operate in the difficult market environment has been further hampered by the severe shortage of working capital. As disclosed in the Company's 2003 interim report (the "Interim Report"), the Group did not have sufficient merchandise to satisfy the market demand primarily because banking facilities granted to the Group had been largely shrunk over the previous four years.

(d) Working capital

As shown in Appendix I to the Circular, the Group recorded net current liabilities of approximately HK\$36.82 million, HK\$33.03 million and HK\$32.33 million as at 31 December 2001, 31 December 2002 and 30 June 2003 respectively. Notwithstanding that the Group had announced three placement of new Shares during the 24-month period immediately prior to the Latest Practicable Date, the Directors consider that the Group had not achieved

LETTER FROM REXCAPITAL

significant improvement in its working capital position as a result of the Share placements given the relatively small amount of funds raised, particularly the two most recent occasions which had raised net proceeds of less than HK\$1 million each. As disclosed in the paragraph headed “Reason for the Placing” in the Letter from the Board, the consolidated net deficit and net current liabilities of the Group as at 30 June 2003 after adjusting for (i) the disposal of an investment property on 9 July 2003; (ii) the placing of Shares on 15 September 2003 and 5 December 2003; and (iii) the deficit arising from the revaluation of a property as at 31 December 2003 (the “Adjusted Net Deficit” and “Adjusted Net Current Liabilities”) still amounts to approximately HK\$14.68 million and HK\$31.48 million respectively.

Taking into account (i) the Group’s pressing need for fresh capital and reducing the level of indebtedness; (ii) the lack of other fund raising alternatives given the Group’s dire financial position and persistent operating losses; and (iii) the fact that the Loan Capitalisation is a condition to the Placing, we concur with the Directors’ view that completion of the Placing and the Loan Capitalisation is critical to the viability of the Group to remain as a going concern. Thus, we consider the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole.

III. Terms of the Loan Capitalisation

Pursuant to the Loan Capitalisation Agreement, Winsley agreed to subscribe for 430,000,000 new Shares, representing approximately 113.18% of the existing issued share capital of the Company and approximately 40.00% of the enlarged share capital of the Company upon the completion of the Placing and the Loan Capitalisation, at HK\$0.018 per Share. The consideration of HK\$7,740,000 will be satisfied as to HK\$7,647,163 by setting off against amount owed by the Company to Winsley and the remaining HK\$92,837 by cash upon completion of the Loan Capitalisation, which will take place simultaneously with that of the Placing. The Loan Capitalisation is a pre-condition to the Placing imposed by Forex.

(a) The Loan Capitalisation Price

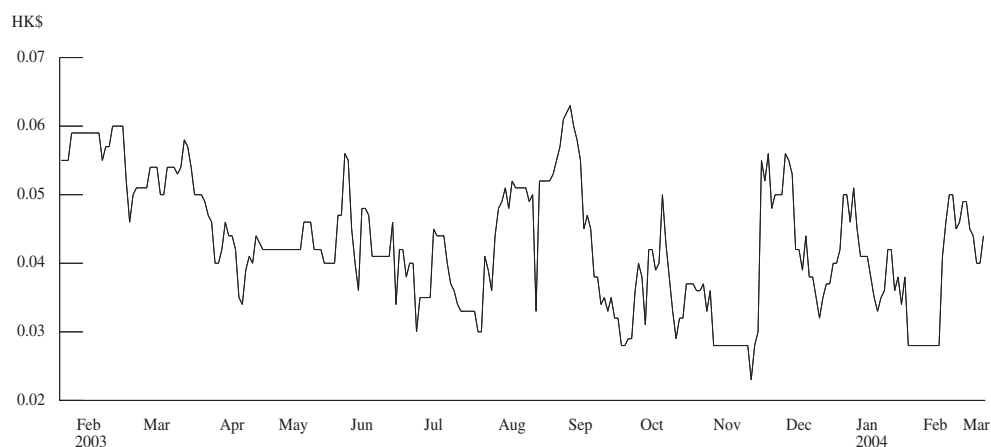
(i) Comparison to market price per Share

As stated in the paragraph headed “Loan Capitalisation Price” in the Letter from the Board, the Loan Capitalisation Price of HK\$0.018 per Loan Capitalisation Share has been arrived at after taking into account the Placing Price, the thin trading volume of the Shares and the latest financial condition of the Company. The Loan Capitalisation Price represents:

- a discount of approximately 35.71% to the closing price of HK\$0.028 per Share quoted on the Stock Exchange on 4 February 2004, being the last trading day before the date of the Announcement;
- a discount of approximately 50.00% to the average of the closing prices per Share as quoted on the Stock Exchange of approximately HK\$0.036 for the 10 trading days ended 4 February 2004; and
- a discount of approximately 59.09% to the closing prices of HK\$0.044 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM REXCAPITAL

The following chart shows historical daily closing prices of the Shares for the period from 1 February 2003 (being the trading day approximately twelve months preceding 4 February 2004, the last trading day before suspension of trading of the Shares pending the release of the Announcement) to 4 February 2004 and up to the Latest Practicable Date (the “Review Period”):



Source: figures from Infocast Limited

The following table sets out the monthly highest, lowest and the average closing prices of the Shares for the Review Period:

Month	Highest	Lowest	Average
2003			
February	0.06	0.055	0.058
March	0.058	0.046	0.052
April	0.05	0.034	0.043
May	0.046	0.04	0.042
June	0.056	0.034	0.044
July	0.045	0.03	0.037
August (Note 1)	0.052	0.03	0.045
September	0.063	0.032	0.047
October	0.05	0.028	0.036
November (Note 2)	0.055	0.023	0.033
December	0.056	0.032	0.044
2004			
January	0.05	0.033	0.041
February (Note 3)	0.05	0.028	0.043
1st March up to and including the Latest Practicable Date	0.045	0.04	0.043

Source: Infocast Limited

LETTER FROM REXCAPITAL

Notes:

1. Trading of the Shares on the Stock Exchange was suspended from 19 August 2003 to 21 August 2003, pending the release of an announcement in relation to a placing of 52 million new Shares to independent investors at HK\$0.02 per Share
2. Trading of the Shares on the Stock Exchange was suspended from 11 November 2003 to 19 November 2003, pending the release of an announcement in relation to a placing of 63.3 million new Shares to independent investors at HK\$0.016 per Share
3. Trading of the Shares on the Stock Exchange was suspended from 5 February 2004 to 17 February 2004, pending the release of the Announcement

We note from the above chart that the Shares were traded above the Loan Capitalisation Price at all time during the Review Period. We also note from the above table that the highest and the lowest closing price per Share during the Review Period were HK\$0.063 and HK\$0.023 respectively. The Loan Capitalisation Price represents a 71.43% discount to the highest closing price per Share and an approximately 21.74% to the lowest closing price per Share respectively during the Review Period.

We also note that the Shares dropped drastically from HK\$0.063 on 9 September 2003 to HK\$0.028 on 3 October 2003 and increased drastically from HK\$0.023 on 25 November 2003 to HK\$0.055 on 28 November 2003. The Directors could not identify any conclusive reasons in connection with the Share price movement during these periods. We have reviewed the announcements made by the Company pursuant to the Listing Rules during these periods. In our opinion, none of the announcements per se appears to have been the cause of the abovementioned fluctuations in the price of the Shares. As such, we concur with the Directors' proposition that the movements in the price of the Shares during these periods were not due to any specific incidents of the Group.

We note that the Loan Capitalisation Price represents a steep discount to the prevailing market price of the Shares immediately before the Announcement and exceeds the corresponding discount rates normally appear in share placements by Hong Kong listed companies. However, we believe the continuous operating losses and dire financial position of the Group makes any comparison between the parameters of the Placing and/or the Loan Capitalisation with those of share placements of other financially healthy listed companies not meaningful. Demand for shares in companies facing severe financial problems are relatively scarce. Potential underwriters and/or investors for shares in such companies, if available, would have stronger bargaining power and the terms of the share placements can vary significantly, depending on the specific circumstances of the individual cases. As reference, we have reviewed the three share placements (the "Previous Share Placements") undertaken by the Group within the past 24 months immediately before the Latest Practicable Date during which the Group had suffered continued losses and remained in difficult financial conditions. We consider that, given the proximity in their timing to that of the Placing, the two latest Previous Share Placements are of more significance for the purpose of comparison against the Loan Capitalisation as the prevailing market environment and the Group's financial position are more comparable.

LETTER FROM REXCAPITAL

Details of comparisons amongst the Placing, the Loan Capitalisation and the Previous Share Placements are set out below:

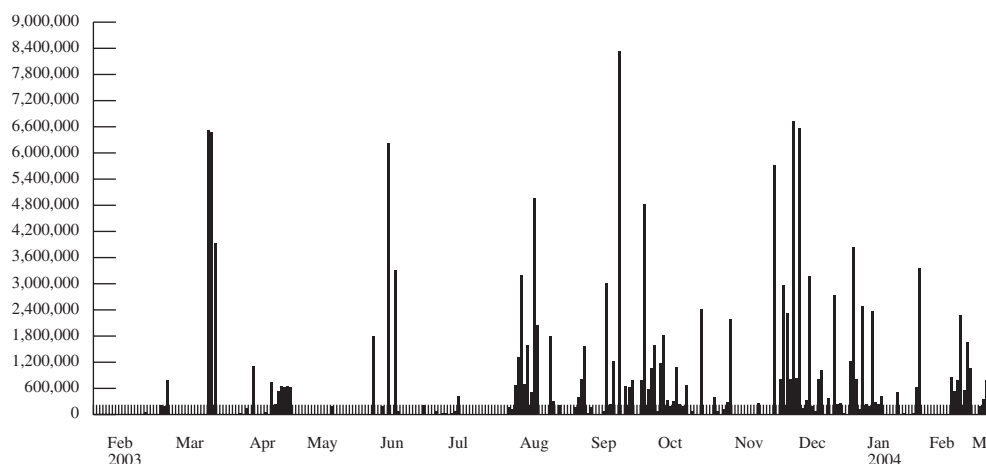
Nature of the fund raising activity	Net proceeds raised/ Consideration HK\$'million	Date of announcement	Placing price per Share HK\$	Closing Share as at the trading day prior to the date of the announcement HK\$	Discount of the relevant placing price to per Share as at the trading day prior to the date of the announcement %	Average of the closing price per Share for the 10 trading days prior to the date of the announcement HK\$	Discount of the relevant placing price to the average of the closing price per Share for the 10 trading days prior to the date of the announcement %
Placing of 44 million new Shares	4.5	28 May 2002	0.115	0.121	4.96	0.129	10.85
Placing of 52 million new Shares	0.95	21 August 2003	0.02	0.051	60.78	0.0459	56.43
Placing of 63.3 million new Shares	0.9	19 November 2003	0.016	0.028	42.86	0.0349	54.15
<i>Simple average</i>					36.2		40.48
The Placing of 265.1 million new Shares	4.31	17 February 2004	0.018	0.028	35.71	0.036	50.00
The Loan Capitalisation to subscribe for 430 million new Shares	7.74	17 February 2004	0.018	0.028	35.71	0.036	50.00

The discount of approximately 35.71% of the Loan Capitalisation Price to the closing price per Share quoted on the Stock Exchange as at the trading day immediately prior to the date of the Announcement falls within the range of those of the Previous Share Placements and is lower than those of the two latest share placements of the Company which were announced within six months before the date of the Announcement. The discount of approximately 50.00% of the Loan Capitalisation Price to the average of the closing prices per Share as quoted on the Stock Exchange for the 10 trading days immediately prior to the date of the Announcement also falls within the range of those of the Previous Share Placements and is below those of the two most recent Previous Share Placements. The widening discount of the placing price to the prevailing market price of the Shares in the two most recent Previous Share Placements as compared to the one announced on 28 May 2002 reflects that the market demands for deeper discount in the placing price to the prevailing market price of the Shares as the Group's financial position deteriorates. Given that the Group's financial position has not demonstrated any improvement during the intervening months, we consider it acceptable for any independent investor to demand a discount of the placing price to the prevailing market price of the Shares similar to, if not deeper than, that of the most recent Previous Share Placements.

LETTER FROM REXCAPITAL

(ii) Analysis of trading volume

The following chart sets out the daily turnover of the Shares on the Stock Exchange during the Review Period:



Source: figures from Infocast Limited

The following table sets out the highest, lowest and average daily turnover of the Shares during the Review Period and the percentage of average daily turnover as compared with the total number of Shares in issue as at the Latest Practicable Date:

	Highest daily turnover (in number of Shares)	Lowest daily turnover (in number of Shares)	Average daily turnover (in number of Shares)	Percentage of average daily turnover to the total number of Shares in issue (%) (Note 1)	Percentage of average daily turnover to the public float of the Company (%) (Note 2)
2003					
February	64,000	0	4,421	0.001	0.002
March	6,528,000	0	863,162	0.227	0.320
April	1,120,000	0	277,000	0.073	0.103
May	200,000	0	10,300	0.003	0.004
June	6,216,000	0	591,780	0.156	0.220
July	418,000	0	31,773	0.008	0.012
August (Note 3)	4,959,600	0	981,967	0.258	0.364
September	8,336,000	0	863,905	0.227	0.321
October	4,825,000	0	794,700	0.209	0.295
November (Note 4)	5,721,000	0	699,769	0.184	0.260
December	6,728,000	0	1,453,714	0.383	0.539
2004					
January	3,840,000	0	674,211	0.177	0.250
February (Note 5)	3,368,000	0	1,073,818	0.283	0.398
1 March up to and including the Latest Practicable Date	800,000	0	327,120	0.086	0.121

Source: Infocast Limited

LETTER FROM REXCAPITAL

Notes:

1. based on 379,911,600 Shares in issue as at the Latest Practicable Date.
2. based on 269,534,014 Shares resulting from the deduction of 110,377,586 Shares being held by Winsley together with parties acting in concert from a total of 379,911,600 Shares in issue as at the Latest Practicable Date.
3. Trading of the Shares on the Stock Exchange was suspended from 19 August 2003 to 21 August 2003, pending the release of an announcement in relation to a placing of 52 million new Shares to independent investors at HK\$0.02 per Share.
4. Trading of the Shares on the Stock Exchange was suspended from 11 November 2003 to 19 November 2003, pending the release of an announcement in relation to a placing of 63.3 million new Shares to independent investors at HK\$0.016 per Share.
5. Trading of the Shares on the Stock Exchange was suspended from 5 February 2004 to 17 February 2004, pending the release of the Announcement

As shown in the above table, the average daily turnover of the Shares in each month during the Review Period was fairly thin. The average daily turnover of the Shares ranged from 4,421 Shares to 1,453,714 Shares, representing approximately 0.001% to 0.383 % of the total number of Shares in issue and approximately 0.002% to 0.539% of the public float of the Company as at the Latest Practicable Date respectively. In addition, during the Review Period, there were 103 trading days out of a total of 252 trading days, approximately 40.87% of the total trading days, on which no trading of the Shares on the Stock Exchange was recorded. We concur with the Directors' view that the thin liquidity of the Shares renders placing of Shares of a significant amount very difficult. We also note that the net proceeds from each of the two latest Previous Share Placements were less than HK\$1 million and the number of Shares placed in each case represents less than 20% of the Company's then issued share capital.

(iii) Comparison to net liability per Share

The Loan Capitalization Price of HK\$0.018 compares favourably to (a) the audited consolidated net liabilities per Share of approximately HK\$0.0354 based on the Group's audited consolidated accounts as at 31 December 2002; (b) the unaudited net liabilities per Share of approximately HK\$0.0409 based on the Group's unaudited consolidated accounts as at 30 June 2003; and (c) the pro forma unaudited adjusted consolidated net deficit value per Share immediately following completion of the Placing and the Loan Capitalisation of approximately HK\$0.0024 as shown in the paragraph headed "Pro forma unaudited adjusted consolidated net deficit of the Group" in Appendix I to the Circular.

We note that the Loan Capitalisation Price is equivalent to the Placing Price which has been arrived at after arm's length negotiation between Forex and the Company. Since Forex is an independent third party not connected with and not acting in concert with (i) Winsley and its directors and substantial shareholders; and (ii) the directors, chief executive and substantial shareholders of the Company and its subsidiaries or any associate of any of them (as defined under the Listing Rules), we consider the Placing Price represents a reference as to what the Company could expect from other independent investor(s), if available, for the subscription of a relatively large number of new Shares. Although the

LETTER FROM REXCAPITAL

Loan Capitalisation Price represents a significant discount to the prevailing market price of the Shares at the time of Announcement, such discount falls within the range of those of the Previous Share Placements. In assessing the fairness and reasonableness of the Loan Capitalisation Price, we have also taken into consideration (i) the low liquidity of the Shares; (ii) the relatively large number of new Shares to be issued pursuant to the Loan Capitalization as compared to the Company's existing issued share capital; (iii) the pro forma unaudited adjusted consolidated net deficit value per Share immediately following completion of the Placing and the Loan Capitalisation; (iv) the reasons behind the Loan Capitalisation especially the fact that the Loan Capitalisation is a pre-condition imposed by Forex for the Placing; and (v) the Loan Capitalisation Price is equivalent to the Placing Price which has been arrived at after arm's length negotiation between the Company and Forex, we are of the view that the discount of Loan Capitalisation Price to the prevailing market price of the Shares is acceptable in the circumstances and the Loan Capitalisation Price is fair and reasonable so far as the Independent Shareholders are concerned.

(b) Effects of the Loan Capitalisation & the Placing

As the Loan Capitalization is a condition to the Placing and the completion of the Loan Capitalisation and the Placing will take place simultaneously, we believe it is more appropriate to consider the effect of the Loan Capitalization on the basis that the Placing would also materialize.

(i) Net deficit in shareholders' funds and working capital

As stated in the paragraph headed "Use of proceeds" in in the Letter from the Board, the Company intends to apply approximately HK\$3.09 million out of the net proceeds from the Placing for partial repayment of its outstanding debts. Further taking into account the offsetting of approximately HK\$7.65 million loan owed to Winsley pursuant to the Loan Capitalization, the Group's capital structure and working capital position would be significantly improved upon the completion of the Placing and the Loan Capitalisation. As stated in the paragraph headed "Pro forma unaudited adjusted consolidated net deficit of the Group" in Appendix I to the Circular, the pro forma unaudited adjusted consolidated net deficit of the Group will be reduced by approximately 82.15% from approximately HK\$14.68 million before completion of the Placing and the Loan Capitalisation to approximately HK\$2.62 million upon completion of the Placing and the Loan Capitalisation.

(ii) Profit and loss

After applying approximately HK\$3.09 million of the net proceeds from the Placing to repay part of the Group's bank borrowings, the Directors estimate that the Group will save interest expenses of approximately HK\$0.15 million per annum. We note that such interest savings represents approximately 7.28% of the Group's total finance costs for the year ended 31 December 2002 as disclosed in Appendix I to the Circular. We also note that the finance costs accounted for approximately 81.91% of the Group's unaudited consolidated net loss for the same year. In view of the above, we concur with the Directors' view that the expected interest savings is significant under the Group's current difficult financial position.

LETTER FROM REXCAPITAL

(iii) Dilution of Shareholders' interests in the Company

The effects of the Loan Capitalisation, together with the Placing, on the shareholding structure of the Company are set out in the paragraph headed "Changes to the shareholding as a result of the Placing and Loan Capitalisation" in the Letter from the Board. Shareholder's attention is drawn to the fact that, immediately upon completion of the Loan Capitalisation and the Placing, the public shareholders' interest in the Company will be diluted from approximately 70.95% of the existing issued share capital of the Company to approximately 25.07% of the enlarged issued share capital of the Company.

Notwithstanding the significant dilution effect on the shareholding interests of the Independent Shareholders, the Company, and thus the Shareholders as a whole, will benefit from the improvements in the Group's financial position brought about by the Loan Capitalization and the Placing as analyzed above. As discussed in the above paragraph headed "The Loan Capitalization Price", we consider the Loan Capitalization Price acceptable in the circumstances. Based on the above, we are of the view that the terms of the Loan Capitalization Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

IV. Intention of the Group

Upon completion of the Placing and the Loan Capitalisation, Winsley will become the single largest Shareholder and Forex will become the second largest Shareholder. It is the intention of Winsley and Forex to maintain the listing of the Shares on the Stock Exchange and to continue with the existing business of the Group. Currently, Winsley and Forex have no plan to inject any assets or businesses into the Group or to redeploy the fixed assets and make any significant changes to the existing businesses of the Group.

Winsley and Forex have no intention to make any material changes to the existing senior management or the employees of the Group. They also have no intention of appointing any directors to the Company but may elect to do so in the future. The Company will inform the Shareholders in this regard as and when appropriate.

Taking into account that Winsley and Forex do not intend to inject any assets or businesses into the Group or to redeploy the fixed assets and cause material changes to the existing business or the senior management or the employees of the Group, we do not envisage any significant impact on the Group's current business to be brought about by Winsley and Forex immediately following completion of the Placing and the Loan Capitalisation.

As stated in the Interim Report, the Directors envisage improving conditions in the PRC automotive market as the PRC government has pledged to slash tariffs on automobile imports from the existing range of between 40% and 50% to 25% in 2006 and to abolish all import quotas on automobile by January 2005. The Directors consider 2004 to be a crucial year for the Group and, if the Group can weather the current crisis, it would stand to benefit from the improving market environment.

LETTER FROM REXCAPITAL

We have reservation in the Group's ability to remain as a going concern, as its auditors had pointed out in its report on the Group's accounts for the year ended 31 December 2002, if the Group cannot resolve its severe liquidity problem in the near future. On the other hand, we consider the long-term viability of the Group would depend on, among others, its ability to turn around its loss making operations. We therefore concur with the Directors' proposition that it is of critical importance for the Group to resolve its imminent financial crisis with a view to improve the Group's performance in light of better market conditions.

V. The Whitewash Waiver

Immediately upon completion of the Placing and the Loan Capitalisation, Winsley and parties acting in concert will it will be interested in approximately 50.27% of the enlarged issued share capital of the Company. Accordingly, under Rule 26 of the Takeovers Code, Winsley and parties acting in concert with it would be obliged to make a mandatory unconditional general offer for all the Shares in issue other than those already owned or agreed to be acquired by Winsley and/or parties acting in concert with it.

Winsley has applied to the Executive for the Whitewash Waiver and the Executive has agreed to grant the Whitewash Waiver subject to the approval of the Independent Shareholders on a vote taken by way of a poll at the SGM.

It should be noted that pursuant to the Loan Capitalisation Agreement, if the Whitewash Waiver is not granted by the Executive, the Loan Capitalisation will not proceed. On the other hand, the Loan Capitalization is a condition to the Placing and completion of both will take place simultaneously. The granting of the Whitewash Waiver will, therefore, be necessary for the Group and all the Shareholders, including the Independent Shareholders, to take the opportunity to enjoy the benefits arising from the Loan Capitalisation and the Placing. Having taken into account of the reasons mentioned above, we are of the opinion that the terms of the Loan Capitalisation Agreement are fair and reasonable and are in the interests of the Group and its Shareholders as a whole, and, accordingly, we consider that it would be in the interests of the Independent Shareholders to vote in favour of the grant of the Whitewash Waiver.

Shareholders should note that upon completion of the Loan Capitalisation and the Placing, the interest of Mr. Chan and Ms. Lam in the Company will exceed 50% of the enlarged issued share capital. Accordingly, Mr. Chan, Ms. Lam and parties acting in concert with them will be able to acquire further Shares without incurring obligations to make a general offer under the Takeovers Code.

LETTER FROM REXCAPITAL

CONCLUSION AND RECOMMENDATION

Having considered the above principal factors, we are of the view that the Loan Capitalisation is in the interest of the Company as a whole and the terms of the Loan Capitalisation Agreement are fair and reasonable so far as the Independent Shareholders are concerned. We are also of the opinion that the granting of the Whitewash Waiver is in the interest of the Company and is fair and reasonable so far as the Independent Shareholders are concerned, given that the Whitewash Waiver is a condition precedent for the Loan Capitalisation. Accordingly, we advise that the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolutions which will be proposed at the SGM to approve the Loan Capitalisation and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
REXCAPITAL (Hong Kong) Limited
Philip Chau
Director

1. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>		<i>HK\$</i>
2,205,586,400	Shares as at the Latest Practicable Date	22,055,864
<i>Issued and fully paid:</i>		<i>HK\$</i>
379,911,600	Shares as at the Latest Practicable Date	3,799,116
695,100,000	Shares to be issued upon completion of the Placing and the Loan Capitalisation	6,951,000
1,075,011,600	Total number of Shares upon completion of the Placing and the Loan Capitalisation	10,750,116

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividend, voting rights and return of capital.

The Placing Shares and Loan Capitalisation Shares will rank pari passu in all respects among themselves and with all other Shares in issue or to be issued by the Company on or prior to completion of the Placing and Loan Capitalisation including the rights to all dividends and other distributions declared, made or paid at any time after the date of issue and allotment.

The Company has issued 115,300,000 Shares since 31 December 2002, being the date to which the latest published audited financial statements of the Group were made up, to the Latest Practicable Date. The table below sets out the details of the issuance of Shares:

Date of issue	Event	No. of Shares issued	Net proceeds (Approximate HK\$)
15 September 2003	Placement	52,000,000	949,000
5 December 2003	Placement	63,300,000	900,000
		<u>115,300,000</u>	<u>1,849,000</u>

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or other securities that are convertible into the Shares.

2. SUMMARY OF FINANCIAL INFORMATION

Set out below are summaries of the audited consolidated income statements of the Group for each of the three years ended 31 December 2000, 2001 and 2002, as extracted from the annual consolidated financial statements of the Company. There is no significant change in the accounting policy during the period.

The auditors disclaimed their opinions on each of the audited consolidated financial statements of the Company for the three preceding years. The auditors' report for the year ended 31 March 2002 is set out on pages 37 to 38 of this document.

The unaudited consolidated results of the Group for the six months ended 30 June 2003 was extracted from the interim report of the Group for the six months ended 30 June 2003.

	For the year ended 31 December			For the six months ended 30 June
	2000	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>27,954</u>	<u>16,418</u>	<u>33,433</u>	<u>4,284</u>
Loss before taxation	(38,761)	(10,853)	(6,256)	(2,152)
Taxation	<u>446</u>	<u>(4)</u>	<u>3,741</u>	<u>–</u>
Loss after taxation	(38,315)	(10,857)	(2,515)	(2,152)
Minority interests	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss attributable to Shareholders	<u>(38,315)</u>	<u>(10,857)</u>	<u>(2,515)</u>	<u>(2,152)</u>
Dividend per Share	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss per Share – basic (<i>Note</i>)	<u>(31.2 cents)</u>	<u>(7.4 cents)</u>	<u>(1.0 cents)</u>	<u>(0.8 cents)</u>

Note: The calculated of basic loss per share is based on the net loss attributable to shareholders for the years ended 31 December 2000, 2001 and 2002 and for the six months ended 30 June 2003 of approximately HK\$38,315,000, HK\$10,857,000, HK\$2,515,000 and HK\$2,152,000 and the weighted average of Shares issued during the years ended 31 December 2000, 2001, 2002 and the six months ended 30 June 2003 of 122,900,500 Shares, 145,891,000 Shares, 239,481,000 Shares and 264,611,600 Shares.

The Group does not have any extraordinary items and exceptional items for each of the three years ended 31 December 2000, 2001 and 2002 and the six months ended 30 June 2003.

3. AUDITORS' REPORT

Set out below is the extract from the auditor's report on the financial statements of the Company for the year ended 31 December 2002. References to the pages numbers refer to the page number of the Company's annual report for the year ended 31 December 2002.

**TO THE MEMBERS OF
VICTORY GROUP LIMITED**

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis, being the basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Group is currently undertaking a number of measures to relieve its current profitability and liquidity problems. The financial statements have been prepared on the going concern basis, the validity of which depends upon the successful outcome of the Group's funding plans, the ongoing support of the Group's bankers, and the attainment of profitable and positive cash flow operations

of the Group to meet its future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful.

We consider that appropriate disclosures have been made, but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

Disclaimer of opinion

We are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of its loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, on account of the fundamental uncertainty relating to the appropriateness of the going concern basis.

FAN, MITCHELL & CO.
Certified Public Accountants

Hong Kong
16 April 2003

4. SUMMARY OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2002

Set out below is the extract from the audited consolidated financial statements of the Company for the year ended 31 December 2002.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2002

		2002	2001
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	5	33,433	16,418
Cost of sales		<u>(31,646)</u>	<u>(15,404)</u>
Gross profit		1,787	1,014
Other revenue	6	3,353	633
Selling and distribution costs		(302)	(600)
Administrative expenses		(4,997)	(7,800)
Other operating expenses		<u>(4,037)</u>	<u>(1,106)</u>
Loss from operating activities	7	(4,196)	(7,859)
Finance costs	8	<u>(2,060)</u>	<u>(2,994)</u>
Loss before taxation		(6,256)	(10,853)
Taxation	11	<u>3,741</u>	<u>(4)</u>
Net loss from ordinary activities attributable to shareholders	12	<u><u>(2,515)</u></u>	<u><u>(10,857)</u></u>
Loss per share – Basic	13	<u><u>(1.0 cents)</u></u>	<u><u>(7.4 cents)</u></u>

CONSOLIDATED BALANCE SHEET*As at 31 December 2002*

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Non-current assets			
Fixed assets	14	8,101	9,822
Investment properties	15	11,500	14,000
Interest in a former associate	17	–	–
		<u>19,601</u>	<u>23,822</u>
Current assets			
Pledged time deposits		–	5,735
Inventories	18	824	2,941
Prepayment, deposits and other receivables	19	170	402
Trade receivables	19	190	27
Tax recoverable	11b	13	–
Cash and bank balances		<u>3,360</u>	<u>1,471</u>
		<u>4,557</u>	<u>10,576</u>
Current liabilities			
Amount due to Directors	21	2,200	2,166
Amount due to a related party	22	7,776	14,649
Trade payables, other payables and accruals	20	2,744	5,941
Deposits received		1,457	266
Tax payable	11b	–	3,739
Interest-bearing bank borrowings, secured	23	<u>23,409</u>	<u>20,639</u>
		<u>37,586</u>	<u>47,400</u>
Net current liabilities		<u>(33,029)</u>	<u>(36,824)</u>
Total assets less current liabilities		(13,428)	(13,002)
Non-current liabilities			
Interest-bearing bank borrowings, secured	23	<u>–</u>	<u>8,308</u>
NET LIABILITIES		<u>(13,428)</u>	<u>(21,310)</u>
CAPITAL AND RESERVES			
Issued capital	24	2,646	1,471
Reserves	25	<u>(16,074)</u>	<u>(22,781)</u>
		<u>(13,428)</u>	<u>(21,310)</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 December 2002*

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Operating activities			
Loss before taxation		(6,256)	(10,853)
Adjustments for:			
Interest expenses		2,060	2,994
Interest income		(30)	(308)
Depreciation		234	285
Impairment loss on land and buildings		1,487	232
Deficit arising from revaluation of investment properties		2,500	800
Loss on disposal of fixed assets		—	29
Operating loss before changes in working capital		(5)	(6,821)
Decrease in inventories		2,117	3,695
Decrease/(increase) in prepayments, deposits and other receivable		232	(5)
(Increase)/decrease in trade receivables		(163)	497
Decrease in trade payables, other payables and accruals		(3,197)	(495)
Increase/(decrease) in deposits received		1,191	(564)
Cash generated from/(used in) operations		175	(3,693)
Interest received		30	308
Interest paid		(2,060)	(2,994)
Tax paid		(11)	(2,282)
Net cash used in operating activities		(1,866)	(8,661)
Investing activities			
Decrease in pledged time deposits		5,735	4,782
Payment to acquire fixed assets		—	(2)
Net cash from investing activities		5,735	4,780
Financing activities			
Issue of share capital		12,413	5,520
Share issue expenses		(1,867)	(439)
(Repayment to)/advance from a related party		(6,873)	14,649
New bank loan		—	9,000
Advance from/(repayment to) Directors		34	(347)
Repayment of bank loans		(510)	(173)
Net cash from financing activities		3,197	28,210
Net increase in cash and cash equivalents		7,066	24,329
Cash and cash equivalents at 1 January		(18,649)	(43,005)
Effect of foreign exchange rates changes		(149)	27
Cash and cash equivalents at 31 December	26a	(11,732)	(18,649)

BALANCE SHEET*As at 31 December 2002*

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	16	–	–
Current assets			
Prepayment, deposit and other receivables	19	59	266
Cash and bank balances		58	7
		<u>117</u>	<u>273</u>
Current liabilities			
Other payables and accruals	20	447	709
Net current liabilities		<u>(330)</u>	<u>(436)</u>
NET LIABILITIES		<u>(330)</u>	<u>(436)</u>
CAPITAL AND RESERVES			
Issued capital	24	2,646	1,471
Reserves	25	(2,976)	(1,907)
		<u>(330)</u>	<u>(436)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31 December 2002*

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Shareholders' equity at 1 January		(21,310)	(15,561)
Exchange difference on translation of financial statements of foreign entities	25	(149)	27
Net (losses)/gains not recognized in the profit and loss account		(149)	27
Net loss for the year	25	(2,515)	(10,857)
Movements in share capital:	24 & 25		
Shares issued on placing		440	4,800
Shares issued on rights issue		735	–
Share premium received		11,238	720
Share issue expenses		(1,867)	(439)
Net increase in shareholders' equity arising from capital transactions with shareholders		10,546	5,081
Shareholders' equity at 31 December		(13,428)	(21,310)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1. CORPORATE INFORMATION

The Company is a public listed company incorporated in Bermuda and its shares are listed on the Stock Exchange. Its ultimate holding company is EVEI.

During the year, the Group was engaged in the following principal activities:

- marketing and distribution of left-hand drive motor vehicles
- property holding for rental income purposes

2. BASIS OF PRESENTATION

During the year, the trading conditions for the Group's principal business of the trading of motor vehicles were favorably affected by certain government regulations regarding the import of motor vehicles into the PRC.

For the year ended 31 December 2002, the Group incurred a consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$2,515,000. As at 31 December 2002, the Group had consolidated net current liabilities of approximately HK\$33,029,000 and net liabilities of approximately HK\$13,428,000.

In September 2002, one of the Group's principal bankers withdrew its banking facilities granted to the Group and demanded the immediate repayment of an aggregate amount of approximately HK\$23,562,000. The Group then repaid partially the bank loan in the approximate amount of HK\$153,000 for the year ended 31 December 2002. Subsequent to the balance sheet date, the Group disposed of one of its investment properties at a consideration of HK\$2,800,000 for partial repayment of bank overdrafts and bank loans. In this regard, the banker did not demand immediate repayment of the bank loans up to the date of approval of the financial statements.

Having regard to this situation, in order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the Directors adopted the following measures:

- (a) the Directors are in active negotiations with the Group's bankers to secure new facilities to meet the immediate repayments of amounts demanded by its principal banker;
- (b) the Directors are considering to increase the capital base of the Group through various fund-raising exercises, including, but not limited to, private placements of the Company's new shares; and
- (c) the Directors have taken action to reduce costs.

In the opinion of the Directors, if the above measures accomplish the expected results, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Therefore, the Directors considered that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31 December 2002.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

3. ADOPTION OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has no material effect on the results for the current or prior accounting periods.

Where necessary, comparative figures have been reclassified to conform to the current year's presentation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with all applicable SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain fixed assets as further explained below.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost less any impairment losses.

(d) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on a straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term lease land	Over the remaining term of the lease
Medium term leasehold buildings	Over the unexpired lease term of the land
Leasehold improvements	Over their expected useful lives or the term of the relevant lease whichever shorter
Furniture and fixtures	30%
Office equipment	30%
Motor vehicles	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(e) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(f) Associates

An associate is defined as an entity, other than a subsidiary, in which the Group has a long-term interest and over which it has the ability to exercise significant influence but not control, over its management, including participation in financial and operating policy decisions.

Investments in associates are stated in the consolidated balance sheet at the Group's share of net assets other than goodwill less impairment losses and in the balance sheet of the Company at cost less any impairment losses.

The consolidated profit and loss account reflects the Group's share of the post acquisition results of the associates.

(g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for its investment potential. Such properties with an unexpired lease term of more than 20 years are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

(h) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(i) Inventories

Inventories, comprising entirely finished goods, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price less any estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(j) Deferred taxation

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that a liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(k) Foreign currencies

At Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in profit and loss account.

On consolidation, the results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date.

(l) Revenue recognition

Revenue is recognized when it is probable that the economics benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) on the rendering of services, when services are rendered;
- (iii) rental income, on the straight-line basis over the lease terms; and
- (iv) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

(m) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(n) Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(o) Goodwill

Goodwill arising on consolidation of subsidiary companies and on acquisition of associated companies represents the excess purchase consideration paid for such companies over the fair values ascribed to the net underlying assets at the date of acquisition. For acquisitions before 1 January 2001, positive goodwill is written off on acquisition. For acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life.

On disposal of an investment in a subsidiary or associated company, the attributable amount of goodwill is included in calculating the gain and loss on disposal.

(p) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(r) Employee benefits

- (i) Contributions to MPF as required under the Hong Kong MPF Ordinance, are recognised as an expense in the profit and loss account as incurred.
- (ii) Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment assets consist primarily of fixed assets, investment properties, inventories, receivables and operating cash, and mainly exclude interest in an associate and tax recoverable. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions of subsidiaries. Unallocated costs represent mainly corporate and inactive subsidiaries' expenses.

In respect of geographical segment reporting, turnover and results are based on the country in which the customer is located. Segment assets and capital expenditure are based on where the assets are located.

(t) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(u) Post balance sheet events

Post balance sheet events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

5. TURNOVER

Turnover represents the invoiced value of inventories sold, net of discounts and returns, and rental income.

The amount of each significant category of revenue recognized in turnover during the years is as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of motor vehicles	33,193	15,677
Gross rental income	240	741
	<u>33,433</u>	<u>16,418</u>

6. OTHER REVENUE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest income	30	308
Foreign exchange gain	–	90
Others	397	235
Written back of accruals for expenses and compensation (<i>note 27ii</i>)	2,703	–
Written back of PRC tax provision no longer required	223	–
	<u>3,353</u>	<u>633</u>

7. LOSS FROM OPERATING ACTIVITIES

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Auditors' remuneration		
– under/(over) provision in respect of previous year	5	(5)
– current year	272	268
Depreciation	234	285
Loss on disposal of fixed assets	–	29
Impairment loss on land and buildings (<i>Note 14</i>)	1,487	232
Deficit arising from revaluation of investment properties (<i>Note 15</i>)	2,500	800
Provision for bad and doubtful debts	–	45
Staff costs (including Directors' remuneration) (<i>Note 9</i>)	2,621	3,968
MPF contribution (<i>Note 31</i>)	42	85
Bad debt recovered	(192)	–
Cost of inventories	31,646	15,404
Interest income	(30)	(308)
Net rental income	(236)	(741)
Foreign exchange losses/(gains), net	50	(90)
	<u>50</u>	<u>(90)</u>

8. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on:		
Bank loans, overdrafts and trust receipt loans		
– wholly repayable within 5 years	2,060	2,041
Other loans	–	953
	<u>2,060</u>	<u>2,994</u>

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive Directors	–	–
Non-executive Director	100	100
Independent non-executive Directors	200	200
	<u>300</u>	<u>300</u>
Other emoluments – executive Directors:		
Salaries and allowances	755	1,622
MPF contribution	23	24
	<u>1,078</u>	<u>1,946</u>

The emoluments of the Directors fell within the following bands:

	Group	
	2002	2001
	Number of	Number of
	Directors	Directors
Nil – HK\$1,000,000	5	4
HK\$1,000,001 – HK\$1,500,000	–	1
	<u>5</u>	<u>5</u>

During the year, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a Director waived or agreed to waive any remuneration during the year.

10. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid employees during the year included two (2001: two) Directors, details of whose remuneration are set out in note 9 to the financial statements. Details of the remuneration of the remaining three (2001: three) highest paid, non-director employees during the year are as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	881	869
MPF contribution	30	28
Long service payment	–	102
	<u>911</u>	<u>999</u>

The remuneration of the above non-director, highest paid employees fell within the band of Nil to HK\$1,000,000 in both years.

During the year, no emoluments were paid by the Group to the highest paid, non-director employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

11. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong:		
Provision for the year	–	(4)
Overprovision in prior years	3,741	–
	<u>3,741</u>	<u>(4)</u>

The provision for Hong Kong profits tax is calculated at 16 per cent (2001: 16 per cent) of the estimated assessable profits for the year ended 31 December 2002. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

At the balance sheet date, the Group had an unprovided deferred tax asset in respect of accumulated tax losses claimed of approximately HK\$16,077,000 (2001: HK\$15,972,000).

The revaluation of the Group's land and buildings and investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

(b) Taxation in the balance sheet represents:

	Group		Company	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance of profits tax provision in respect of prior years	(2)	3,739	–	–
Provisional tax paid	<u>(11)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Tax (recoverable)/payable	<u>(13)</u>	<u>3,739</u>	<u>–</u>	<u>–</u>

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$10,440,000 (2001: HK\$5,352,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$2,515,000 (2001: HK\$10,857,000) and the weighted average of 239,481,000 (2001: 145,891,000) ordinary shares in issue during the year.

No diluted loss per share for the years ended 31 December 2002 and 2001 have been presented as the exercise of the potential ordinary shares would result in a reduction in loss per share.

14. FIXED ASSETS

Group

	Medium term leasehold land and buildings in Hong Kong HK\$'000	Leasehold improvement HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At 1 January 2002 and at 31 December 2002	9,800	69	567	1,104	4,654	16,194
Accumulated depreciation:						
As at 1 January 2002	–	69	567	1,082	4,654	6,372
Provided during the year	213	–	–	21	–	234
Written back on revaluation – note 7	(213)	–	–	–	–	(213)
Impairment loss – note 7	1,700	–	–	–	–	1,700
At 31 December 2002	1,700	69	567	1,103	4,654	8,093
Net book value:						
At 31 December 2002	8,100	–	–	1	–	8,101
At 31 December 2001	9,800	–	–	22	–	9,822

The Group's medium term leasehold land and buildings carried at a net book value of HK\$8,100,000 (2001: HK\$9,800,000) have been pledged to secure banking facilities as set out in note 23.

The Group's land and buildings as at 31 December 2002 were written down to HK\$8,100,000 (2001: HK\$9,800,000), being the open market value of the property based on a valuation report prepared by Vigers.

Other fixed assets are stated at cost.

15. INVESTMENT PROPERTIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Balance at 1 January	14,000	14,800
Revaluation deficit, net – note 7	(2,500)	(800)
Balance at 31 December	11,500	14,000

At 31 December 2002, the Group's investment properties were revalued by Vigers at HK\$11,500,000 on an open market, existing use basis. The deficit arising on revaluation of HK\$2,500,000 was charged to the profit and loss account.

The Group's investment properties have been pledged to secure banking facilities as set out in note 23.

Subsequent to the balance sheet date, the Group disposed of one of its investment properties with carrying value of HK\$2,800,000 at an arm's length consideration of HK\$2,800,000.

Details of the investment properties which are situated in Hong Kong are as follows:

Location	Lease term	Use	Saleable floor area (sq. ft.)	Group's interest
Flat A on 13th Floor Champion Building, Nos. 301-309 Nathan Road, Yau Ma Tei, Kowloon	Long lease	Commercial	1,350	100%
Room 1607, New East Ocean Centre, No. 9 Science Museum Road, Tsimshatsui East, Kowloon	Medium lease	Commercial	2,235	100%

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	76,309	76,309
Amount due from subsidiaries	61,380	52,134
	<u>137,689</u>	<u>128,443</u>
Impairment loss	(137,689)	(128,443)
	<u><u>-</u></u>	<u><u>-</u></u>

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operation	Nominal value of issued/registered share capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Victory Group (BVI) Limited [#]	British Virgin Islands	Ordinary HK\$100,000	100%	-	Investment holding
Victory Motors Centre Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$3,000,000	-	100%	Trading of motor vehicles
Victory Realty Limited	Hong Kong	Ordinary HK\$10,000	-	100%	Property holding
Hong Kong Waho Development Limited	Hong Kong	Ordinary HK\$1,000,000	-	100%	Property holding
Waret Investment Limited	Hong Kong	Ordinary HK\$2	-	100%	Property holding
華多利(天津)國際貿易有限公司 (Victory (Tianjian) International Trading Limited)* [#]	The PRC	US\$1,000,000	-	100%	Dormant
Victory H-Tech Company Limited	Hong Kong	Ordinary HK\$100,000	-	100%	Investment holding

[#] Wholly foreign-owned enterprise

* Not audited by Fan, Mitchell & Co.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

17. INTEREST IN A FORMER ASSOCIATE

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	21,000	21,000
Goodwill written off to the profit and loss account	(21,000)	(21,000)
	<u> </u>	<u> </u>
Carrying amount	<u> </u> –	<u> </u> –

The former associate, eSolutions Holdings Limited (“eSolutions”) is being wound up by court order dated 9 January 2002. On this date eSolutions ceased to be an associate as the Group ceased to have significant influence over it.

The Group’s share of loss up to the date of the court order of the associate exceeds the carrying amount of the investment, which is reported at nil value, and therefore, the Group has not included its share of loss of the associate, which is in accordance with paragraph 20 of SSAP No. 10. The Group has no commitment to provide financial support to eSolutions.

Details of the Group’s interest in the former associate are as follows:

Name of the former associate	Place of incorporation & operation	Particulars of issued & paid up capital	Proportion of ownership interest		
			Group’s effective interest	Held by the Company	Held by subsidiary
eSolutions (In winding up)	Hong Kong	100 ordinary shares of HK\$1 each	48%	–	48%

18. INVENTORIES

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finished goods	<u> </u> 824	<u> </u> 2,941

The carrying amount of inventories that are carried at net realisable value was HK\$Nil (2001: HK\$140,000).

19. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables, prepayments, deposits and other receivables	<u> </u> 360	<u> </u> 429	<u> </u> 59	<u> </u> 266

All of the trade receivables, prepayments, deposits and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following aging analysis:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	163	–	–	–
More than 1 year	27	27	–	–
	<u>190</u>	<u>27</u>	<u>–</u>	<u>–</u>
Prepayments, deposits and other receivables	170	402	59	266
	<u>360</u>	<u>429</u>	<u>59</u>	<u>266</u>

Normally, debts are due within 28 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

20. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables, other payables and accruals	<u>2,744</u>	<u>5,941</u>	<u>447</u>	<u>709</u>

All of the trade payables, other payables and accruals are expected to be settled within one year.

Included in trade payables, other payables and accruals are trade payables with the following aging analysis:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
More than 1 year	–	203	–	–
	<u>–</u>	<u>203</u>	<u>–</u>	<u>–</u>
Other payable and accruals	2,744	5,738	447	709
	<u>2,744</u>	<u>5,941</u>	<u>447</u>	<u>709</u>

21. AMOUNTS DUE TO DIRECTORS

The amounts due to Directors are unsecured, interest free and have no fixed terms of repayment.

22. AMOUNTS DUE TO RELATED PARTY

The amount due to a related party is unsecured, interest free and has no fixed terms of repayment.

23. INTEREST-BEARING BANK BORROWINGS, SECURED

	Group	
	2002	2001
	HK\$'000	HK\$'000
Bank overdrafts, secured	15,092	20,120
Bank loans, secured	8,317	8,827
	<u>23,409</u>	<u>28,947</u>
Bank overdrafts repayable within one year, or on demand	15,092	20,120
Bank loans repayable:		
Within one year	8,317	519
In the second year	–	503
In the second to fifth years inclusive	–	1,655
Beyond five years	–	6,150
	<u>8,317</u>	<u>8,827</u>
Portion classified as current liabilities	<u>23,409</u> (23,409)	<u>28,947</u> (20,639)
Non-current portion	<u>–</u>	<u>8,308</u>

The Group's banking facilities are secured by the leasehold land and buildings and investment properties of the Group with an aggregate carrying value of HK\$19,600,000 (2001: HK\$23,800,000) at 31 December 2002.

During the year, the banker of the Group has frozen the banking facilities granted to the Company and certain subsidiaries due to their failure to keep up with the repayment schedules. As a result, all the outstanding balance of the interest-bearing bank borrowing are therefore classified as current liabilities, which are repayable within one year, or on demand.

Subsequent to the balance sheet date, the Group disposed of one of its investment properties at a consideration of HK\$2,800,000 for partial repayment of bank overdrafts and bank loans. In this regard, the banker did not demand for immediate repayment of the bank loans up to the date of approval of the financial statements. Under this circumstance, the bank loans were not classified as short-term bank loans with maturity within three months in the consolidated cash flow statement.

24. SHARE CAPITAL

	No. of shares		Company	
	2002	2001	2002 HK\$'000	2001 HK\$'000
Authorised:				
At the beginning of the year				
Ordinary shares of HK\$0.01 (2001: HK\$0.02) each	2,205,586,400	2,500,000,000	22,056	50,000
Shares Consolidation	–	(2,250,000,000)	–	–
Capital reduction	–	–	–	(27,944)
Shares subdivision	–	1,955,586,400	–	–
At the end of the year				
Ordinary shares of HK\$0.01	<u>2,205,586,400</u>	<u>2,205,586,400</u>	<u>22,056</u>	<u>22,056</u>
Issued and fully paid:				
At the beginning of the year				
Ordinary shares of HK\$0.01 (2001: HK\$0.02) each	147,074,400	1,230,744,000	1,471	24,615
Placing	44,000,000	240,000,000	440	4,800
Shares consolidation	–	(1,323,669,600)	–	–
Capital reduction	–	–	–	(27,944)
Rights issue	<u>73,537,200</u>	<u>–</u>	<u>735</u>	<u>–</u>
At the end of the year				
Ordinary shares of HK\$0.01 each	<u>264,611,600</u>	<u>147,074,400</u>	<u>2,646</u>	<u>1,471</u>

Details of the changes in the Company's share capital which occurred between 1 January 2002 and 31 December 2002 are as follows:

Rights issue

Pursuant to a resolution passed in the meetings of the Board on 18 December 2001 and 28 January 2002, the Company issued 73,537,200 new ordinary shares of HK\$0.01 each on the basis of one rights share for every two existing ordinary shares held by members of the Company on 30 January 2002 by way of a rights issue at a price of HK\$0.10 per rights share. The aggregate nominal value of the issued share is HK\$735,000, the share premium arising on the issue of shares is HK\$6,618,000 and the share issue expenses amounted to HK\$1,169,000.

Placing

Pursuant to a resolution passed in the meeting of the Board on 5 June 2002 and by means of placing, the Company issued a total of new ordinary shares of 44,000,000 of HK\$0.01 each at a price of HK\$0.115 on 10 June 2002 to six independent investors. The aggregate nominal value of the issued shares was HK\$440,000, the share premium arising on the issue of shares was HK\$4,620,000 and the share issue expenses amounted to HK\$698,000.

Share options

The Company operates a share option scheme ("the Scheme") for the purpose of providing incentives and rewards to employees including the executive directors of the Company or of its subsidiaries ("Eligible Participants") who contribute to the success of the Group's operations.

On 22 January 1998, the Company conditionally approved the Scheme under which the Directors may, at their discretion, grant options to Eligible Participants, to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 February 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Under the Scheme, the Directors may at their discretion grant options at HK\$1.00 per option to Eligible Participants to subscribe for shares at a price calculated in accordance with paragraph below.

The subscription price of the options may be determined by the Directors and shall be the higher of the nominal value of a share and 80 per cent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The maximum number of shares over which options may be granted must not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No options may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25 per cent of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person.

25. RESERVES

Group

	Share premium account HK\$'000	Contributed Surplus# HK\$'000	Enterprise expansion fund* HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	29,349	710	429	(27)	(70,637)	(40,176)
Arising on issue of shares	720	–	–	–	–	720
Share issue expenses	(439)	–	–	–	–	(439)
Exchange realignments	–	–	–	27	–	27
Capital reduction	–	–	–	–	27,944	27,944
Loss for the year	–	–	–	–	(10,857)	(10,857)
At 31 December 2001 and at 1 January 2002	29,630	710	429	–	(53,550)	(22,781)
Arising on issue of shares	11,238	–	–	–	–	11,238
Share issue expenses	(1,867)	–	–	–	–	(1,867)
Exchange realignments	–	–	16	(165)	–	(149)
Loss for the year	–	–	–	–	(2,515)	(2,515)
At 31 December 2002	39,001	710	445	(165)	(56,065)	(16,074)

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.

* The enterprise expansion fund is maintained, and annual allocations to the fund are made, in accordance with the Joint Venture Law of the PRC.

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	29,349	64,809	(118,938)	(24,780)
Capital reduction	–	–	27,944	27,944
Arising on issue of shares	720	–	–	720
Share issue expenses	(439)	–	–	(439)
Loss for the year	–	–	(5,352)	(5,352)
At 31 December 2001 and at 1 January 2002	29,630	64,809	(96,346)	(1,907)
Arising on issue of shares	11,238	–	–	11,238
Share issue expenses	(1,867)	–	–	(1,867)
Loss for the year	–	–	(10,440)	(10,440)
At 31 December 2002	39,001	64,809	(106,786)	(2,976)

The Company's contributed surplus represents the excess of the fair value of the subsidiary's shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda, a distribution may be made out of the contributed surplus in certain circumstances.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents

	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	3,360	1,471
Bank overdrafts, secured	(15,092)	(20,120)
	<u>(11,732)</u>	<u>(18,649)</u>

As explained in note 23, the bank loan of approximately HK\$8,317,000 at the balance sheet date was classified as current liabilities and was repayable within one year, or on demand. Because the Group, subsequent to the balance sheet date, has repaid partially the bank loan with the proceeds of disposal of one of the Group's investment properties, the banker did not demand immediate repayment of the bank loan up to the date of approval of the financial statements. Under this circumstance, the bank loan was not classified as a bank loan with maturity within three months.

If the Group had failed to keep up with the repayment schedule, the banker would demand immediate repayment of the bank loan. Consequently, the bank loan would be classified as a short-term bank loan with maturity within three months and the cash and cash equivalents as at 31 December 2002 would be as follows:

	2002 HK\$'000
Cash and bank balances	3,360
Bank overdrafts, secured	(15,092)
Bank loan with maturity within 3 months	(8,317)
	<u>(20,049)</u>

(b) Analysis of changes in financing:

	Share capital (including share premium) HK\$'000	Trust receipt loans, bank loans and overdrafts HK\$'000	(Repayment to)/Advance from a related party HK\$'000	(Repayment to)/Advance from Directors HK\$'000
Balance at 1 January 2001	53,964	46,743	–	2,513
Net cash inflow/(outflow) from financing	5,081	(17,796)	14,649	(347)
Capital reduction	(27,944)	–	–	–
	<u>31,101</u>	<u>28,947</u>	<u>14,649</u>	<u>2,166</u>
Balance at 31 December 2001 and at 1 January 2002	31,101	28,947	14,649	2,166
Net cash inflow/(outflow) from financing	10,546	(5,538)	(6,873)	34
	<u>41,647</u>	<u>23,409</u>	<u>7,776</u>	<u>2,200</u>
Balance at 31 December 2002	41,647	23,409	7,776	2,200

27. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the audited financial statements were as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Banking facilities guaranteed by the Company which were utilized by the subsidiaries	<u>—</u>	<u>—</u>	<u>23,409</u>	<u>28,947</u>

- (b) In 1999, the Group failed to honour a number of purchase contracts signed with two vendors for the purchase of motor vehicles due to an unanticipated contraction in demand. The aggregated contracted amount was approximately HK\$125 million.

The vendors took legal action to enforce the contracts and to seek compensation, the Group agreed to pay compensation totaling HK\$4,971,000. An amount of HK\$2,321,000 was paid in the year ended 31 December 1999 and a provision for the remaining balance of HK\$2,650,000 was included in as trade payables, other payables and accruals as at 31 December 2001. Moreover, one of the vendors was seeking additional compensation of approximately HK\$7.6 million.

However, the Group made a counter-claim against the vendor for not delivering motor vehicles to satisfy the purchase orders placed by the Group. The action was finally disposed of in September 2001 and the Group was not subject to any liability under or by virtue of this legal action. Nevertheless, the Group paid a sum of HK\$275,000 for full and final settlement of the legal costs award to the defendants. As a result, the provision of the expenses and compensation being included in other payables and accruals are written back this year.

28. LEASING ARRANGEMENT

The Group leases out one of the investment properties under operating leases. The original terms of the lease ran for two years for the period from 1 December 2000 to 30 November 2002. The lease term was early terminated during the year.

During the current year, HK\$240,000 (2001: HK\$741,000) were recognized as rental income in the profit and loss account in respect of operating lease.

At 31 December 2002, the total future minimum lease payments under non-cancelable operating leases are receivable as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 1 year	—	330
After 1 year but within 5 years	<u>—</u>	<u>—</u>
	<u>—</u>	<u>330</u>

29. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

In respect of geographical segment reporting, turnover is based on the country in which the customers are located.

(a) Business segments

The Group is comprised of the following main business segments:

- Trading of motor vehicles – Purchase and sales of motor vehicles
- Property investment – leasing of office premises

			2002		
	Trading of motor vehicles HK\$'000	Property investment HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000
Segment revenue					
Revenue from external customer	33,193	240	–	–	33,433
Inter-segment revenue	–	720	–	(720)	–
Other revenue from external customers	3,100	8	215	–	3,323
Total	<u>36,293</u>	<u>968</u>	<u>215</u>	<u>(720)</u>	<u>36,756</u>
Segment result	404	(3,639)	(991)	–	(4,226)
Inter-segment transactions	<u>720</u>	<u>(720)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Contribution from operations	1,124	(4,359)	(991)	–	(4,226)
Interest income					30
Finance costs					<u>(2,060)</u>
Loss before taxation					(6,256)
Taxation					<u>3,741</u>
Loss attributable to shareholders					<u>(2,515)</u>
Segment assets	12,430	19,695	120	(8,100)	24,145
Tax recoverable					<u>13</u>
Total assets					<u>24,158</u>
Segment liabilities	18,754	8,188	10,427	(8,100)	29,269
Bank loan					8,317
Tax liabilities					<u>–</u>
Total liabilities					<u>37,586</u>
Other information					
Bad debt recovered	184	8	–	–	192
Depreciation and amortization for the year	(21)	(213)	–	–	(234)
Impairment loss on land and buildings	–	(1,487)	–	–	(1,487)
Deficit arising on revaluation of investment properties	–	(2,500)	–	–	(2,500)
Capital expenditure	–	–	–	–	–

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

			2001		
	Trading of motor vehicles HK\$'000	Property investment HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000
Segment revenue					
Revenue from external customer	15,677	741	–	–	16,418
Inter-segment revenue	–	720	–	(720)	–
Other revenue from external customers	158	77	–	–	235
Total	15,835	1,538	–	(720)	16,653
Segment result	(5,963)	(343)	(1,861)	–	(8,167)
Inter-segment transactions	720	(720)	–	–	–
Contribution from operations	(5,243)	(1,063)	(1,861)	–	(8,167)
Interest income					308
Finance costs					(2,994)
Loss before taxation					(10,853)
Taxation					(4)
Loss attributable to shareholders					(10,857)
Segment assets	19,982	23,941	275	(9,800)	34,398
Tax recoverable					–
Total assets					34,398
Segment liabilities	25,653	10,953	16,336	(9,800)	43,142
Bank loan					8,827
Tax liabilities					3,739
Total liabilities					55,708
Other information					
Bad debt recovered	–	–	–	–	–
Depreciation and amortization for the year	(67)	(218)	–	–	(285)
Impairment loss on land and buildings	–	(232)	–	–	(232)
Deficit arising on revaluation of investment properties	–	(800)	–	–	(800)
Capital expenditure	2	–	–	–	2

Segment assets consist primarily of fixed assets, properties, inventories, receivables, operating cash, net of allowance and provisions while most such assets can be directly attributed to individual segments.

Segment liabilities comprise bank overdrafts and operating liabilities.

In previous year's disclosures, segment assets and segment liabilities were determined without including operating cash and bank overdrafts and determined before elimination of intra-group balances.

The comparative figures have been reclassified to conform with current year's presentation.

Inter-segment revenue eliminated on consolidation represents inter-company rental charges on a property owned by the Group.

Inter-segment transactions are conducted at arm's length.

(b) Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's trading of motor vehicles is carried out in Hong Kong and the PRC. Property investment is located in Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		The PRC		Group	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	8,974	15,492	24,459	926	33,433	16,418
Segment assets	22,984	33,271	1,161	1,127	24,145	34,398
Capital expenditure	—	2	—	—	—	2
Operating loss	(1,135)	(7,707)	(3,091)	(460)	(4,226)	(8,167)

30. RELATED PARTY TRANSACTIONS

At the balance sheet date, the outstanding balance due to Winsley Investment Limited amounted to HK\$7,776,000 (2001: HK\$14,649,000), a company controlled by Mr. Chan Chun Choi and Madam Lam Mo Kuen, Anna, both of whom are Directors. The amount is unsecured, interest-free and has no fixed terms of repayment.

31. RETIREMENT SCHEME

The Group operates a MPF scheme under the Hong Kong MPF Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

During the year ended 31 December 2002, the gross aggregate amount of employer's contribution made by the Group to the MPF scheme was approximately HK\$77,000 (2001: HK\$85,000) and there was a refund of long service payment in the sum of HK\$35,000 (2001: Nil), thereby reducing the MPF contribution to approximately HK\$42,000 (2001: HK\$85,000). As at 31 December 2002 and 2001, there was no forfeited contribution available to reduce future contribution.

32. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group disposed of one of the investment properties at a consideration of HK\$2,800,000 for partial repayment of bank overdrafts and bank loans. In this regard, although the Group could not keep up with the repayment schedules during the year, the banker did not demand immediate repayment of the bank loans up to the date of approval of the financial statements.

33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

The presentation and classification of items in the Consolidated Cash Flow Statement have been changed due to the adoption of requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the Consolidated Cash Flow Statement. Comparative figures have been reclassified to conform with the current year's presentation.

34. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2002 to be Eternal Victory Enterprises Inc., which is incorporated in the British Virgin Islands.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The audited financial statements were approved by the Board on 16 April 2003.

5. SUMMARY OF THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2003

Set out below is the extract from the unaudited consolidated financial statements of the Company for the six months ended 30 June 2003.

Unaudited Consolidated Profit and Loss Account

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

Unaudited Consolidated Balance Sheet

		30 June 2003	31 December 2002
	Notes	HK\$'000	HK\$'000
Non-current assets			
Fixed assets		8,103	8,101
Investment properties		8,700	11,500
		<u>16,803</u>	<u>19,601</u>
Current assets			
Pledged time deposits		–	–
Inventories		670	824
Prepayments, deposits and other receivables		151	170
Trade and bills receivables		190	190
Tax recoverable		13	13
Cash and bank balance		1,314	3,360
		<u>2,338</u>	<u>4,557</u>
Current liabilities			
Amount due to director		2,197	2,200
Amount due to related company	8	7,723	7,776
Trade and other payables and accruals	9	3,107	2,744
Deposits received		–	1,457
Mortgage loan – current portion		–	–
Interest-bearing bank borrowings	10	21,640	23,409
		<u>34,667</u>	<u>37,586</u>
Non-current liabilities		–	–
Net current liabilities		<u>(32,329)</u>	<u>(33,029)</u>
Net liabilities		<u>(15,526)</u>	<u>(13,428)</u>
Capital and reserves			
Issued capital	11	2,646	2,646
Accumulated Loss		(58,217)	(56,065)
Reserves	12	40,045	39,991
		<u>(15,526)</u>	<u>(13,428)</u>

Unaudited Cash Flow Statement

	Six months ended 30 June 2003 HK\$'000	For the year ended 31 December 2002 HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(2,152)	(6,256)
Adjustments for:		
Interest expenses	1,032	2,060
Interest income	(1)	(30)
Depreciation	1	234
Impairment loss on land and buildings	–	1,487
Deficit arising from revaluation of investment properties	–	2,500
OPERATING LOSS BEFORE CHANGES IN WORKING CAPITAL	(1,120)	(5)
Decrease in inventories	154	2,117
Decrease/(increase) in prepayments, deposits and other receivable	19	232
(Increase)/decrease in trade receivables	–	(163)
Increase/(decrease) in trade payables, other payables and accruals	363	(3,197)
Increase/(decrease) in deposits received	(1,457)	1,191
CASH GENERATED FROM/(USED IN) OPERATIONS	(2,041)	175
Interest received	1	30
Interest paid	(1,032)	(2,060)
Tax paid	–	(11)
NET CASH USED IN OPERATING ACTIVITIES	(3,072)	(1,866)
INVESTING ACTIVITIES		
Decrease in pledged time deposits	–	5,735
Sales process from investment property	2,800	–
Payment to acquire fixed assets	(3)	–
NET CASH FROM INVESTING ACTIVITIES	2,797	5,735
FINANCING ACTIVITIES		
Issue of share capital	–	12,413
Share issue expenses	–	(1,867)
(Repayment to)/advance from a related party	(53)	(6,873)
Advance from/(repayment to) directors	(3)	34
Repayment of bank loans	–	(510)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	(56)	3,197
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(331)	7,066
CASH AND CASH EQUIVALENTS AT 1 JANUARY	(11,732)	(18,649)
EFFECT OF FOREIGN EXCHANGE RATES CHANGES	54	(149)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR (Note 13)	(12,009)	(11,732)

Unaudited Consolidated Statement of Changes in Equity

	Six months ended 30 June 2003 <i>HK\$'000</i>	For the year ended 31 December 2002 <i>HK\$'000</i>
Shareholders' equity at 1 January	(13,428)	(21,310)
Exchange difference on translation of financial statements of foreign entities	54	(149)
Net (losses)/gains not recognised in the profit and loss account	54	(149)
Net loss for the Period/year	(2,152)	(2,515)
Movements in share capital:		
Shares issued on placing	–	440
Shares issued on rights issue	–	735
Share premium received	–	11,238
Shares issued expenses	–	(1,867)
Net increase in shareholders' equity arising from capital transactions with shareholders	–	10,546
Shareholders' equity at end of the Period/year	(15,526)	(13,428)

NOTES TO FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The consolidated interim financial statements were unaudited and had been prepared in accordance with all applicable Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and on a basis consistent with the accounting policies adopted in the Group's annual financial statements for the year ended 31 December 2002.

BASIS OF CONSOLIDATION

The unaudited consolidated interim financial statements included the financial statements of the Group for the Period. The results of subsidiaries of the Company during the Period were consolidated and all significant inter-company transactions and balances within the Group were eliminated on consolidation. The basis of consolidation adopted in this interim report is consistent with that used by the Group in presenting the annual financial statements for the year ended 31 December 2002.

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:

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

	Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
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:

	Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
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	<u>–</u>	<u>(180)</u>

4. Finance costs

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

8. Amount due to related company

The amount due to Winsley Investment Limited, which is wholly owned by Mr. Chan Chun Choi and Miss Lam Mo Kuen, Anna, both of whom are directors of the Company, is unsecured, interest free and has no fixed terms of repayment. Such advance was used to help the Group reduce the indebtedness due to bank in 2001.

9. Trade and other payables and accruals

88% of all trade and other payables and accruals at 30 June 2003 were aged more than 90 days due to incomplete goods purchased and services received (31 December 2002: 0%).

10. Interest-bearing bank borrowings

	30 June 2003	31 December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank overdrafts, secured	13,323	15,092
Bank loans, secured	<u>8,317</u>	<u>8,317</u>
Bank borrowings repayable within one year or on demand	<u>21,640</u>	<u>23,409</u>
Bank borrowings repayable more than one year	<u><u>—</u></u>	<u><u>—</u></u>

11. Issued capital

	30 June 2003	31 December 2002
	<i>HK\$</i>	<i>HK\$</i>
Authorised: 2,205,586,400 ordinary shares of HK\$0.01 each	<u>22,055,864</u>	<u>22,055,864</u>
Issued and fully paid: 264,611,600 ordinary shares of HK\$0.01 each	<u>2,646,116</u>	<u>2,646,116</u>

There had been no new issue of shares in the Period.

12. Reserves

	30 June 2003	31 December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share premium account	39,001	39,001
Contributed surplus*	710	710
Enterprise expansion fund**	445	445
Exchange fluctuation reserve	<u>(111)</u>	<u>(165)</u>
	<u><u>40,045</u></u>	<u><u>39,991</u></u>

* The contributed surplus for the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.

** The enterprise expansion fund is maintained, and annual allocations to the fund are made, in accordance with the Joint Venture Law of China.

13. Cash and cash equivalents

	Six months ended 30 June 2003 <i>HK\$'000</i>	For the year ended 31 December 2002 <i>HK\$'000</i>
Cash and bank balances	1,314	3,360
Bank overdrafts, secured (<i>Note 10</i>)	<u>(13,323)</u>	<u>(15,092)</u>
Cash and cash equivalents at end of the Period/year	<u><u>(12,009)</u></u>	<u><u>(11,732)</u></u>

6. PRO FORMA UNAUDITED ADJUSTED CONSOLIDATED NET DEFICIT OF THE GROUP

Set out below is a statement of the pro forma unaudited adjusted consolidated net deficit of the Group before and immediately after completion of the Placing and the Loan Capitalisation based on the unaudited consolidated net deficit of the Group as at 30 June 2003 and adjusted as follows:

	<i>HK\$' million</i>
Unaudited consolidated net deficit as at 30 June 2003	(15.53)
Add: Loss on the disposal of an investment property	(0.20)
Add: Net proceeds received from placements in September 2003 and November 2003	1.85
Less: Deficit arising on the revaluation of the property as at 31 December 2003	(0.80)
	(14.68)
Add: Placing	4.78
Add: Loan Capitalisation	7.74
Less: Costs and expenses of the Placing and Loan Capitalisation	(0.46)
Pro forma unaudited adjusted consolidated net deficit of the Group upon completion of the Placing and the Loan Capitalisation	(2.62)
Unaudited Adjusted Net Deficit per Share before completion of the Placing and the Loan Capitalisation	(3.86 cents)
Pro forma unaudited adjusted consolidated net deficit value per Share immediately following completion of the Placing and the Loan Capitalisation	(0.24 cents)

Set out below is the texts of a letter and valuation report prepared in relation to the property held by the Group in Hong Kong.



14th January, 2004

The Directors
Victory Group Limited
Room 1609
New East Ocean Centre
9 Science Museum Road
Tsim Sha Tsui
Kowloon
Hong Kong

Dear Sirs,

**Re: Office Unit 1609 on 16th Floor
New East Ocean Centre
No. 9 Science Museum Road
Tsim Sha Tsui
Kowloon
Hong Kong**

We refer to your instruction to assess the open market value of the above property for accounting purpose as at 31st December, 2003. We confirm that we have carried out an external inspection of the property, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of the value.

Our valuation is our opinion of the open market value and here we would define open market value as intended to mean – “the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

We have arrived at the existing use value on “as is” basis of the subject property by adopting the direct comparison approach and made reference to the recent transactions for similar premises in the proximity. Adjustments have been made for the differences in transaction dates, building age, storey height, unit size, etc.

We have accepted advice given to us by the Company on such matters as tenure, lettings, site and floor areas and all other relevant matters. However, without exception, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. All documents have been used as reference only and have not been read or checked. All dimensions, measurement and areas are approximate.

We have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property is free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of this property and we are therefore unable to report that the property is free from risk in this respect. For the purpose of this valuation we have assumed that such investigation would not disclose the presence of any such material in any adverse conditions.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

As this report is for accounting purpose and according to the instruction of the Company, a simple desk-basis valuation report format, which briefly described the subject property with respects to locality, age, area occupancy, registered owner, open market value of the property, etc., was provided and this report is confidential to the client for the specific purpose to which it refers. It may be disclosed to other professional advisers assisting the client in respect of that purpose, but the client shall not disclose the report to any other person.

In accordance with our standard practice, this report is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of the contents of this report.

We have pleasure in enclosing herewith a desk basis valuation report.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL & CONSULTING LIMITED
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS
Executive Director

DESK BASIS VALUATION REPORT

**Re: Office Unit 1609 on 16th Floor
New East Ocean Centre
No. 9 Science Museum Road
Tsim Sha Tsui
Kowloon**

- | | | | |
|----|-----------------------|---|--|
| 1. | Locality | : | It is a well-established mixed locality predominated by medium to high-rise commercial buildings. |
| 2. | Property | : | It comprises one of the six office units on the 16th floor of the New East Ocean Centre. The property is currently occupied by the owner. |
| 3. | Age | : | Approximately 12 years. |
| 4. | Area | : | Saleable Area: Approximately 2,120 sq.ft. (196.95 sq.m.) |
| 5. | Occupancy | : | We are instructed by the client to assess the captioned property on vacant possession basis. |
| 6. | Owner | : | Hong Kong Waho Development Limited, a wholly-owned subsidiary of the Company |
| 7. | Encumbrances | : | <div style="margin-left: 20px;">(i) Deed of Mutual Covenant vide Memorial No. 5003904 dated 11th September, 1991.</div> <div style="margin-left: 20px;">(ii) Sub-Deed of Mutual Covenant vide Memorial No. 5156517 dated 27th December, 1991.</div> <div style="margin-left: 20px;">(iii) Sub-Sub-Deed of Mutual Covenant vide Memorial No. 5646836 dated 17th April, 1993.</div> <div style="margin-left: 20px;">(iv) Deed of Confirmation and retification vide Memorial No. 6744970 dated 28th August 1996.</div> <div style="margin-left: 20px;">(v) Mortgage to secure general banking facilities in favour of The China State Bank Limited to part of whatever extent vide Memorial No. 8430875 dated 14th June, 2001.</div> |
| 8. | Lot No. | : | 297/50080th shares of and in Kowloon Inland Lot No. 10880. |
| 9. | Government Lease Term | : | From 29th July, 1988 to 30th June, 2047. |

10. Valuation : In our valuation of the open market value of the subject property, we
Methodology have adopted the direct comparison method and by reference to
comparable market transactions and on a vacant possession basis.
11. Open Market Value as at : HK\$7,900,000 (V.P.)
31st December, 2003 (HONG KONG DOLLARS SEVEN MILLION AND NINE
HUNDRED THOUSAND ONLY).

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL & CONSULTING LIMITED
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS
Executive Director

Note: The property at the time of disposal will be subject to, amongst others, Property Tax. The precise tax implication will be subject to formal tax advice based any tax losses brought forward, prevailing rules and regulations at the time of disposal. However, in light of the future plan of Winsley as set out in the “Letter from Winsley”, the likelihood of any tax liability being crystallized is remote.

1. RESPONSIBILITY STATEMENTS

This document includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Company. The information contained in this document has been supplied by the Directors who have taken all reasonable care to ensure that the information stated herein is accurate. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this document having been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement contained in this document misleading.

2. MARKET PRICES

The table below shows the closing prices of the Shares on the Stock Exchange (i) on the last trading day of each of the six calendar months immediately preceding the date of the Announcement; (ii) on 4 February 2004 (being the last trading day immediately preceding the date of the Announcement; and (iii) on the Latest Practicable Date.

Date	Price per Share (HK\$)
29 August 2003	0.052
30 September 2003	0.032
31 October 2003	0.037
28 November 2003	0.055
31 December 2003	0.040
30 January 2004	0.038
4 February 2004	0.028
Latest Practicable Date	0.044

The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the period commencing six months prior to the last trading day prior to the date of the Announcement and up to and including the Latest Practicable Date were HK\$0.063 on 9 September 2003, and HK\$0.023 on 25 November 2003 respectively.

3. DISCLOSURE OF INTEREST

As at the Latest Practicable Date, the interests of the Directors and their respective Associate in the securities of the Company and its associated corporations (within the meaning of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Mode

Code for Securities Transactions by Directors of Listed Companies; or (iv) disclosed pursuant to the requirements of the Takeovers Code; were as follows:

(a) Directors' interests in the Company

Name of Director	Personal interests	Number of Shares of the Company			Total
		Family interests	Corporate interests	Other interests	
Mr. Chan Chun Choi	–	–	–	110,377,586 (Note)	110,377,586
Ms. Lam Mo Kuen, Anna	–	–	–	110,377,586 (Note)	110,377,586

Note: The 110,377,586 Shares are held by Eternal Victory Enterprises Inc. ("EVEI"), a company incorporated in the British Virgin Islands, as trustee of a unit trust, the units of which are held by a discretionary trust established for the family members of Mr. Chan Chun Choi, including Ms. Lam Mo Kuen, Anna. EVEI is wholly and beneficially owned by Mr. Chan Chun Choi.

(b) Directors' interests in associated corporations

Name of Director	Name of associated corporation	Number of Shares	Class of Shares	Type of interest
Mr. Chan Chun Choi	Victory Motors Centre Limited	100,000	Non-voting deferred	Personal
		2,800,000	Non-voting deferred (Note)	Corporate
Ms. Lam Mo Kuen, Anna	Victory Motors Centre Limited	100,000	Non-voting deferred	Personal
		2,800,000	Non-voting deferred (Note)	Corporate

Note: The 2,800,000 non-voting deferred shares are held by Kwong Hung Hing Enterprises Co. Limited of which Mr. Chan Chun Choi and Lam Mo Kuen, Anna together hold the entire issued share capital.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors of the Company and any of their associated corporations (within the meaning of the SFO) had any interest in the securities of the Company or any associated corporations (within the meaning of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Mode Code for Securities Transactions by Directors of Listed Companies; or (iv) disclosed pursuant to the requirements of the Takeovers Code.

(c) Other interest in the Company

- (i) As at the Latest Practicable Date, saved for (i) Mr. Chan Chun Choi, Ms. Lam Mo Kuen, Anna; and (ii) EVEI, which had disclosable interest in 110,377,586 Shares, none of Winsley, its directors and parties acting in concert with any of them had any interest in the securities of the Company;
- (ii) As at the Latest Practicable Date, none of the subsidiaries or associates of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company had any interest in the securities of the Company;
- (iii) As at the Latest Practicable Date, none of Asian Capital, RexCapital, Fan, Mitchell & Co., Vigers or advisers to the Company had any interest in the securities of the Company;
- (iv) As at the Latest Practicable Date, no person who, prior to the posting of this document, has irrevocably committed itself to accept or reject, the Loan Capitalisation and the Whitewash Waiver had any interest in any securities of the company; and
- (v) As at the Latest Practicable Date, save as disclosed in the document, no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is any associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate as defined in the Takeovers Code, Winsley, or any party acting in concert with any of them had any interest in any securities in the Company.

(d) Interest in Winsley

As at the Latest Practicable Date, each of Mr. Chan Chun Choi and Ms. Lam Mo Kuen, Anna was interested in one share of Winsley. Save as disclosed aforesaid, none of the Company, Directors, and parties acting in concert with them had any interest in the securities of Winsley.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO, the following entities had interests in the Shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Number of Shares held	Percentage of total issued Share
EVEI	110,377,586 (<i>Note</i>)	29.05%

Note: These Shares were the same parcel of Shares referred to in “Other interests” of Mr. Chan Chun Choi and Ms. Lam Mo Kuen, Anna under section headed “Directors’ interests in the Company” above.

5. DEALINGS IN SECURITIES**(a) Directors dealing in the securities of the Company**

During the period commencing from the date falling six months prior to the Announcement and up to the Latest Practicable Date, none of the Directors nor parties acting in concert with them had dealt in any securities of the Company.

(b) Others dealing in the securities of the Company

During the period commencing from the date falling six months prior to the Announcement and up to the Latest Practicable Date:

- (i) none of Winsley, its directors, and any party acting in concert with them had dealt in any securities of the Company during the Relevant Period;
- (ii) none of the subsidiaries or associates of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company had dealt in any interest in the securities of the Company;
- (iii) none of Asian Capital, RexCapital, Fan, Mitchell & Co., Vigers or advisers (as defined under the Takeovers Code) to the Company had dealt in any interest in the securities of the Company;
- (iv) no person who, prior to the posting of this document, has irrevocably committed itself to accept or reject the Loan Capitalisation had dealt in any interest in any securities in the Company; and
- (v) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any persons who is any associate of the Company by virtue of class (1), (2), (3) and (4) of the definition of associate as defined in the Takeovers Code, Winsley, or any party acting in concert with any of them had dealt in any securities of the Company.

(c) Dealings in the securities of Winsley

During the period commencing from the date falling six months prior to the Announcement and up to the Latest Practicable Date, none of the Company and the Directors nor parties acting in concert with any of them had dealt in the securities of Winsley.

6. CONSENTS

Each of the experts referred to in the section headed “Experts” in this appendix has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its opinion or letter, as the case may be, and the references to its name, opinion or letter in the form and context in which it respectively appears.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claims of material importance known to the Directors to be pending or threatened against the Company or any of its members.

8. MATERIAL CONTRACTS

Save as disclosed below, neither the Company nor any other members of the Group has entered into any material contracts (not being contracts entered into in the ordinary course of business carried out by the Group) after the date the two years preceding the Latest Practicable Date.

- (a) a placing agreement dated 28 May 2002 entered into with the placing agent, NSC Securities (Asia) Limited, in relation to the placing of 44,000,000 Shares at HK\$0.115 per Share;
- (b) a sale and purchase agreement dated 18 February 2003 entered into with Mr. Hung Cheung Kin and Ms. Keung Chun Fong Florence in relation to a disposal of an investment property at HK\$2.80 million;
- (c) a sale and purchase agreement dated 9 June 2003 entered into with Famous Point Investment Limited in relation to a disposal of an investment property at HK\$8.50 million;
- (d) 4 subscription agreements dated 18 August 2003 entered into with Messrs. Tai Man, Lu Su Hua, Ng Lok Kei and Yip Chi Kwan Golar respectively in relation to the placing of 52,000,000 Shares of HK\$0.02 per Share;
- (e) a placing agreement dated 10 November 2003 entered into with the placing agent, CM-CSS Securities Limited, in relation to the placing of 63,300,000 Shares of HK\$0.016 per Share;
- (f) the Placing Agreement; and
- (g) the Loan Capitalisation Agreement.

9. SERVICE AGREEMENTS

There is no existing or proposed service contract between any of the Directors and the Company or any of its members which (excluding contracts expiring or determinable by the employer) is not terminable within one year without payment compensation (other than statutory compensation) and no service contract has been entered into or amended within six months before 17 February 2004, being the date of the Announcement.

10. MATERIAL CHANGES IN THE FINANCIAL OR TRADING POSITION

The impact of all material changes on the trading and financial position or prospects of the Group subsequent to the last published audited accounts of the Group for the year ended 31 December 2002 and up to 30 June 2003 has been incorporated into the unaudited interim report of the Group for the six months ended 30 June 2003.

Save as disclosed below, the Directors are not aware of any circumstance or events that may give rise to a material change in the trading and financial position or prospect of the Group since 30 June 2003, being the date to which the latest published unaudited interim report of the Group were made up.

- (a) Disposal of an investment property on 9 July 2003 raising net proceed of HK\$8.38 million.
- (b) Placing of 52,000,000 Shares at HK\$0.02 per Share on 15 September 2003 raising net proceed of approximately HK\$0.95 million; and
- (c) Placing of 63,300,000 Shares at HK\$0.016 per Share on 5 December 2003 raising net proceed of approximately HK\$0.90 million.

11. MISCELLANEOUS

As at the Latest Practicable Date:

- (a) None of the Shareholders who are entitled to vote have irrevocably committed themselves to vote for or against the Loan Capitalisation and the Whitewash Waiver.
- (b) No other benefits have been or will be given to the Directors as compensation for loss of office or otherwise in connection with the Loan Capitalisation and the Whitewash Waiver.
- (c) There is no agreement, arrangement or understanding (including any compensation arrangement) exists between Winsley or any person acting in concert with it or any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Loan Capitalisation and the Whitewash Waiver.
- (d) There is no agreement or arrangement between any Directors or any of the parties acting in concert with them and any other person which is conditional on or dependent upon the outcome of the Loan Capitalisation and the Whitewash Waiver.
- (e) Save for the Loan Capitalisation Agreement, there is no material contract or arrangement entered into by any of the Directors and Winsley or parties acting in concert with them which any Director has a material personal interest.

12. EXPERTS

- (a) The following are the qualifications of the experts who have given an opinion or advice which is contained or referred to in this document:

Name	Qualification
Asian Capital	A licensed corporation under the SFO
RexCapital	A deemed licensed corporation under the SFO
Fan, Mitchell & Co.	Certified Public Accountants, Hong Kong
Vigers	Property Valuers

13. GENERAL

- (a) The company secretary of the Company is Mr. Ben Leung, AHKSA and ACIS.
- (b) The Company's Hong Kong branch share registrar is Tengis Limited, 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The registered office of the Company is Suite 1609, New East Ocean Centre, No. 9 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong.
- (d) The registered office of Winsley is Suite 1609, New East Ocean Centre, No. 9 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong. The registered address of Forex is P.O. Box 3152, Road Town, Tortola, British Virgin Islands. The registered address of EVEI is Suite 1609, New East Ocean Centre, No. 9 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong. The address of Mr. Chau Chun Choi and Ms. Lam Mo Kuen, Anna is Flat B, 9th Floor, 260-262 Prince Edward Road, Kowloon, Hong Kong.
- (e) The registered office of Asian Capital is Suite 1006, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (f) The registered office of RexCapital is 34th Floor, COSCO Tower, Grand Millemium Plaza, 183 Queen's Road Central, Hong Kong.
- (h) The registered office of Fan, Mitchell & Co. is 3rd Floor, Chinachem Tower, 34-37 Connaught Road, Hong Kong.
- (i) The registered office of Vigers is 10th Floor, The Grande Building, 398 Kwun Tong Road, Kowloon, Hong Kong.
- (j) The English text of this document and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of Sit, Fung, Kwong & Shum at 18/F., Gloucester Tower, The Landmark, Central, Hong Kong up to and including 1 April 2004:

- (a) the memorandum and articles of association of the Company;
- (b) the Placing Agreement;
- (c) the Loan Capitalisation Agreement;
- (d) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (e) the letter from the Independent Board Committee, the text of which is set out on page 20 of this document;
- (f) the letter of advice from RexCapital the text of which is set out on pages 21 to 34 of this document;
- (h) the annual reports of the Company for the financial year ended 31 December 2002;
- (i) the consent letters referred to under the section headed “Consents” in this appendix;
- (j) the letter and valuation report, which contain details of aggregate valuation of respective underlying asset, prepared by Vigers, the text of which are set out in Appendix II to this document.

NOTICE OF SGM



VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that the special general meeting (the “Special General Meeting”) of the shareholders of Victory Group Limited (the “Company”) will be held at 9:30 a.m. on 1 April 2004 at Garden Room A & B, 2nd Floor, Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong for the purposes of considering and, if thought fit, passing with or without amendments, the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **“THAT**, the Placing Agreement (as defined in the document of the Company dated 9 March 2004 of which this notice of the Special General Meeting forms a part) (a copy of which has been produced to this meeting marked document “A” and signed by the Chairman of the meeting for identification purposes) was entered into on 4 February 2004 between the Company of the one part and Forex Investment Development Limited of the other part and the transactions contemplated thereunder are hereby approved and confirmed; and that any director of the Company be and is hereby authorised to take all steps necessary and expedient to give effect to the terms of and in the Placing Agreement and the transactions contemplated thereunder and related thereto.”
2. **“THAT**, the Loan Capitalisation Agreement (as defined in the document of the Company dated 9 March 2004 of which this notice of the Special General Meeting forms a part) (a copy of which has been produced to this meeting marked document “B” and signed by the Chairman of the meeting for identification purposes) was entered into on 4 February 2004 between Company of the one part and Winsley Investment Limited of the other part and the transactions contemplated thereunder are hereby approved and confirmed; and that any director of the Company be and is hereby authorised to take all steps necessary and expedient to give effect to the terms of and in the Loan Capitalisation Agreement and the transactions contemplated thereunder and related thereto.”

NOTICE OF SGM

3. “**THAT**, the waiver (the “Whitewash Waiver”) granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of Winsley Investment Limited and parties acting in concert with it, to make a general offer for all the shares of the Company not already owned by them or agreed to be acquired upon completion of the Loan Capitalisation Agreement (as defined in the document of the Company dated 9 March 2004 of which this notice of the Special General Meeting forms a part) and the transactions contemplated therein, be and is hereby approved and any director of the Company be and are hereby authorised to do all such things and take all such action as he may consider to be necessary or desirable to give effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”

By order of the Board
Chan Chun Choi
Chairman

Hong Kong, 9 March 2004

*Head office and principal place
of business in Hong Kong:*

Suite 1609
New East Ocean Centre
9 Science Museum Road
Tsimshatsui East
Kowloon
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed.
3. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company’s branch registrar and transfer office in Hong Kong, Tengis Limited at 28th Floor, BEA Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time of the meeting. Delivering of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or on the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.