



VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(the “Company”)

(Stock Code: 01139)

2007 Unaudited Interim Results

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 2007 (the “Period”) together with the comparative figures for the corresponding period last year (the “Last Period”) as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2007	2006
	Notes	HK\$ '000	HK\$ '000
Revenue	1	1,500	100
Cost of sales		(1,310)	—
Gross profit		190	100
Other income	2	384	317
Selling and distribution costs		(8)	(14)
Administrative expenses		(1,979)	(1,589)
Other operating expenses		—	—
Loss from operating activities	3	(1,413)	(1,186)
Finance costs	4	(739)	(1,682)
Loss before taxation		(2,152)	(2,868)
Taxation	5	—	—
Net loss from ordinary activities attributable to shareholders		(2,152)	(2,868)
Loss per share	6	(1.39 cents)	(2.22 cents)

UNAUDITED CONSOLIDATED BALANCE SHEET

	30 June 2007 HK\$ '000	31 December 2006 HK\$ '000
Non-current assets		
Fixed assets	1,966	1,983
Land lease prepayment	13,083	13,083
	<u>15,049</u>	<u>15,066</u>
Current assets		
Land lease prepayment	327	327
Inventories	4,913	–
Prepayments, deposits and other receivables	50	52
Trade receivables	1,503	7,874
Pledged bank deposit	3,612	3,588
Cash and bank balance	154	270
	<u>10,559</u>	<u>12,111</u>
Current liabilities		
Trade payables	1,413	3,387
Other payables and accruals	3,698	3,560
Amount due to related party	2,197	2,197
Amount due to directors	5,074	4,901
Bank and other borrowings	17,502	15,256
	<u>29,884</u>	<u>29,301</u>
Net current liabilities	<u>(19,325)</u>	<u>(17,190)</u>
Total assets less current liabilities	(4,276)	(2,124)
Non-current liabilities		
Provision for long service payment	66	66
Net liabilities	<u>(4,342)</u>	<u>(2,190)</u>
Capital and reserves		
Issued capital	15,480	15,480
Accumulated Loss	(70,903)	(68,751)
Reserves	51,081	51,081
	<u>(4,342)</u>	<u>(2,190)</u>

Notes:

Basis of presentation

The consolidated interim accounts were unaudited and had been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public 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 2006.

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 preparation of the financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1. Revenue

Revenue 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	
	2007	2006
	HK\$ ‘000	HK\$ ‘000
Revenue		
Trading of automotive products	1,500	–
Rental income	–	100
	<hr/>	<hr/>
Total	<u>1,500</u>	<u>100</u>
Segment result		
Trading of automotive products	(1,212)	(542)
Rental income	246	75
Unallocated	979	(719)
	<hr/>	<hr/>
Loss from operations	13	(1,186)
Finance costs	(2,165)	(1,682)
Taxation	–	–
	<hr/>	<hr/>
Loss for the period	<u>(2,152)</u>	<u>(2,868)</u>

(b) *Geographical segments:*

	Six months ended 30 June	
	2007	2006
	HK\$ '000	HK\$ '000
Revenue		
Hong Kong	–	100
China	<u>1,500</u>	<u>–</u>
	<u>1,500</u>	<u>100</u>
Loss for the period		
Hong Kong	–	(2,868)
China	<u>(2,152)</u>	<u>–</u>
	<u>(2,152)</u>	<u>(2,868)</u>

2. Other income

	Six months ended 30 June	
	2007	2006
	HK\$ '000	HK\$ '000
Bad debt recovered	144	144
Foreign exchange gain	13	–
Interest income	62	1
Reversal of impairment loss on land lease prepayment	164	172
Others	<u>1</u>	<u>–</u>
	<u>384</u>	<u>317</u>

3. Loss from operating activities

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

	Six months ended 30 June	
	2007	2006
	HK\$ '000	HK\$ '000
Cost of inventories	1,310	–
Amortisation of land lease prepayment	164	172
Depreciation	25	24
Staff costs (including directors' remuneration)	1,095	674
Mandatory Provident Fund contributions	19	19
Reversal of impairment loss on land lease prepayment	(164)	(172)
Bad debt recovered	(144)	(144)
Interest income	62	1
Net rental income	<u>–</u>	<u>(100)</u>

4. Finance costs

	Six months ended 30 June	
	2007	2006
	HK\$ '000	HK\$ '000
Interest on bank loans, overdrafts and trust receipt loans	<u>739</u>	<u>1,682</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. Loss per share

The calculation of basic loss per share for the Period was based on the net loss attributable to shareholders of HK\$2,152,000 for the Period (Last Period: net loss attributable to shareholders of HK\$2,868,000) and on the weighted average of 154,801,160 (Last Period: 129,001,160) 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

In view of the past several years, the Group had achieved a better interim period. The unaudited turnover in the Period had been significantly increased when compared to that in the Last Period. The unaudited net loss attributable to shareholders for the Period was shrunk to HK\$2,152,000, an apparent improvement of approximately 25 percent as compared with the same reported in the Last Period. Other income for the Period, also, had achieved an increase of 21 percent in the Period. Due to the successful refinancing for the bank loan due to Bank of China (Hong Kong) Limited (“BOCHK”), the Group has carried a lighter burden of financial costs, resulting in a substantial decrease of 56 percent from those incurred in the Last Period.

Business Review

Since the last quarter of 2006, the distribution business of light-emitting diode (“LED”) auto parts helps the Group improve its operating results as a whole. Nonetheless, the improvements in both turnover and gross profit were largely limited to the working fund in hand. The management of the Company has utilized the available but limited working capital to engage in the LED auto parts sector which demands much lesser fund input than those would have been required by the conventional automotive products, especially the wholesale distribution of fully-furnished automobiles. Though the Group has not exactly considered the marketing and distribution of LED auto parts a relatively long-term core business, the present funding strategy keeps the Group going towards its goal bit by bit.

During the Period, the Company had entered into a debt refinancing scheme with a new banker. The new arrangement was successful in dissolving the debts owed to BOCHK which had long shut down the provision of any further banking facilities to the Group. Backed by viable collateral, the Group has now managed to operate under a new shelter with better banking facilities.

Future Outlook

Despite of the improvements in turnover and gross profit margin over the Period, the Group's ability to drastically overturning its business performance has still been greatly hindered by the same major obstacle as years go by. Similar to other auto products, a steady source of working capital is the absolute key to sustain and further enhance the growth in the auto distributorship industry, including the LED auto component market. In terms of revenue and profitability, the full recovery of the marketing and distribution of the conventional automotive products is still the ultimate target of the Group in the near future. After all, the Group had once a glorious success in that particular industry in the past.

The same missionary commitment as previous years is still mandatory for the management of the Company and the Board. They definitely continue to make the best efforts in improving business performance with all possible opportunities ahead. Tied by 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

Despite of the reappearing trade receivables, the Group's newly enforced credit policy has proven as a positive means of increasing turnover in the Period. As a result of the risk-oriented sale policy, the Group had significantly reduced the trade receivables at 30 June 2007 by almost 81 percent as compared with that at last year end. Among which, none was 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 carried inventories of approximately HK\$4.9 million (31 December 2006: nil). These inventories have already been reserved by existing orders placed by the customers. Again, 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 2007, the Group's net current liabilities amounted to HK\$19,325,000 (31 December 2006: HK\$17,190,000) and net liabilities amounted to HK\$4,342,000 (31 December 2006: HK\$2,190,000). At the same day, the Group's cash and bank balances amounted to HK\$154,000 (31 December 2006: HK\$270,000). The total bank loans and overdrafts at 30 June 2007 were increased to HK\$17,502,000 from such balances of HK\$15,256,000 at 31 December 2006.

Similar to last year-end date, time deposits of HK\$3,612,000 were pledged to back the banking facilities granted to the Group at 30 June 2007 (31 December 2006: HK\$3,588,000).

In terms of liquidity, the current ratio at the end of the Period was 0.35 (31 December 2006: 0.41). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital was 1.93 at 30 June 2007 (31 December 2006: 1.89).

For the Period, the Directors are not aware of any significant change from the position as at 31 December 2006 and the information published in the report and accounts for the year ended 31 December 2006. 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 2007, contingent liabilities not provided for in the interim results were banking facilities, totaling HK\$10,500,000 (31 December 2006: HK\$11,173,000), 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 2006: nil).

Pledge of Assets

The Group's leasehold building and land with an aggregate net book value of HK\$15,370,000 (31 December 2006: HK\$15,393,000) and a bank deposit of HK\$3,612,000 (31 December 2006: HK\$3,588,000) were pledged to secure bank and other borrowings of the Group.

Employees

Same as its last year-end date, the Group had a total of 6 employees, of whom five were based in Hong Kong whereas one was frequently stationed 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 amounted to HK\$1,095,000 (Last Period: HK\$674,000). 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 2006: nil).

Corporate Governance

The Company's 2007 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 2007 interim financial statements.

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.

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2007 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.

More information about the Group's governance practice shall be disclosed in the Company's 2007 interim report.

Other information

The Company's 2007 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 websites of both the Company and of The Stock Exchange of Hong Kong Limited in due course.

On behalf of the Board
Chan Chun Choi
Chairman

Hong Kong, 18 October 2007

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.