VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)
(the "Company")
(Stock Code: 1139)

SUMMARISED UNAUDITED INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of the Company announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 (the "Period") together with the comparative figures for the corresponding period last year (the "Last Period") as follows:

		Six months ended 30 June	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Turnover	1	**739**	4,284
Cost of sales		**(369)**	(4,115)
Gross profits		**370**	169
Other revenue	2	**259**	240
Selling and distribution costs		**(43)**	(71)
Administrative expenses		**(1,755)**	(1,448)
Other operating expenses		**–**	(10)
Loss from operating activities	3	**(1,169)**	(1,120)
Finance costs	4	**(171)**	(1,032)
Loss before taxation		**(1,340)**	(2,152)
Taxation	5	**–**	–
Net loss from ordinary activities attributable to shareholders		**(1,340)**	(2,152)
Interim dividend	6	**–**	–
Loss per share	7	**(0.14 cents)**	(0.81 cents)

Notes:

Basis of presentation

The consolidated interim accounts 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 audited annual financial statements for the year ended 31 December 2003.

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 parts and property holding for rental income purposes.

   Segment information

   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 countries 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 and parts; and
- Property investment – leasing of office premises.

	Six months ended 30 June 2004				
	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 customers	739	–	–	–	739
Inter-segment revenue	–	360	–	(360)	–
Other revenue from external customers	159	100	–	–	259
Total	898	460	–	(360)	998
Segment result	(1,014)	456	(611)	–	(1,169)
Inter-segment transactions	360	(360)	–	–	–
Contribution from operations	(654)	96	(611)	–	(1,169)
Interest income					–
Finance costs					(171)
Loss before taxation					(1,340)
Taxation					–
Loss attributable to shareholders					(1,340)
Segment assets	2,093	7,970	1,969	–	12,032
Tax recoverable					–
Total assets					12,032
Segment liabilities	9,153	661	–	–	9,814
Bank loan					8,317
Tax liabilities					25
Total liabilities					18,156
Other information					
Bad debt recovered	144	–	–	–	144
Depreciation and amortization for the Period	(1)	–	–	–	(1)
Impairment loss on land and buildings	–	–	–	–	–
Deficit arising on revaluation of investment properties	–	–	–	–	–
Capital expenditure	–	–	–	–	–

	Six months ended 30 June 2003				
	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 customers	4,284	–	–	–	4,284
Inter-segment revenue	–	360	–	(360)	–
Other revenue from external customers	238	1	–	–	239
Total	4,522	361	–	(360)	4,523
Segment result	(948)	263	(436)	–	(1,121)
Inter-segment transactions	360	(360)	–	–	–
Contribution from operations	(588)	(97)	(436)	–	(1,121)
Interest income					1
Finance costs					(1,032)
Loss before taxation					(2,152)
Taxation					–
Loss attributable to shareholders					(2,152)
Segment assets	10,270	16,894	64	(8,100)	19,128
Tax recoverable					13
Total assets					19,141
Segment liabilities	15,725	8,184	10,541	(8,100)	26,350
Bank loan					8,317
Tax liabilities					–
Total liabilities					34,667
Other information					
Bad debt recovered	144	–	–	–	144
Depreciation and amortization for the Period	(1)	–	–	–	(1)
Impairment loss on land and buildings	–	–	–	–	–
Deficit arising on revaluation of investment properties	–	–	–	–	–
Capital expenditure	–	–	–	–	–

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.

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

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

(b) Geographical segments

The Group's operations are located in Hong Kong and China. The Group's trading of motor vehicles and parts is carried out in Hong Kong and China. 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 Six months ended 30 June		**China Six months ended 30 June**		**Group Six months ended 30 June**	
	2004 ***HK$'000***	2003 *HK$'000*	**2004** ***HK$'000***	2003 *HK$'000*	**2004** ***HK$'000***	2003 *HK$'000*
Turnover	**–**	733	**739**	3,551	**739**	4,284
Segment assets	**10,971**	18,008	**1,061**	1,120	**12,032**	19,128
Capital expenditure	**–**	–	**–**	–	**–**	–
Operating loss	**(1,124)**	(192)	**(45)**	(928)	**(1,169)**	(1,120)

2. **Other revenue**

	Six months ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
Rental income	**100**	–
Interest income	**–**	1
Miscellaneous	**159**	239
	259	240

3. **Loss from operating activities**

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

	Six months ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
Depreciation	**1**	1
Foreign exchange loss, net	**–**	–
Staff costs (including directors' remuneration)	**1,023**	756
Mandatory Provident Fund contribution	**23**	30
Bad debt recovered	**(144)**	(144)
Cost of inventories	**369**	4,115
Interest income	**–**	(1)
Gross and net rental income	**(100)**	–

4. **Finance costs**

	Six months ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
Interest on:		
Bank loans, overdrafts and trust receipt loans	**171**	1,032
Finance leases	**–**	–
	171	1,032

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$1,340,000 (Last Period: net loss attributable to shareholders of HK$2,152,000) and on the weighted average of 945,158,000 ordinary shares in issue for the Period (Last Period: weighted average of 264,611,600 issued ordinary shares).

MANAGEMENT DISCUSSION AND ANALYSIS

Interim results

Although the unaudited turnover slipped 82.7 per cent as compared to that in Last Period, the unaudited net loss attributable to shareholders for the Period amounting to HK$1.34 million was improved by 37.7 per cent as compared with that of Last Period. Other revenue for the Period also experienced a slight increase of 7.9 per cent from that of Last Period. The financial costs had largely decreased by 83 per cent to reflect the reduction of indebtedness in last year.

Business Review

The Group principally engaged in the marketing and wholesale distribution of automotive products. The reason for the decrease of turnover in the Period was the shortage of banking facilities granted to the Group as a result of our business performance over the past four years.

From 4 February 2004 to 20 April 2004, the Company undertook a scheme of fund raising and debt restructuring (the "Capitalisation Scheme") in which:

(1) the Company entered into a conditional placing agreement with Forex Investment Development Limited for the subscription of 265,100,000 new shares of the Company at HK$0.018 each. The consideration of HK$4,771,800 was satisfied by cash. The said placing was conditional on, among other things, the completion of (2) and (3) below;

(2) the Company entered into a conditional loan capitalization agreement with Winsley Investment Limited ("Winsley"), a company jointly controlled by Mr. Chan Chun Choi and Madam Lam Mo Kuen, Anna, both of them were executive Directors, for the subscription of 430,000,000 new shares of the Company at HK$0.018 each (all together, the "Loan Capitalization"). The consideration of HK$7,740,000 was 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. The Loan Capitalization was conditional on, among other things, the completion of (1) above and (3) below; and

(3) Winsley must apply to the Securities and Futures Commission ("SFC") for the grant of a waiver from the obligation of Winsley and parties acting in concert with it, if any, 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.

In the opinion of the Directors, the Capitalisation Scheme helped the Group: (i) reduce its level of indebtedness by HK$10.75 million; (ii) reduce the Adjusted Net Deficit of the Group from approximately HK$13.68 million to approximately HK$2.93 million and the Adjusted Net Current Liabilities from approximately HK$30.48 million to approximately HK$19.73 million; and (iii) broaden the Company's shareholder and capital base.

The Loan Capitalisation constituted a connected transaction for the Company under Rule 14.26 of the Listing Rules and required the approval by the independent shareholders of the Company. A special general meeting was held on 1 April 2004 and all resolutions in relation to the Capitalisation Scheme were duly passed. The Capitalisation Scheme was completed on 20 April 2004.

A net proceed of HK$4.22 million was raised from the Capitalisation Scheme, applying approximately HK$3 million for partial repayment of debts and the remaining HK$1.22 million for other general working capital purposes. The Company made all necessary announcements in respect of the progress of the Capitalisation Scheme on 17 February 2004, 9 March 2004, 1 April 2004, and 20 April 2004.

Future Outlook

The Company has an optimistic view on Hong Kong's economic prospect, which will enable the Group's bankers to restore confidence on the Company's future. The sale in the second half of 2004 should be improved although the funding problems might still exist throughout the entire year. The Company will continue to reinforce its commitment in improving its performance in years ahead. The management of the Company will also continue to exercise stringent cost control, quality assurance, and expense control to minimize operating costs through enhanced flexibility and efficiency.

Risk Management

During the Period, the Group had no exposure to credit risk, inventory risk, fluctuation in exchange rates and any related hedges because our tight control of working capital management on the credit policies, inventory, funding and treasury planning was proven effective. Since all the purchases of our merchandise had been fixed at an agreed exchange rate prior to the confirmation of purchase orders by the Group to its vendors, the Group had no exposure to fluctuation in exchange rates and any related hedges.

Financial Summary

The Group's trade receivables at 30 June 2004 stayed at HK$826,000 which were less than 2-month old; therefore, the Directors considered unnecessary to provide provision for doubtful debts for the Period.

Within the Period, the Group successfully disposed of all slow-moving inventories. Up to 30 June 2004, the Group reduced holding of inventories by 100 per cent to nil (31 December 2003: HK$369,000). The Group has undertaken a highly efficient inventory system by maximising our funding availability in production of revenue. The Directors believed that the Company carried the least inventory risk by holding updated inventories at 30 June 2004 and therefore it was unnecessary to make any provision for the Period.

At 30 June 2004, the Group's net current liabilities and net liabilities were HK$14,046,000 and HK$6,124,000 respectively (31 December 2003: HK$24,515,000 and HK$16,650,000 respectively). At the same day, the Group's cash and bank balances amounted to HK$3,232,000 (31 December 2003: HK$1,357,000). The total bank loans and overdrafts at 30 June 2004 were HK$13,260,000, no significant change from such balances at 31 December 2003. Time deposits were no longer pledged to back the banking facilities granted to the Group at 30 June 2004 (31 December 2003: HK$ nil).

In terms of liquidity, the current ratio at the end of the Period was 0.22 (31 December 2003: 0.08). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital was 1.23 at 30 June 2004 (31 December 2003: 6.08).

For the Period, the Directors are not aware of any significant change from the position as at 31 December 2003 and the information published in the report and accounts for the year ended 31 December 2003. The capital structure of the Company only consists of share capital, no other capital instrument was issued by the Company.

Contingent Liabilities

At 30 June 2004, contingent liabilities not provided for in the interim results were banking facilities, totaling HK$13,260,000 (31 December 2003: HK$13,260,000), guaranteed by the Company which were utilized by its subsidiaries

Significant Issues

During the Period, there was no significant investment and material acquisitions or disposals of subsidiaries or associated companies. Also, there is no plan for material investments or capital assets in the near future mainly because of the Group's limited funding position. Furthermore, the Company and the Group had no significant commitments during the Period (Last Period and the year ended 31 December 2003: nil)

Pledge of Assets

The Group's land and buildings with an aggregate net book value of HK$7.9 million (31 December 2003: HK$7.9 million) were pledged to secure bank loans and overdraft of the Group

Employees

Same as Last Period, the Group had a total of 10 employees during the Period and at 30 June 2004, of whom 7 were based in Hong Kong and 3 was employed in China. The remuneration package for Hong Kong staff was strictly on monthly-salary basis and that for mainland employee was mainly based on the performance oriented. Year-end bonus was linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly. Total staff costs for the Period were about HK$1.02 million (Last Period: HK$0.76 million). On irregular but necessary basis, the Company organised product seminars, salesmanship and computer training courses and recreational activities.

The Group did not operate any pension or retirement schemes for its Directors or employees until the implementation of Mandatory Provident Fund in December 2000. The Group has a share options scheme, which was duly approved by the shareholders on 22 January 1998, available for any full time employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any subsidiaries. No options have been granted since the approval of the scheme.

Purchase, Sale or Redemption of Shares in the Company

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the Period (Last Period and the year ended 31 December 2003: nil).

Corporate Governance

In the opinion of the Directors, the Company has complied with the Code of Best Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim report. The Company's audit committee, which had been developed in compliance with the Code by the Company in 1999, had reviewed with management the accounting principles and practices adopted by the Group and also discussed internal controls and financial reporting matters, including a review of the unaudited interim accounts for the Period.

Other information

The Company's 2004 interim report, which set out all the information required by paragraphs 46(1) to 46(6) inclusive in Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange, will be available for publication on the website of the Stock Exchange (www.hkex.com.hk) within 21 days from the date of this announcement.

On behalf of the Board
Chan Chun Choi
Chairman

Hong Kong, 30 August 2004

As at the date hereof, the Board comprises of Mr. Chan Chun Choi, Ms. Lu Su Hua, both of whom are executive directors, Mr. Liu Kwok Fai Alvan, who is non-executive director, Mr. Ng Chi Shing and Mr. Yuen Kwok Wah, Bernard, both of whom are independent non-executive directors.

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