



VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(the “Company”)

(Stock Code: 1139)

ANNOUNCEMENT FOR 2006 INTERIM RESULTS AND RESUMPTION OF TRADING

Interim results for the six months ended 30 June 2006

The board of directors of the Company announces the unaudited interim results of the Company and its subsidiaries for the six months ended 30 June 2006.

Resumption of trading

Trading in the shares of the Company on the main board of the Stock Exchange was suspended with effect from 9:36 a.m. on 18 September 2006 at the request of the Company pending the publication of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the shares of the Company with effect from 9:30 a.m. on 19 September 2006.

The board of directors of the Company (the “Board”) announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 (the “Period”) together with the comparative figures for the corresponding period last year (the “Last Period”) as follows:

Unaudited Consolidated Profit and Loss Account

Six months ended 30 June			
		2006	2005
	Notes	HK\$'000	HK\$'000
			(Restated)
Turnover	1	100	1,060
Cost of sales		—	(800)
Gross profit		<u>100</u>	<u>260</u>
Other revenue	2	317	263
Selling and distribution costs		(14)	(21)
Administrative expenses		(1,589)	(1,408)
Other operating expenses		—	(3)
Loss from operating activities	3	<u>(1,186)</u>	<u>(909)</u>
Finance costs	4	<u>(1,682)</u>	<u>(634)</u>
Loss before taxation		(2,868)	(1,543)
Taxation	5	—	—
Net loss from ordinary activities attributable to shareholders		<u>(2,868)</u>	<u>(1,543)</u>
Interim dividend	6	—	—
Loss per share	7	<u>(2.22 cents)</u>	<u>(0.14 cents)</u>

Unaudited Consolidated Balance Sheet

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Non-current assets		
Fixed assets	2,008	2,032
Land lease prepayment	14,096	14,096
	<u>16,104</u>	<u>16,128</u>
Current assets		
Land lease prepayment	344	344
Prepayments, deposits and other receivables	93	124
Trade receivables	–	50
Cash and bank balance	225	598
	<u>662</u>	<u>1,116</u>
Current liabilities		
Amount due to related party	2,197	2,197
Other payables and accruals	5,986	3,748
Rental received in advance	50	–
Bank borrowings, secured	10,643	10,518
	<u>18,876</u>	<u>16,463</u>
Net current liabilities	<u>(18,214)</u>	<u>(15,347)</u>
Total assets less current liabilities	<u>(2,110)</u>	<u>781</u>
Non-current liabilities		
Provision for long service payment	44	44
Net (liabilities)/Assets	<u>(2,154)</u>	<u>737</u>
Capital and reserves		
Issued capital	12,900	12,900
Accumulated Loss	(65,551)	(62,683)
Reserves	50,497	50,520
	<u>(2,154)</u>	<u>737</u>

Notes:

Basis of presentation

The consolidated interim accounts were unaudited and had been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and on a basis consistent with the accounting policies adopted in the Group’s audited annual financial statements for the year ended 31 December 2005.

The consolidated interim accounts had also been prepared in accordance with all applicable disclosure requirements of the Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The HKICPA had issued a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as “new HKFRSs”) which are generally effective for accounting periods beginning on or after 1 January 2005. In the Period, the Group had applied the new HKFRSs and such application had not resulted in a material change in the presentation of the Group’s financial statements for the Period.

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 automotive products and property holding for rental income purposes.

Segment information

The analysis of the principal activities and geographical locations of the operations of the Group during the Period are as follows:

(a) Business segments:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Trading of automotive products	–	960
Rental income	100	100
	<hr/>	<hr/>
Total	100	1,060
	<hr/>	<hr/>
Segment result		
Trading of automotive products	(542)	(249)
Rental income	75	75
Unallocated	(720)	(735)
	<hr/>	<hr/>
Total	(1,187)	(909)
Unallocated operating income and expenses	1	–
	<hr/>	<hr/>
Loss from operations	(1,186)	(909)
Finance costs	(1,682)	(634)
Taxation	–	–
	<hr/>	<hr/>
Loss for the period	(2,868)	(1,543)
	<hr/>	<hr/>

(b) Geographical segments:

Turnover		
Hong Kong	100	100
China	–	960
	<hr/>	<hr/>
	100	1,060
	<hr/>	<hr/>
Loss for the period		
Hong Kong	(2,868)	(146)
China	–	(1,397)
	<hr/>	<hr/>
	(2,868)	(1,543)
	<hr/>	<hr/>

2. Other revenue

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Bad debt recovered	144	144
Interest income	1	–
Reversal of impairment loss on land lease prepayment	172	119
	<u>317</u>	<u>263</u>

3. Loss from operating activities

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

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Cost of inventories	–	800
Amortisation of land lease prepayment	172	119
Depreciation	24	25
Staff costs (including directors' remuneration)	674	573
Mandatory Provident Fund contributions	19	17
Reversal of impairment loss on land lease prepayment	(172)	(119)
Bad debt recovered	(144)	(144)
Interest income	1	–
Net rental income	<u>(100)</u>	<u>(100)</u>

4. Finance costs

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and trust receipt loans	<u>1,682</u>	<u>634</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 of HK\$2,868,000 for the Period (Last Period: restated of net loss attributable to shareholders of HK\$1,543,000) and on the weighted average of 129,001,160 (Last Period: 1,075,011,600) ordinary shares in issue over the Period.

No diluted loss per share for the Period and the Last Period had been presented as the exercise of the potential ordinary shares would result in a reduction in loss per share.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim results

The Group had just gone through its toughest interim period. The unaudited turnover in the Period had been significantly decreased as compared to that in the Last Period. The unaudited net loss attributable to shareholders for the Period was further worsen to HK\$2,868,000, a serious drop of almost 86 per cent as compared with that reported in the Last Period. Other revenue for the Period, however, had achieved an increase of 20 per cent in the Period. In the absence of the reduction of the bank loan and because of the continuous rise in interest rates during the Period, the Group has carried a heavy burden of financial costs, resulting in a substantial increase of two and a half times of those incurred in the Last Period.

Business Review

The Group principally engaged in the marketing and wholesale distribution of automotive products. Suffering the similar reasons as pervious years, the trading environment of the Group's core business had not been improved and the Group failed to achieve a breakthrough in the Period. Coupled with other harsh market conditions, the main cause of the bad performance had been the shortage of working capital.

The mainland automotive market, the Group's principal trading field, had shrank in the first half of this year due to a number of adverse market phenomena, including the price wars between automakers and the continuing rise in raw material costs and car fuel. Lack of trading funds in conjunction with the price pressure and slowdown in China's market, the Group's distributorship business had been seriously tampered to a much worse level over the entire Period.

Once the investing market permitted, the Company entered into a placing agreement on 21 June 2006 with an placing agent to procure subscribers, on a fully underwritten basis, to subscribe for 25,800,000 new shares of the Company at a price of HK\$0.14, hoping to raise additional working fund of approximately HK\$3.61 million. The sole purpose of the placing was to reduce the Group's overdue indebtedness owed to Bank of China (Hong Kong) Limited ("BOCHK"). The Company made announcement in relation to the loan due to BOCHK on 18 May 2006. The placing had been completed in July 2006 and the net proceeds of HK\$3.16 million had been primarily distributed to BOCHK, exactly HK\$3 million were repaid to the banker.

Future Outlook

Apart from restoring confidence on the Company's future, the management of the Company confronts the immediate urgency of settling the remaining bank loan. After receiving partial repayment out of the proceeds of the placing in July 2006, the bank has given the Company more time for the next repayment schedule. New rounds of negotiation the Company and the banker shall be expected by the end of September 2006.

For surviving in the distributorship business, the Company and its Board shall continue to make efforts in improving business performance with all possible opportunities ahead. Under the limited funding situation, the Company will also keep on exercising 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. Effective from a couple of years ago, the Company has enforced a tighter credit policy which forbids any sort of credit sale to customers, the Group had therefore no exposure to credit risk in doing business with local or overseas customers. Since all the purchases of imported 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

As a result of the risk-oriented sale policy, the Group had no trade receivables at 30 June 2006 which were overdue; therefore, the directors of the Company (the “Directors”) considered unnecessary to provide provision for doubtful debts for the Period.

Within the Period, the Group continuously carried no inventories of any kind whatsoever (31 December 2005: nil). The Group has exercised a highly efficient inventory system by maximising our funding availability in production of revenue. Based on the back-to-back ordering system, the Directors believed that the Company carried the least possible inventory risk and therefore it was unnecessary to make any provision for the Period.

At 30 June 2006, the Group’s net current liabilities amounted to HK\$18,214,000 (31 December 2005: HK\$15,347,000) and net liabilities amounted to HK\$2,154,000 (31 December 2005: net assets of HK\$737,000). At the same day, the Group’s cash and bank balances amounted to HK\$225,000 (31 December 2005: HK\$598,000). The total bank loans and overdrafts at 30 June 2006 were increased to HK\$10,643,000 from such balances of HK\$10,518,000 at 31 December 2005. Same as the last year-end date, time deposits were no longer pledged to back the banking facilities granted to the Group at 30 June 2006.

In terms of liquidity, the current ratio at the end of the Period was 0.04 (31 December 2005: 0.07). The Group’s gearing ratio, resulting from a comparison of the total borrowings with issued capital was 1.46 at 30 June 2006 (31 December 2005: 1.28).

For the Period, the Directors are not aware of any significant change from the position as at 31 December 2005 and the information published in the report and accounts for the year ended 31 December 2005. Throughout the Period, the capital structure of the Company only consists of share capital, no other capital instrument had been issued by the Company.

Contingent Liabilities

At 30 June 2006, contingent liabilities not provided for in the interim results were banking facilities, totaling HK\$10,643,000 (31 December 2005: HK\$10,518,000), 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 2005: nil).

Pledge of Assets

The Group's land and buildings with an aggregate net book value of HK\$16,448,000 (31 December 2005: HK\$16,472,000, as restated) were pledged to secure bank loans and overdraft of the Group.

Employees

Same as its last year-end date, the Group had a total of 8 employees, of whom 5 were based in Hong Kong whereas 3 was local staff employed in China. The remuneration package for Hong Kong staff was strictly on a monthly-salary basis and that for the mainland employees was 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 largely reduced to HK\$674,000 (Last Period: HK\$573,000). On irregular but necessary basis, adequate on-job training had been provided to staff in need.

The Group did not operate any pension or retirement schemes for its Directors or employees until the implementation of the MPF 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 had 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 2005: nil).

Corporate Governance

The Company's 2006 unaudited interim financial statements had been reviewed by the audit committee of the Company (the "Audit Committee") before they were duly approved by the Board under the recommendation of the Audit Committee.

In the opinion of the Directors, the Company had complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "Code") throughout the Period. The Company had received, from each of the independent non-executive Directors, a verbal confirmation of their independence in respect of the preparation of the 2006 interim financial statements.

The chairman of the Board, in pursuant to Code A.2.1., is kept separate from the control of daily operations. Since January 2006, a dual leadership structure has been in place where the Chairman solely oversees the functions of the Board and the senior management team, headed by the Group's chief financial officer, takes responsibility for the Group's day-to-day business operations.

The Company has adopted the Model Code. The Company had made specific enquiries of all Directors regarding any non-compliance with the Model Code during the Period, and received confirmations from all Directors that they had fully complied with the required standard set out in the Model Code.

The remuneration committee and the nomination committee of the Company both convened one regular meeting within the Period. After reviewing the relevant policies and subsequent execution, no particular resolutions or recommendations had been made in both meetings.

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2006 unaudited interim financial statements of the Company, the Directors, both collectively and individually, applied such degree of skill, care and diligence as may reasonably be expected of under the Listing Rules throughout the Period.

Other information

The Company's 2006 interim report, which set out all the information required by paragraphs 46(1) to 46(9) inclusive in Appendix 16 to the Listing Rules, will be dispatched to the shareholders of the Company and published on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in due course.

Resumption of trading

Trading in the shares of the Company on the main board of the Stock Exchange was suspended with effect from 9:36 a.m. on 18 September 2006 at the request of the Company pending the publication of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the shares of the Company with effect from 9:30 a.m. on 19 September 2006.

On behalf of the Board
Chan Chun Choi
Chairman

Hong Kong, 18 September 2006

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

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