ANNUAL REPORT 2006

VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code :1139

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Chan Chun Choi *(Chairman and Managing Director)*

Lu Su Hua *(Deputy Chairman)*

Independent Non-executive Directors

Ng Chi Shing

Yuen Kwok Wah, Bernard

Lam Williamson

AUDIT COMMITTEE

Lam Williamson *(Chairman)*

Ng Chi Shing

Yuen Kwok Wah, Bernard

REMUNERATION COMMITTEE

Ng Chi Shing *(Chairman)*

Yuen Kwok Wah, Bernard

Lam Williamson

NOMINATION COMMITTEE

Yuen Kwok Wah, Bernard *(Chairman)*

Ng Chi Shing

Lam Williamson

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Ben Leung *CPA ACIS*

PRINCIPAL BANKERS

Standard Chartered Bank (HK) Limited

Shop No. 1, 2, 3

G/F, Katherine House

No. 53-55 Chatham Road South

Kowloon

Hong Kong

Bank of China (Hong Kong) Limited

39-41 Des Voeux Road Central

Hong Kong

AUDITORS

Lak & Associates C.P.A. Limited

3rd Floor, Chinachem Tower

34-37 Connaught Road Central

Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited

6 Front Street

Hamilton HM 11

Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Tengis Limited

Level 28

Three Pacific Place

1 Queen's Road East

Hong Kong

REGISTERED OFFICE

Clarendon House

Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1609

New East Ocean Centre

No. 9 Science Museum Road

Tsimshatsui East

Kowloon

Hong Kong

WEBSITE

www.victorygroup.com.hk

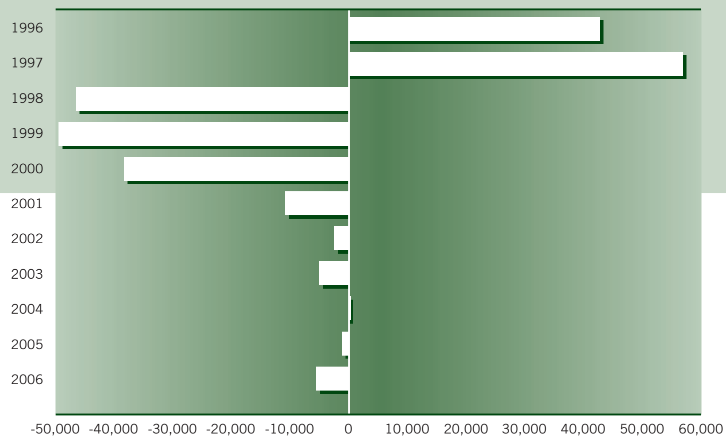
STOCK CODE

1139

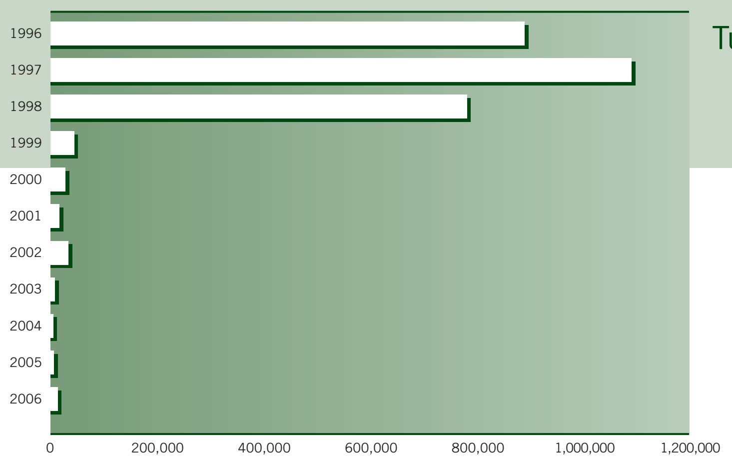
Financial Highlights

YEAR	NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS (HK$'000)	TURNOVER (HK$'000)
1996	42,710	890,555
1997	56,888	1,091,524
1998	(46,538)	782,361
1999	(49,454)	44,342
2000	(38,315)	27,954
2001	(10,857)	16,418
2002	(2,515)	33,433
2003	(5,072)	5,216
2004	111 (as restated)	2,240
2005	(1,175)	4,488
2006	(6,068)	8,024

Net Profit/(Loss) Attributable to Shareholders HK'000



Turnover HK'000



Profiles of Directors


Mr. Chan Chun Choi

EXECUTIVE DIRECTORS

Mr. Chan Chun Choi, aged 62, is the chairman and managing director of the Company. Mr. Chan, together with his ex-wife, Madam Lam Mo Kuen, Anna, founded Victory Group Limited (the "Company") in mid-1980s. Mr. Chan has been engaged in the distribution and marketing of automotive products for over 26 years, principally in the People's Republic of China (the "PRC"). Mr. Chan is responsible for the strategic planning and business development of the Company and its subsidiaries (together the "Group"). Mr. Chan had been a member of the Consultative Conference of Guangdong Province, a committee member of the China Council for the Promotion of Peaceful National Reunification, an honorary citizen of Jiangmen and Enping, the PRC, and the honorary chairman of the Federation of Hong Kong Guangdong Community Organization Limited. Save as disclosed above, Mr. Chan did not act as a director in any other listed public company in the last three years.


Madam Lu Su Hua

Madam Lu Su Hua, aged 34, is the general manager of China San You High New Technical Group Zhu Hai Company in China. Ms. Lu was graduated from the Beijing Foreign Studies University in 1999, and in 2003 Ms. Lu obtained her MBA degree from the University of Ballarat in Australia. Ms. Lu was appointed executive director of the Company on 6 October 2003. Save as disclosed above, Ms. Lu did not act as a director in any other listed public company in the last three years.

Profiles of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Chi Shing

Mr. Ng Chi Shing, aged 42, is the chief executive officer and chief architect of Arcotect. Previously, Mr. Ng was the chairman and chief executive officer of DCP Holdings Limited since 19 April 2000. Mr. Ng was responsible for the strategic management of DCP Holdings Limited which is a company listed on the Stock Exchange. Mr. Ng was the director of Cable Multimedia Services of Hong Kong Cable Television Limited, a business unit for multimedia service development and exploring new business opportunities such as cable modem for high speed internet access. Mr. Ng was the founder and president of Hong Kong Star Internet Limited. He was also the founding member and the first chairman of the Internet Service Providers Association in Hong Kong. In 1992, Mr. Ng was assigned by Star Telecom International Holdings Limited in developing wireless handheld products to disseminate financial data information for professional as well as individual investors. The wireless handheld product, DataLink was launched in the succeeding year with tremendous success. For a long time, Mr. Ng has been enjoying personal communication through modem in his leisure time. He had set up his first Bulletin Board System during the first summer of his university course in Manitoba, Canada. In 1995, Mr. Ng was appointed as president of Star Internet, the pioneer internet service provider in Hong Kong. In mid 1997, Mr. Ng further extended his interest into another interactive medium and in February 1998, Star Interactive TV successfully awarded the Programme Services license in principle for the launching Interactive Television service on 11 February 1998. Mr. Ng has also spared tremendous efforts in promoting the development of Hong Kong Internet operations. In November 1996, he took the lead in establishing the Hong Kong Internet Providers Association with others in the field, and he was also elected as the chairman of the Association for a term of 2 years. In 2000, he was elected as one of the "Ten Outstanding Young Digi Persons". Mr. Ng was appointed as an independent non-executive director of the Company in August 2000 and serves in the Audit Committee since. Mr. Ng is also the member of the Company's Remuneration Committee and Nomination Committee which had been established in January 2005. Mr. Ng does not hold any position with the Company or other members of the group of the Company. Save as disclosed above, Mr. Ng did not act as a director in any other listed public company in the last three years.

Profiles of Directors

Mr. Yuen Kwok Wah, Bernard

Mr. Yuen Kwok Wah, Bernard, aged 47, is a practicing Barrister-at-law in Hong Kong and a member of the Hong Kong Bar Association since 1986. Mr. Yuen is the honorary adviser and the legal adviser of the Hong Kong Table Tennis Association Limited since 1985. Mr. Yuen holds a bachelor degree in laws and a postgraduate certificate in laws from the University of Hong Kong. Mr. Yuen also obtained his master degree in laws from the University of London in 1985. Mr. Yuen was appointed as an independent non-executive director of the Company in August 2000 and serves in the Audit Committee ever since. Mr. Yuen is also the member of the Company's Remuneration and Nomination Committee. Mr. Yuen does not hold any position with the Company or other members of the group of the Company. Save as disclosed above, Mr. Yuen did not act as a director in any other listed public company in the last three years.

Mr. Lam Williamson

Mr. Lam Williamson, aged 32, Mr. Lam is a practising member of The Hong Kong Institute of Certified Public Accountants and a full member of the CPA (Australia). Mr. Lam obtained his bachelor degree of business from Monash University, Australia. Mr. Lam has 11 years experience in auditing, accounting, taxation, company secretarial, finance and financial management. Mr. Lam had worked for international and local accounting firms, multi-national companies, financial institutes and listed companies. Mr. Lam currently provides financial consultancy services under his own name as a practising Certified Public Accountant in Hong Kong. Mr. Lam was the executive director for the period from May 2005 to June 2006 in Cosmopolitan International Holdings Limited, a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange. Mr. Lam was appointed as an independent non-executive director of the Company in September 2004. Save as disclosed above, Mr. Lam did not act as a director in any other listed public company in the last three years. Other than serving as a member of the Audit Committee, the remuneration committee and nomination committee, Mr. Lam does not hold any position with the Company or other members of the group of the Company.

Chairman's Statement

The directors of the Company (the "Directors") worked on funding support to improve the turnover of the Group in 2006. Although turnover for the year achieved a significant 79 percent as compared with the previous year, the Group had another unsatisfactory financial year due to similar reasons as in previous years, including the lack of operating funds and further pressure on gross margins. As a result, the target which the Directors had set for the Group to turnaround the Group's bottom-line for the year under review was missed and the Group suffered a net audited loss of HK$6,068,000 for the year ended 31 December 2006 (2005: loss of HK$1,175,000).

In view of the limited funding situation, the Company will continue to exercise stringent cost control. Furthermore, the Board will use its best endeavors to look for new business and investment opportunities with an aim to broaden the Group's revenue stream and turnaround the bottom-line.

Finally, on behalf of the Board, I would like to express my gratitude to the management and staff of the Group for their hard work and dedication particularly in the harsh economic environment. I would also like to express my appreciation for the continuing support of our shareholders.

Chan Chun Choi
Chairman

Hong Kong, 5 September 2007

Management Discussion and Analysis

BUSINESS REVIEW

Comparing to last financial year, the increased audited net loss for 2006 was primarily caused by the lost of accounting benefits from the re-valuation of the Company's investment property and a drastic slip in the gross profit margins in the distribution business of automotive products. Nevertheless, the turnover was increased significantly because the Group had achieved banking facilities from a new banker. Though it is not a substantial funding support in monetary terms, the new source of working fund helps the Group making a larger involvement in the distribution of automotive parts in 2006. Since then, the Company is able to procure more merchandise in order to restore its distribution business a little bit. Similar to pervious years, the Group's overall running cost had been sustained at its minimal level through the strict cost control measures. The human resources had also been maintained at the least possible status to generate maximum productivity. In brief, the cost structure of the Group has always been successfully locked at the least possible efficient level.

Since the last quarter of 2006, the Group commenced the marketing and distribution of light-emitting diode (LED) auto parts in Hong Kong in order to make a new stream of distribution to the earnings of the Group.

During the year of review, the Group had achieved a turnover and the profit margin of approximately HK$7.9 million and HK$0.4 million respectively out of the distribution of LED auto products in the PRC.

Pursuant to a resolution passed in the board meeting of the Company on 21 June 2006, the Company issued a total of 25,800,000 new ordinary shares of HK$0.10 each at a price of HK$0.14 per share to independent investors by means of placing on 3 July 2006. The net proceeds of HK$3.1 million from the placing were used for reducing the bank mortgages and as the general working capital of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

Throughout the years presented, 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. At year-end date, the Group's trade receivables and trade payables had increased to HK$7,874,000 and HK$3,387,000, respectively (31 December 2005: HK$50,000 and HK$ nil, respectively) while there had also been no inventories as last year-end date due to a limited working fund.

As at 31 December 2006, the Group's net current liabilities amounted to HK$17,190,000 (31 December 2005: HK$15,347,000) and net liabilities amounted to HK$2,190,000 (31 December 2005: net assets of HK$737,000). At the same day, the Group's cash and bank balances amounted to HK$270,000 (31 December 2005: HK$598,000). The total bank and other borrowings at 31 December 2006 were HK$15,256,000, a 45 per cent increase from such balances at 31 December 2005. Pledged bank deposits of HK$3,588,000 were pledged to back the banking facilities granted to the Group at 31 December 2006 (31 December 2005: HK$ nil).

Management Discussion and Analysis

In terms of liquidity, the current ratio at year-end date was 0.41 (31 December 2005: 0.07). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital, was 1.89 at 31 December 2006 (31 December 2005: 1.28).

FUTURE OUTLOOK

Sufficient working fund is absolutely crucial to all kinds of businesses, especially the trading distributorship that the Group engages. In spite of the gradually removal of various but many unfavorable trading barriers in the automotive industry since 2005, local distributors such as the Company have been exposed to a even more vigorous trading competition war than ever. The key to success or to sustain market position is the uninterrupted supply of sufficient working fund that provides effective fuel to keep fighting in the automotive market, a market virtually without border across the globe. It is the fact, as simple as that and the Board knows it perfectly through numerous failures in the past seven years. For every single day to come, the Board keeps doing its best in exploring new banking facilities. All members of the Board understand that new and sufficient working funds must be established and quickly materialised to help the Group create a breakthrough in its survival battle.

DELAYED PUBLICATION OF THE 2006 ANNUAL RESULTS

Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company was obliged to publish its 2006 annual report and the related results announcement on or before 30 April 2007. The publication of the Group's 2006 annual results announcement and the dispatch of the 2006 annual report were delayed solely because the annual audit for the year ended 31 December 2006 was hindered as the Company failed to settle the professional fees due to its auditors, Messrs. Lak & Associates C.P.A. Limited (the "Auditor"). The Board also confirms that the Company did not have any disagreement with the Auditor in the course of the preparation of the audited report for the financial year ended 31 December 2006.

SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company with effect from 9:30 a.m. on 27 September 2006 remain suspended pending the publication of announcement(s) in relation to a proposed rights issue and increase in authorized capital. Given the concern over the sufficiency of the working capital of the Group to continue its business and operations, the Company is preparing a resumption proposal to the satisfaction of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in order to resume the trading of the shares of the Company as soon as possible.

Report of the Directors

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding. The principal activities of its subsidiaries consist of the marketing and distribution of automotive products and property holding for rental income purposes. There were no changes in the nature of the Group's principal activities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate revenue attributable to the two largest customers of the Group accounted for 100 per cent of the Group's sales of automotive products for the year and sales to the largest customer included therein amounted to approximately 54 per cent.

The aggregate purchases attributable to the three largest suppliers accounted for 100 per cent of the Group's purchases for the year and purchases from the largest supplier included therein amounted to approximately 55 per cent. None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5 per cent of the Company's share capital) had any beneficial interests in the Group's largest customer and the Group's largest supplier.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 27 to 67.

No dividends had been paid or declared by the Company for both years presented.

SEGMENTAL INFORMATION

Details of segmental information are set out in note 29 to the financial statements.

SUMMARY FINANCIAL INFORMATION

The results, assets and liabilities of the Group for the last five financial years are summarised on page 68. This summary is not part of the audited financial statements.

FIXED ASSETS AND LAND LEASE PREPAYMENT

Details of movements in fixed assets and land lease prepayment of the Group are set out in notes 15 and 16 to the financial statements respectively.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 17 to the financial statements.

Report of the Directors

BORROWINGS

Details of the Group's borrowings are set out in note 22 to the financial statements.

RETIREMENT SCHEME

The Group has implemented a provident fund scheme for its staff in compliance with requirements of the Mandatory Provident Fund ("MPF") Schemes Ordinance from 1 December 2000. The Company contributed according to the minimum requirements of the MPF Ordinance (that is, 5 per cent of staffs' relevant income with maximum limit of HK$1,000) and the contributions are charged to the income statement.

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements in the Company's share capital, warrants and share options during the year and subsequent to the balance sheet date, together with the reasons for the issue thereof, are set out in note 24 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had no reserves available for cash distribution and distribution in specie computed in accordance with the Companies Act 1981 of Bermuda except for the Company's share premium account which may be distributed in the form of fully paid bonus shares.

Under the Companies Act 1981 of Bermuda, the Company may make distributions from its contributed surplus in certain circumstances, prescribed by Section 54 thereof, which the Company was unable to satisfy as at 31 December 2006.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Company and the Group as at 31 December 2006 are set out in note 27 to the financial statements.

Report of the Directors

SIGNIFICANT ISSUES

During the years presented, there were no significant investments and material acquisitions or disposals of subsidiaries or associated companies. Also, there is no plan for material investments or capital assets in the near future mainly because of the Group's limited funding position. Since all the purchases of our merchandise had been fixed at an agreed exchange rate prior to the confirmation of purchase orders by the Group to its vendors, the Group had no exposure to fluctuation in exchange rates and any related hedges. Furthermore, the Company and the Group had no significant commitments during both years presented.

There was also no material change in capital structure and pledge of assets of the Group during the two years presented.

For the year ended 31 December 2006, 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. The capital structure of the Company only consists of share capital, no other capital instrument was issued by the Company.

RELATED PARTY TRANSACTIONS

Except for the disclosure in the note 30 to financial statements, there were no related party transactions in the year under review.

SIGNIFICANT SUBSEQUENT EVENT

There is no significant subsequent event before the dispatch of the 2006 Annual Report.

EMPLOYEES

As at 31 December 2006, the Group had a total of 6 employees (2005: 8 employees), of whom 5 (2005: 5) were based in Hong Kong whereas 1 (2005: 3) was local staff employed in the PRC. The remuneration package for Hong Kong staff was strictly on a monthly-salary basis and that for the PRC 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 year amounted to HK$1,785,000 (2005: HK$2,338,000). 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 MPF in December 2000. The Group has a share option 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.

PLEDGE OF ASSETS

The Group's leasehold building and land with an aggregate net book value of HK$15,393,000 (2005: HK$16,472,000) and a pledged bank deposit of HK$3,588,000 were pledged to secure bank and other borrowings of the Group.

Report of the Directors

PROPERTY VALUATION

A property valuation had been carried out by Vigers Appraisal & Consulting Limited ("Vigers"), an independent professional valuer, in respect of the Group's land lease prepayment and building. The Group's land lease prepayment and building were valued at HK$13,410,000 and HK$3,210,000 giving rise to impairment loss on land lease prepayment of HK$686,000 (2005: Reversal of impairment loss of HK$4,438,000).

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year, there were no material acquisitions and disposals of the Company's subsidiaries.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Chan Chun Choi *(Chairman and Managing Director)*

Lu Su Hua *(Deputy Chairman)*

Independent non-executive Directors:

Ng Chi Shing

Yuen Kwok Wah, Bernard

Lam Williamson

In accordance with clause 87 (1) of the Company's bye-laws, Ms. Lu Su Hua and Mr. Yuen Kwok Wah, Bernard shall retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting on 5 October 2007 (the "2007 AGM").

DIRECTORS BIOGRAPHIES

Biographical details of the Directors are set out on pages 4 to 6 of the 2006 Annual Report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of the Directors and the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

All Directors had entered service contracts with the Company for an initial term of two years. Every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in the note 30 to the financial statements, none of the Directors had a significant beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

On 22 January 1998, the Company conditionally approved a share option scheme (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.

Subsequent to the adoption of the Scheme on 22 January 1998, the Stock Exchange introduced a number of changes to the Listing Rules on the Scheme. These new rules came into effect on 1 September 2001. Since then no share options have been granted under the Scheme. However, any option to be granted in the future under the Scheme shall be subject to the new changes which include, inter alia, the following:

(a) the maximum number of shares issuable under share options to each Eligible Participant within any 12-month period is limited to 1 per cent of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;

(b) share options granted to a Director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive Directors; and

(c) the exercise price of share options is determined by Directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

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

Report of the Directors

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.

Summary details of the Scheme are also set out in note 24 to the financial statements.

The Company shall amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on the Scheme.

Other than the Scheme as described in note 24 to the financial statements, at no time during the year was the Company, or its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

None of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL OF THE COMPANY

At the balance sheet date, the interests of the Directors and chief executives of the Company in the share capital of the Company and its associated corporations, as recorded in the register required to be kept by the Company under Section 352 of the Securities and Future Ordinance (the "SFO"), or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(a) The Company

Name of Director	**Number of shares held (other interest)**
Chan Chun Choi	54,037,758

of the above shares:

(i) 11,037,758 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 ("Mr. Chan"). Mr. Chan holds all the issued share of EVEI; and

(ii) 43,000,000 shares are held by Winsley Investment Limited ("Winsley").

Report of the Directors

(b) Associated Corporation

Name of associated corporation	Name of Director	Number of shares held	Class of shares	Type of interest
Victory Motors Centre Limited	Chan Chun Choi	100,000	Non-voting deferred	Personal
		2,800,000	Non-voting deferred	Corporate *(Note)*

Note: The 2,800,000 non-voting deferred shares are held by Victory Petro Chemical Limited (formerly known as Kwong Hung Hing Enterprises Co. Limited) of which Mr. Chan and Madam Lam Mo Kuen, Anna together hold the entire issued share capital.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SFO.

ULTIMATE HOLDING COMPANY AND SUBSTANTIAL SHAREHOLDERS

The Directors consider the ultimate holding company of the Company at the balances sheet date to be Winsley, details of whose share interests are set out under the section headed "Directors' and Chief Executives' Interests in Share Capital of the Company".

At the balance sheet date, no persons, other than Winsley and EVEI were registered as having an interest of 5 per cent or more in the share capital of the Company that were required to be recorded in pursuant to Section 336 of the SFO.

AUDITORS

The Company's financial statements for the two years ended 31 December 2006 were audited by Messrs. Lak & Associates C.P.A. Limited ("Lak & Associates"), which was appointed as auditor of the Company following the dissolution of Messrs. Fan, Mitchell & Co. The financial statements for the year ended 31 December 2004 were audited by Messrs. Fan, Mitchell & Co. Save as disclosed herein, there were no changes in auditors of the Company in any of the preceding 3 years.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Lak & Associates as auditor of the Company.

Report of the Directors

APPRECIATION

Although the operating results for the financial year under review were again unsatisfactory, the Company and its Board believe that more efforts must be required to overturn the performance in the challenging years ahead. In the mean time, the Board would like to thank all the staff for their hard work and hope to have their continuous support and patience in the attempt of making future years success.

On Behalf of the Board

Chan Chun Choi
Chairman

Hong Kong, 5 September 2007

Corporate Governance Report

This report is a product of the Company's compliance with all relevant recommendations laid down in the "Corporate Governance Report" as set out in Appendix 23 of the Listing Rules.

The Company is committed to exercise a high standard of corporate governance practices at all times. The Board believes that good corporate governance helps the Company safeguard the interests of its stakeholders and improve the performance of the Group. During the year under review, the Company had complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code") throughout the accounting period covered by the Company's 2006 Annual Report.

THE BOARD OF DIRECTORS

The Board comprises of:

Executive Directors:

Chan Chun Choi	*(Chairman and Managing Director)*
Lu Su Hua	*(Deputy Chairman)*

Independent Non-executive Directors:

Ng Chi Shing
Yuen Kwok Wah, Bernard
Lam Williamson

There is no relationship between members of the Board.

The Board consists of a good mix of expertise, knowledge, experience and skills, the essential abilities to guide the management teams to fulfill corporate goals. The mission of the Board is to undertake the role for strategic planning and development of the Group with the objective to maximize its shareholders' value. Through the aids of senior management and the internal control mechanism, the Board monitors and supervises, from time to time, the ongoing performance of the Group.

Of the three independent non-executive Directors ("INEDs"), Mr. Lam Williamson possesses appropriate professional accounting qualifications and financial management expertise, satisfying Rule 3.10(2) of the Listing Rules. Through positive contributions to the Board and committee works, the INEDs provide independent directives on important decisions in respect of strategic developments, corporate governance practices, financial reporting framework, internal controls, and risk management.

On an annual basis, the Company had received, from each of its INEDs, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company therefore considers that all INEDs are independent.

Corporate Governance Report

The Board meets regularly throughout the year to review the business strategies and to monitor the operational and financial performance of the Group. The bye-laws of the Company (the "Bye-laws") allow board meetings to be conducted by way of telephone or videoconference and all Directors are given fourteen-day notices for regular board meetings. Sufficient information was supplied by management to facilitate the board meetings in making decisions. In both regular and ad hoc board meetings as required by business needs, the Directors are free to include matters of interest for discussion in the agenda. Other than the board papers and related materials, documents of all kinds in relation to the entire Group are accessible to all Directors at any time with one-day notice.

During the year, six board meetings, including four regular quarterly meetings, were held and the attendance summary is as below:

Name of Director	Number of attendance	Attendance rate
Chan Chun Choi	6	100%
Lu Su Hua	6	100%
Ng Chi Shing	5	83%
Yuen Kwok Wah, Bernard	5	83%
Lam Williamson	6	100%

RE-ELECTION OF DIRECTORS

Each Director has entered into a letter of appointment with the Company for a term governed by the Bye-laws numbered 87(1) where one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting of the Company. Ms. Lu Su Hua and Mr. Yuen Kwok Wah, Bernard would retire from their offices and offer themselves for re-election at the Company's 2007 AGM.

THE CHAIRMAN AND MANAGEMENT TEAM

The Company implements a clear division of responsibilities among its top management. The Chairman 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.

Corporate Governance Report

THE SYSTEM OF INTERNAL CONTROL

The Board ensures the maintenance of sound and effective internal controls to safeguard the Shareholders' investment and the assets of the Company. Since early 2006, it has been an important duty that the Directors conduct a review of the effectiveness of the system of internal control of the Group annually or at anytime necessary. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. Such review had been conducted by the audit committee of the Company (the "Audit Committee") in November 2006 and thereafter by the Board in December 2006. Both the Board and the Audit Committee had reached the conclusion that the Group's internal control system was in place and effective. Yet the Directors also agreed that there was room for improvement upon the finalization of the 2006 audit. Given its simplicity and the relatively small size of the operations, the Board and the Audit Committee concluded that the internal audit or internal auditors was not needed.

FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner. Equally important, they are also responsible for keeping proper accounting records and disclosures.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had made specific enquires of all Directors regarding any non-compliance with the Model Code during the year and received confirmations from all Directors that they had fully complied with the required standard set out in the Model Code.

AUDITOR'S REMUNERATION

During the financial year, fees paid / payable to Lak & Associates, the auditor of the Company (or the "Auditor") for audit services was approximately HK$186,000 and no non-audit service has been provided for the Company.

AUDIT COMMITTEE

The Audit Committee comprises of members who are the INEDs with a rotational chairmanship structure. The composition and member of the Audit Committee comply with the requirements under Rule 3.21 of the Listing Rules. The written terms of reference, which describe the authority and duties of the Audit Committee, were adopted since its establishment and had been amended to conform to the provisions of the Code.

The Audit Committee provides the following consultative services to the Board:

- reviewing and monitoring audit process, financial reporting, internal controls, risk management system, and accounting policies and practices;
- deciding the appointment and terms of engagement of external auditors; and
- involving in the decision making for all non-audit engagements.

Corporate Governance Report

The Audit Committee convenes at least three meetings a year to review with management the accounting principles and practices adopted by the Group and all other matters within the scope of its terms of reference and the maintenance of the independence and objectivity of the external auditors. For the audit of 2006 accounts, the Committee members satisfy with the performance by the Auditor, who presented the implications of those accounting standards enforceable in this and subsequent financial years to the Audit Committee. During the year, Lak & Associates rendered no non-audit services to the Group and the Group also did not incur any non-audit service fees.

The Group's 2006 audited financial statements had been duly reviewed by the Audit Committee with management and the Auditor. The members of the Audit Committee unanimously recommended for approval by the Board. The Committee has concluded that it is satisfied with the professional performance of the Auditor and therefore recommends the Board that Lak & Associates be re-appointed as our auditor in the Company's 2007 AGM.

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2006 consolidated 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 Rule 3.08 of the Listing Rules.

During the year, four Audit Committee meetings were held and the attendance summary is as below:

Name of Director	**Number of attendance**	**Attendance rate**
Ng Chi Shing	4	100%
Yuen Kwok Wah, Bernard	4	100%
Lam Williamson	4	100%

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established in January 2005 with specific terms of reference. The Committee members are all the INEDs with a rotational chairmanship structure. The Remuneration Committee provides objective opinions in helping the Group formulating remuneration policies, especially for those involving Directors or senior management. Moreover, the Remuneration Committee ensures that no conflicting parties are involved in the decision process of committing remuneration packages. In short, the objective of this Committee is to assure that the Group is able to attract, retain, and motivate a high-caliber management team which is essential to the future of the Company.

If a Director's emolument were to be determined, the Remuneration Committee would certainly consider various factors, including market comparability, complexity of duties, and the performance expectation.

The Remuneration Committee convenes meetings when necessary. The Committee met once in September 2006 for reviewing the Group's overall remuneration policies.

Corporate Governance Report

There are both local and mainland employees in the Group. The remuneration package for Hong Kong staff is strictly on a monthly-salary basis and that for the mainland employees is performance oriented. Year-end bonus is 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.

The Group does not operate any pension or retirement schemes for its Directors or employees until the implementation of the MPF Ordinance in late 2000. The Group has a share options scheme, which was 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.

Due to its unfavorable performance over years, the Group offered no benefits of any kind, except the employer's contribution to MPF, to its directors and staff in 2006.

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

Name of Director	Director's fee 2006 HK$'000	Salaries, allowances and other benefits 2006 HK$'000	Employer's contribution to MPF 2006 HK$'000	Total 2006 HK$'000	Total 2005 HK$'000
Executive Directors					
Chan Chun Choi	–	12	12	24	888
Lu Su Hua	100	–	–	100	100
	100	12	12	124	988
Independent Non-executive Directors					
Ng Chi Shing	100	–	–	100	100
Yuen Kwok Wah, Bernard	100	–	–	100	100
Lam Williamson	50	–	–	50	50
	250	–	–	250	250
Total	350	12	12	374	1,238

Corporate Governance Report

No share options have been granted to the Directors since the approval of the Company's share option scheme.

The emoluments of the Directors fell within the following bands:

	2006 Number of Directors	2005 Number of Directors
Nil – HK$1,000,000	**5**	5

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.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established in January 2005 with specific terms of reference and the current members are all the INEDs with a rotational chairmanship structure. The Nomination Committee provides objective opinions in recommending the appointments of Directors and evaluating the Board's composition.

Certain procedures and criteria are adopted by the Nomination Committee in the process of changing Directors. In particular, academic and professional background, commercial or trading practicing experience, financial management skills, ethical value, and social responsibility exposure are taken into consideration for nominating new Directors. Selected candidates are invited to have formal meetings with the Nomination Committee which then provide recommendations to the Board for its final approval of appointment. Should there be resignation of Directors, the Nomination Committee is required to understand and to determine if any matters should be brought to the attention of shareholders.

There was no meeting of this Committee in 2006.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has proactively enhanced its corporate transparency to the investment community and the communication with our shareholders. Other than mandatory interim and final reports, the timely press releases of corporate information keep the public informed of our latest developments. Working on a tight budget, the Company was not able to voluntarily provide regular briefings and meetings with shareholders, investors, or analysts. However, direct shareholders' contacts with the Company had been entertained properly during the year. Furthermore, the Company's annual general meetings create a useful forum between the shareholders and the Board.

Corporate Governance Report

Except its 2006 Annual Report, the Company has announced its annual and interim results in a timely fashion. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors. Details of poll voting procedure and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the 2006 Annual Report. The results of the poll shall be published in the newspapers and on the Stock Exchange's website.

BUSINESS ETHICS

The Company commits to high standard of business ethics and integrity. Code of ethics is enforced in the Group where no employees are allowed to accept gifts or benefits of any type, in their capacity as our staff, from any party. Business partners are also informed of the ethical policy that forbids our employees from accepting their gifts.

Auditor's Report

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
VICTORY GROUP LIMITED
(Incorporated in the Bermuda with limited liability)

We have audited the consolidated financial statements of Victory Group Limited (the "Company") and its subsidiaries ("the Group") set out on pages 27 to 67, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Report

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 from 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 2006 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.

Lak & Associates C.P.A. Limited
Certified Public Accountants
Hong Kong, 5 September 2007

Fung Lak
Practising Certificate Number P01301

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Revenue	6	**8,024**	4,488
Cost of sales		**(7,470)**	(4,121)
Gross profit		**554**	367
Other income	7	**308**	4,727
Selling and distribution costs		**(33)**	(49)
Administrative expenses		**(4,504)**	(3,827)
Other operating expenses		**(52)**	(1,043)
(Loss)/profit from operating activities	8	**(3,727)**	175
Finance costs	9	**(2,341)**	(1,350)
Loss before taxation		**(6,068)**	(1,175)
Taxation	12	**–**	–
Net loss from ordinary activities attributable to shareholders	13	**(6,068)**	(1,175)
Loss per share – Basic	14	**(4.28 cents)**	(0.11 cents)

The annexed notes form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Fixed assets	15	**1,983**	2,032
Land lease prepayment	16	**13,083**	14,096
		15,066	16,128
Current assets			
Land lease prepayment	16	**327**	344
Prepayments, deposits and other receivables	18	**52**	124
Trade receivables	18	**7,874**	50
Pledged bank deposit	26	**3,588**	–
Cash and cash equivalents	26	**270**	598
		12,111	1,116
Current liabilities			
Trade payables	19	**3,387**	–
Other payables and accruals	19	**3,560**	3,748
Amount due to a related party	20	**2,197**	2,197
Amount due to directors	20	**4,901**	–
Bank and other borrowings	22	**15,256**	10,518
		29,301	16,463
Net current liabilities		**(17,190)**	(15,347)
Total assets less current liabilities		**(2,124)**	781
Non-current liabilities			
Deferred taxation	23	**–**	–
Provision for long service payment		**66**	44
		66	44
NET (LIABILITIES)/ASSETS		**(2,190)**	737
CAPITAL AND RESERVES			
Share capital	24	**15,480**	12,900
Reserves	25	**(17,670)**	(12,163)
TOTAL EQUITY		**(2,190)**	737

The annexed notes form an integral part of these financial statements.

Chan Chun Choi
Director

Lu Su Hua
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Operating activities			
Loss before taxation		**(6,068)**	(1,175)
Adjustments for:			
Interest expenses		**2,341**	1,350
Interest income		**(20)**	(1)
Depreciation		**49**	49
Amortisation of land lease prepayment		**344**	238
Reversal of impairment loss on land lease prepayment		**–**	(4,438)
Loss on write-off of assets of a subsidiary		**–**	2
Impairment loss on land lease prepayment		**686**	–
Operating loss before changes in working capital		**(2,668)**	(3,975)
Decrease in prepayments, deposits and other receivables		**72**	1
Increase in trade receivables		**(7,824)**	(50)
Increase in other payables and accruals		**593**	242
Decrease in rental received in advance		**–**	(50)
Increase in provision for long service payment		**22**	3
Increase in trade payables		**3,387**	–
Cash used in operations		**(6,418)**	(3,829)
Interest received		**20**	1
Interest paid		**(3,122)**	(1,350)
Tax refunded		**–**	27
Tax paid		**–**	(54)
Net cash used in operating activities		**(9,520)**	(5,205)
Investing activities			
Increase in pledged bank deposit		**(3,588)**	–
Net cash from investing activities		**(3,588)**	–
Financing activities			
Issue of share capital		**3,612**	7,525
Share issue expenses		**(471)**	(458)
Proceeds from trust receipt loan		**4,083**	–
Repayment of bank loans		**(8,317)**	–
Cash advance from directors		**5,216**	–
Cash repaid to directors		**(315)**	–
Net cash from financing activities		**3,808**	7,067
Net (decrease)/increase in cash and cash equivalents		**(9,300)**	1,862
Cash and cash equivalents at 1 January		**(1,603)**	(3,465)
Cash and cash equivalents at 31 December	26	**(10,903)**	(1,603)

The annexed notes form an integral part of these financial statements.

Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Interests in subsidiaries	17	**–**	–
Current assets			
Prepayments, deposits and other receivables	18	**1**	73
Cash and cash equivalents	26	**30**	17
		31	90
Current liabilities			
Accruals	19	**924**	399
Amounts due to directors	20	**525**	–
		1,449	399
Net current liabilities		**(1,418)**	(309)
Total assets less current liabilities		**(1,418)**	(309)
Non-current liabilities			
Amount due to a subsidiary	21	**–**	(228)
NET LIABILITIES		**(1,418)**	(537)
CAPITAL AND RESERVES			
Share capital	24	**15,480**	12,900
Reserves	25	**(16,898)**	(13,437)
TOTAL EQUITY		**(1,418)**	(537)

The annexed notes form an integral part of these financial statements.

Chan Chun Choi
Director

Lu Su Hua
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Note	Share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (note 25a)	Enterprise expansion fund HK$'000 (note 25a)	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		10,750	44,613	710	445	(165)	(61,508)	(5,155)
Placing of new shares	24	2,150	–	–	–	–	–	2,150
Arising on issue of shares	25	–	5,375	–	–	–	–	5,375
Share issue expenses	25	–	(458)	–	–	–	–	(458)
Net loss for the year		–	–	–	–	–	(1,175)	(1,175)
At 31 December 2005 and 1 January 2006		12,900	49,530	710	445	(165)	(62,683)	737
Placing of new shares	24	2,580	–	–	–	–	–	2,580
Arising on issue of shares	25	–	1,032	–	–	–	–	1,032
Share issue expenses	25	–	(471)	–	–	–	–	(471)
Net loss for the year		–	–	–	–	–	(6,068)	(6,068)
At 31 December 2006		15,480	50,091	710	445	(165)	(68,751)	(2,190)

The annexed notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2006

1. CORPORATE INFORMATION

The Company is a public listed company incorporated in Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited. The address of its registered office is Clarendon House, Church Street, Hamilton HM11, Bermuda.

In the opinion of the Directors, the ultimate holding company is Winsley which is incorporated in Hong Kong.

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

- marketing and distribution of automotive products
- property holding for rental income purposes

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Group.

2. BASIS OF PRESENTATION

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

In order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the Directors adopted the following measures:

(i) 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

(ii) 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 2006.

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.

Notes to the Financial Statements

For the year ended 31 December 2006

2. BASIS OF PRESENTATION (Continued)

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all applicable Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. The financial statements comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). They have been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in note 4.

The preparation of the financial statements in conformity with HKFRSs requires management to make judgements, 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in notes 33 and 34 respectively.

Notes to the Financial Statements

For the year ended 31 December 2006

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group had applied, for the first time, a number of new and revised HKFRSs and HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the following new HKFRSs, which are relevant to the Group, has no material effects on how the results for the current and prior accounting periods were prepared and presented. Accordingly, no prior period adjustments had been made.

HKAS 1, HKAS 27 & HKFRS 3 (Amendment)	Presentation of Financial Statements, Consolidated and Separate Financial Statements & Business Combinations – Amendments as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005
HKAS 19 (Amendment)	Employee Benefit – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKAS 1	First-time Adoption of Hong Kong Financial Reporting Standards
HK(IFRIC) – Int 4	Determining whether as Arrangement contains a Lease

The Group had not applied any new standard of interpretation that was not yet effective for the current accounting period (see note 35).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year. 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.

Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Subsidiaries

Subsidiaries are entities over which the Company has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from date that control ceases.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (note 4(f)), unless the investment is classified as held for sale. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for to the extent of dividends received and receivable.

c) Fixed assets and depreciation

Fixed assets 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. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. 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 or as a replacement.

The gain or loss arising from the retirement or disposal of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement. Improvements are capitalised and depreciated over their expected useful lives.

Depreciation is provided to write off the cost of the assets to their estimated residual value, if any, over their estimated useful lives from the date on which they become fully operational, using the straight-line method, at the following rates per annum:

Leasehold building	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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Land lease prepayments

Land lease prepayments under operating leases are up-front payments to acquire long term interest in lessee-occupied properties. Land lease prepayments are stated at cost less accumulated amortisation and any impairment, and are amortised over the remaining lease terms on the straight-line basis to the income statement.

e) 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 income statement 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 income statement on the straight-line basis over the lease terms.

f) 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 recognised 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 (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

h) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and advances from banks or other parties repayable within three months from the date of the advance and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

i) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowing are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

k) Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

l) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities.Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Income tax (Continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

m) Provisions and contingent liabilities

Provisions are recognised 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.

n) Financial guarantee contracts

Financial guarantee contracts under the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through income statement. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Translation of foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are included in a separate component of equity, the exchange reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

p) Revenue recognition

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

Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvements to the degree usually associated with ownership, nor effective control over the goods sold;

Rental income is recognised on the straight-line basis over the lease term; and

Bank interest income is accrued using the effective interest method.

Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if:

(i) the party has the ability, directly or indirectly, through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;

(ii) the Company and the party are subject to common control;

(iii) the party is an associate of the Company or a joint venture in which the Company is a venturer;

(iv) the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

a) Contributions to MPF as required under the Hong Kong MPF Ordinance are recognised as an expense in the income statement as incurred.

b) Employee entitlements to annual leave and long service payment are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service payment as a result of services rendered by employees up to the balance sheet date.

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

Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Employee benefits (Continued)

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged / credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

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 revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade and other receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Segment reporting (Continued)

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

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings, corporate and financial expenses.

5. FINANCIAL RISK MANAGEMENT

Exposure to currency, credit, interest rate and liquidity risks arises in the normal course of the Company's businesses. These risks are mitigated by the Company's financial management policies and practices described below.

i) Foreign currency risk

Certain financial assets and liabilities of the Group are denominated in foreign currencies. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

ii) Credit risk

The Group's major exposure to the credit risk arises from the default of the trade debtors, with a maximum exposure equal to their carrying amounts in the consolidated balance sheet. In addition, the management reviews the recoverable amount of each individual debt to ensure adequate impairment losses are recognised for irrecoverable amounts. In this regard, the Directors of the Group consider that the Group's credit risk is significantly reduced. The amounts presented in the balance sheet are net of impairment loss on trade receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

iii) Cash flow interest rate risks

The Group is exposed to interest rate risk through the impact of rate changes on bank and other borrowings. The interest rates and terms of repayment of bank and other borrowings of the Group are disclosed in note 22.

iv) Liquidity risk

The Group is exposed to liquidity risk. At 31 December 2006, the current liabilities of the Group exceeded its current assets by approximately HK$17,190,000. The maintenance of the Group as a going concern is mainly dependent on the successful outcome of the Group's funding plans and the ongoing support from the Group's bankers.

Notes to the Financial Statements

For the year ended 31 December 2006

6. REVENUE

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

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Trading of automotive products	**7,874**	4,288
Gross rental income	**150**	200
	8,024	4,488

7. OTHER INCOME

	Group	
	2006	2005
	HK$'000	HK$'000
Bad debt recovered	**288**	288
Interest income	**20**	1
Reversal of impairment loss on land lease prepayment	**–**	4,438
	308	4,727

Notes to the Financial Statements

For the year ended 31 December 2006

8. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2006	2005
	HK$'000	HK$'000
Cost of inventories	**7,470**	4,121
Auditors' remuneration	**186**	186
Amortisation of land lease prepayment	**344**	238
Depreciation	**49**	49
Loss on write-off of assets of a subsidiary	**–**	992
Impairment loss on other receivables	**5**	8
Foreign exchange losses, net	**48**	43
Staff costs (including directors' remuneration – Note 10)		
– salaries, allowances and other benefits	**1,735**	2,290
– contributions to defined contribution plans	**50**	48
Impairment loss on land lease prepayment	**686**	–
Reversal of impairment loss on land lease prepayment	**–**	(4,438)
Bad debt recovered	**(288)**	(288)
Interest income	**(20)**	(1)
Net rental income	**(150)**	(200)

9. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank and other borrowings wholly repayable within 5 years:		
Interest on bank overdrafts	**176**	971
Interest on bank loans	**1,965**	379
Interest on other loan	**200**	–
	2,341	1,350

10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is presented in the "Corporate Governance Report".

Notes to the Financial Statements

For the year ended 31 December 2006

11. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid employees during the year included one (2005: two) Directors, details of whose remuneration are set out in the "Corporate Governance Report". Details of the remuneration of the remaining four (2005: three) highest paid, non-director employees during the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries and allowances	**1,164**	904
Contributions to defined contribution plans	**29**	29
Long service payment	**66**	3
	1,259	936

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.

12. TAXATION

a) No Hong Kong or overseas income taxes have been provided for in the financial year as neither the Company nor any of its subsidiaries derived any profit that is subject to Hong Kong or overseas income taxes (2005: HK$Nil).

Notes to the Financial Statements

For the year ended 31 December 2006

12. TAXATION (Continued)

b) Reconciliation between taxation charge and the Group's accounting loss at applicable tax rates is set out below:

	2006	2005
	HK$'000	HK$'000
Loss before taxation	**(6,068)**	(1,175)
Calculated at a taxation rate of 17.5 per cent (2005: 17.5 per cent)	**(1,062)**	(205)
Tax effect of:		
– income not subject to taxation	**–**	(777)
– expenses not deductible for taxation purposes	**519**	419
– prior year's unrecognised deferred tax asset from impairment of land utilised in this year	**(45)**	(60)
– unrecognised deferred tax assets in respect of tax losses	**588**	623
Taxation charge	**–**	–

Note: The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

13. 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$4,022,000 (2005: HK$6,902,000).

14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$6,068,000 (2005: HK$1,175,000) and the weighted average of 141,866,000 (2005: 1,088,087,000) ordinary shares in issue during the year.

Diluted loss per share for both years had not been calculated as no diluting events existed during those years.

Notes to the Financial Statements

For the year ended 31 December 2006

15. FIXED ASSETS

Group

	Leasehold building HK$'000	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2005	2,661	69	567	1,107	2,545	6,949
Disposal	–	–	–	–	(124)	(124)
At 31 December 2005, 1 January 2006 and 31 December 2006	2,661	69	567	1,107	2,421	6,825
Accumulated depreciation						
At 1 January 2005	581	69	567	1,106	2,545	4,868
Charge for the year	48	–	–	1	–	49
Written back on disposal	–	–	–	–	(124)	(124)
At 31 December 2005 and 1 January 2006	629	69	567	1,107	2,421	4,793
Charge for the year	49	–	–	–	–	49
At 31 December 2006	678	69	567	1,107	2,421	4,842
Net book value						
At 31 December 2006	1,983	–	–	–	–	1,983
At 31 December 2005	2,032	–	–	–	–	2,032

The Group's building is situated in Hong Kong and is held on medium term land lease.

The above leasehold building carried at a net book value of HK$1,983,000 (2005: HK$2,032,000) has been pledged to secure other borrowings (2005: banking facilities) as set out in note 22.

Notes to the Financial Statements

For the year ended 31 December 2006

16. LAND LEASE PREPAYMENT

	Group
	HK$'000
Cost	
At 1 January 2005, 31 December 2005 and 1 January 2006	20,945
Accumulated amortisation and impairment loss	
At 1 January 2005	10,705
Amortisation	238
Reversal of impairment loss	(4,438)
At 31 December 2005 and 1 January 2006	6,505
Amortisation	344
Impairment loss	686
At 31 December 2006	7,535
Net book value	
At 31 December 2006	13,410
At 31December 2005	14,440

At 31 December 2006, the Group's land lease prepayment of HK$13,410,000 (2005: HK$14,440,000) comprise medium term leasehold land situated in Hong Kong.

	2006	2005
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current asset	**327**	344
Non-current asset	**13,083**	14,096
	13,410	14,440

The above land carried at a net book value of HK$13,410,000 (2005: HK$14,440,000) has been pledged to secure other borrowings (2005: banking facilities) as set out in note 22.

Impairment loss made for the year ended 31 December 2006 and reversal of impairment loss for the year ended 31 December 2005 were determined by reference to an external qualified valuer's valuation.

Notes to the Financial Statements

For the year ended 31 December 2006

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**76,309**	76,309
Amounts due from subsidiaries	**81,774**	79,096
	158,083	155,405
Impairment loss	**(158,083)**	(155,405)
	–	–

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment. In the opinion of the Directors, no repayment will be demanded within the next twelve months from the balance sheet date. Accordingly, the amounts were classified as non-current assets. Given such repayment terms, it is not meaningful to disclose their fair values.

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 Direct	Attributable Equity Interest Indirect	Principal activities
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 automotive products
Victory Realty Limited	Hong Kong	Ordinary HK$10,000	–	100%	Dormant

Notes to the Financial Statements

For the year ended 31 December 2006

17. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ registration and operation	Nominal value of issued/ registered share capital	Attributable Equity Interest		Principal activities
			Direct	Indirect	
Hong Kong Waho Development Limited	Hong Kong	Ordinary HK$1,000,000	–	100%	Property holding and trading of automotive products
Waret Investment Limited	Hong Kong	Ordinary HK$2	–	100%	Dormant
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%	Dormant

* *Wholly foreign-owned enterprise*

\# *Not audited by Lak & Associates C.P.A. Limited*

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.

Notes to the Financial Statements

For the year ended 31 December 2006

18. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**7,874**	50	**–**	–
Prepayments, deposits and other receivables	**91**	159	**1**	73
Less: Impairment loss on other receivables	**(39)**	(35)	**–**	–
	52	124	**1**	73
	7,926	174	**1**	73

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 impairment loss on trade receivables) with the following aging analysis at the balance sheet date:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**7,874**	50	**–**	–

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.

The carrying amounts of trade receivables, prepayments, deposits and other receivables approximate their fair values.

Notes to the Financial Statements

For the year ended 31 December 2006

19. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**3,387**	–	**–**	–
Other payables	**2,049**	2,003	**–**	–
Accruals	**1,511**	1,745	**924**	399
	6,947	3,748	**924**	399

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

Included in trade and other payables and accruals are trade payables with the following aging analysis at the balance sheet date:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**3,387**	–	**–**	–

All other payables are overdue for more than one year. Included in the other payables is an amount of approximately HK$1,996,000 (2005: HK$1,949,000) payable to an independent creditor. The amount is unsecured and interest free.

Included in trade payables, other payables and accruals are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group		Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
United States Dollars	**US$133**	US$2	**US$3**	US$2
Renminbi	**RMB3,675**	RMB1,300	**–**	–

The carrying amounts of trade payables, other payables and accruals approximate their fair values.

Notes to the Financial Statements

For the year ended 31 December 2006

20. AMOUNTS DUE TO A RELATED PARTY/DIRECTORS

The amounts due to a related party/directors are unsecured, interest free and repayable on demand. The carrying amounts of the amounts due to a related party/directors approximate their fair values.

21. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest free and has no fixed term of repayment. In the opinion of the Directors, no repayment will be demanded within the next twelve months from the balance sheet date. Accordingly, the amount is shown as a non-current liability. Given such repayment term, it is not meaningful to disclose its fair value.

22. BANK AND OTHER BORROWINGS

		Group	
	Maturity	**2006**	2005
		HK$'000	HK$'000
Bank borrowings:			
Bank overdrafts, secured (including accrued interest)	On demand	**–**	2,201
Bank loans, secured	On demand	**–**	8,317
Trust receipt loans, secured	2007	**4,083**	–
		4,083	10,518
Other borrowing:			
Other loan, secured	2007	**11,173**	–
		15,256	10,518

All of the bank and other borrowings are denominated in Hong Kong Dollars, repayable within one year and classified under current liabilities.

Since the financial year ended 31 December 2002, 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 borrowings at 31 December 2005 were therefore classified as current liabilities, which were repayable within one year, or on demand.

At 31 December 2005, the bank overdraft included accrued bank overdraft interest of approximately HK$2,259,000. Bank overdraft interest was calculated at Hong Kong prime rate plus 10% for the years presented.

Notes to the Financial Statements

For the year ended 31 December 2006

22. BANK AND OTHER BORROWINGS (Continued)

The bank loan bears interest at 6% above Hong Kong Dollar prime lending rate per annum (2005: 0.5% below Hong Kong Dollar prime lending rate per annum).

The trust receipt loans bear interest at HIBOR plus 1.5% per annum.

The other loan bears a lump sum interest of HK$200,000.

The other loan of approximately HK$11,173,000 as at 31 December 2006 and the bank borrowings of approximately HK$10,518,000 as at 31 December 2005 were secured by the followings:

– Charge over the leasehold land and buildings of the Group with an aggregate carrying value of HK$15,393,000 at 31 December 2006 (2005: HK$16,472,000).

– Corporate guarantee executed by the Company.

The trust receipt loans are secured by a pledged bank deposit.

The carrying amounts of bank and other borrowings approximate their fair values.

Notes to the Financial Statements

For the year ended 31 December 2006

23. DEFERRED TAXATION

(a) The Group

The components of deferred tax (assets) / liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Accelerated tax depreciation	Impairment loss of land lease prepayment	Tax losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	370	(370)	–	–
Charged/(credited) to consolidated income statement	53	(53)	–	–
At 31 December 2005	423	(423)	–	–
At 1 January 2006	423	(423)	–	–
Charged/(credited) to consolidated income statement	45	(45)	–	–
At 31 December 2006	468	(468)	–	–

At 31 December 2006, the Group has unused tax losses of HK$120,652,000 (2005: HK$117,273,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

In addition, the Group has deductible temporary differences of HK$5,552,000 (2005: HK$4,869,000). Deferred tax assets have been recognised in respect of HK$2,674,000 (2005: HK$2,419,000) of such differences. No deferred tax assets have been recognised in respect of the remaining HK$2,878,000 (2005: HK$2,450,000) due to the unpredictability of future profit streams from such asset.

(b) The Company

The Company has no material deferred taxation for the year and at the balance sheet date (2005: HK$Nil).

Notes to the Financial Statements

For the year ended 31 December 2006

24. SHARE CAPITAL

Details of the changes in the Company's share capital which occurred between 1 January 2006 and 31 December 2006 are as follows:

Placing

Pursuant to a resolution passed in the meeting of the Board on 21 June 2006, the Company issued by means of placing a total of new ordinary shares of 25,800,000 of HK$0.10 each at a price of HK$0.14 on 3 July 2006 to independent placees through a placing agent. The aggregate nominal value of the issued share was HK$2,580,000, the share premium arising on the issue of shares was HK$1,032,000 and the share issue expenses amounted to HK$471,000. The net proceeds of HK$3,141,000 were mainly used as the general working capital of the Group.

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.

Notes to the Financial Statements

For the year ended 31 December 2006

24. SHARE CAPITAL (Continued)

	Company			
	Number of shares		Share capital	
	2006	2005	**2006**	2005
			HK$'000	HK$'000
Authorised:				
At the beginning of the year				
Ordinary shares of HK$0.1 each				
(2005: HK$0.01 each)	**220,558,640**	2,205,586,400	**22,056**	22,056
Share consolidation into HK$0.1 each	**–**	(1,985,027,760)	**–**	–
At the end of the year				
Ordinary shares of HK$0.1 each	**220,558,640**	220,558,640	**22,056**	22,056
Issued and fully paid:				
At the beginning of the year				
Ordinary shares of HK$0.1 each				
(2005: HK$0.01 each)	**129,001,160**	1,075,011,600	**12,900**	10,750
Placing	**25,800,000**	215,000,000	**2,580**	2,150
Share consolidation into HK$0.1 each	**–**	(1,161,010,440)	**–**	–
At the end of the year				
Ordinary shares of HK$0.1 each	**154,801,160**	129,001,160	**15,480**	12,900

Notes to the Financial Statements

For the year ended 31 December 2006

25. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

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.

(b) The Company

	Share premium account HK$'000	**Contributed surplus#** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2005	44,613	64,809	(120,874)	(11,452)
Arising on issue of shares	5,375	–	–	5,375
Share issue expenses	(458)	–	–	(458)
Loss for the year	–	–	(6,902)	(6,902)
At 31 December 2005	49,530	64,809	(127,776)	(13,437)
At 1 January 2006	49,530	64,809	(127,776)	(13,437)
Arising on issue of shares	1,032	–	–	1,032
Share issue expenses	(471)	–	–	(471)
Loss for the year	–	–	(4,022)	(4,022)
At 31 December 2006	50,091	64,809	(131,798)	(16,898)

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.

Notes to the Financial Statements

For the year ended 31 December 2006

26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**270**	598	**30**	17
Pledged bank deposit	**3,588**	–	**–**	–
Cash and cash equivalents in the balance sheets	**3,858**	598	**30**	17
Bank overdrafts (note 22)	**–**	(2,201)		
Other loan with maturity within one month (note 22)	**(11,173)**	–		
Less: Pledged bank deposit – pledged for trust receipt loan (note 22)	**(3,588)**	–		
Cash and cash equivalents in the consolidated cash flow statement	**(10,903)**	(1,603)		

Cash at banks earn interest at floating rates based on daily bank deposits rates. Pledged bank deposit earns interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate their fair values.

Pledged bank deposit represents deposit pledged to a bank to secure banking facilities granted to the Group. The pledged bank deposit has been pledged to secure bank overdraft and trust receipt loan and are therefore classified as current assets. The pledged bank deposit will be released upon the settlement of relevant bank borrowings.

Included in cash and bank balances are the following amounts denominated in a currency other than the functional currency of the entity to which they related:

		2006	2005
United States Dollars	USD	**884**	885
Japanese Yen	JPY	**1,659,222**	1,660,106
Renminbi	RMB	**226**	226

Notes to the Financial Statements

For the year ended 31 December 2006

26. CASH AND CASH EQUIVALENTS (Continued)

As explained in note 22, the bank loan of approximately HK$8,317,000 at 31 December 2005 was repayable within one year or on demand and was classified as current liabilities. Because the Group repaid partially the bank overdraft with the proceeds of disposal of all of the Group's investment properties before year ended 31 December 2005 and repaid HK$5,000,000 in year ended 31 December 2005, the banker did not demand for immediate repayment of the bank loan up to the date of approval of the financial statements for the year ended 31 December 2005. Under such circumstances, the bank loan was not classified as a bank loan with maturity within three months in the year ended 31 December 2005.

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 2005 would be as follows:

	2005 HK$'000
Cash and bank balances	598
Bank overdrafts, secured	(2,201)
Bank loan, secured, with maturity within 3 months	(8,317)
	(9,920)

27. CONTINGENT LIABILITIES

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

		The Group		The Company	
	Note	**2006** **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Banking facilities guaranteed by the Company which were utilised by the subsidiaries	(a)	**–**	–	**–**	11,675
Other borrowing guaranteed by the Company which were utilised by a subsidiary	(b)	**–**	–	**11,173**	–
		–	–	**11,173**	11,675

Notes to the Financial Statements

For the year ended 31 December 2006

27. CONTINGENT LIABILITIES (Continued)

(i) (Continued)

Notes:

(a) It represented the guarantee in respect of the secured bank borrowings granted by a bank to a subsidiary of the Group as set out in note 22 to the financial statements. Pursuant to the terms of the banking facilities letter, upon default in repayments of the bank borrowings by the subsidiary, the Company is responsible for repaying the outstanding principals of the bank borrowings together with the accrued interest and penalty owed by the subsidiary to the bank and the bank is entitled to take over the legal title and possession of the pledged property of the Group. The guarantee was released during the current year upon full repayment of the bank borrowings by a subsidiary.

(b) It represented the guarantee in respect of the secured other loan granted by a lender to a subsidiary of the Group as set out in note 22 to the financial statements. Pursuant to the terms of the guarantee, upon default in loan repayments by the subsidiary, the Company is responsible for repaying the outstanding loan principals together with the accrued interest and penalty owed by the subsidiary to the lender and the lender is entitled to take over the legal title and possession of the pledged property of the Group. Such guarantee was released in February 2007 upon the full repayment of the other loan.

No financial liabilities were recorded as, in the opinion of the Directors, the fair values of the financial guarantee contracts were not significant during both years presented.

(ii) Included in other payables at 31 December 2006 was an outstanding loan of HK$1,996,000 (2005: HK$1,949,000) due to an independent creditor. The outstanding amount has been brought forward for many years. The amount confirmed by the creditor as stated in the audit confirmation regarding the balance as at 31 December 2004 was HK$3,200,000. That sum included an accumulated interest amount of HK$1,278,000 which was without any contractual or legal basis and was without any written or supporting documents. No accrued interest had been provided in the financial statements since year 1997 in accordance with a verbal agreement reached between the creditor and the Directors of the Victory Motors Centre Limited. In addition, the Group did not enter into any written agreement with the creditor regarding the repayment terms, interest charge or security over the loan. Based on the legal advice, no interest shall be charged or payable on the said loan as an oral agreement is enforceable and binding even though the audit confirmation included the interest amount.

In the previous year, no reply for the audit confirmation regarding the balance of the outstanding loan as at 31 December 2005 has been received from the creditor. Therefore, the amount of contingent liabilities in respect of the accumulated interest as at 31 December 2005, if any, could not be quantified.

The amount confirmed by the creditor as stated in the latest audit confirmation regarding the balance as at 31 December 2006 was RMB1,300,000 and HK$700,000 (Equivalent to approximately HK$1,996,000) without any accumulated interest. Therefore, no contingent liabilities existed at 31 December 2006.

Notes to the Financial Statements

For the year ended 31 December 2006

28. LEASING ARRANGEMENTS

The Group leases out a portion of the land and building, which is used as its operating premises, to third parties under operating leases. The leases run for 1 year.

During the current year, HK$150,000 (2005: HK$200,000) was recognised as rental income in the consolidated income statement in respect of operating leases.

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2006	2005
	HK$'000	HK$'000
Within 1 year	**–**	150

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 comprises the following main business segments:

Trading of automotive products

Property investment – leasing of office premises

Notes to the Financial Statements

For the year ended 31 December 2006

29. SEGMENT REPORTING (Continued)

a) Business segments (Continued)

	Trading of automotive products		Property investment		Inter-segment elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue								
Revenue from external customers	**7,874**	4,288	**150**	200	**–**	–	**8,024**	4,488
Inter-segment revenue	**–**	–	**540**	540	**(540)**	(540)	**–**	–
Other revenue from external customers	**288**	288	**–**	–	**–**	–	**288**	288
Other revenue – reversal of impairment loss on land lease prepayment	**–**	–	**–**	4,438	**–**	–	**–**	4,438
Total	**8,162**	4,576	**690**	5,178	**(540)**	(540)	**8,312**	9,214
Segment result	**(1,954)**	(3,605)	**(406)**	4,879	**–**	–	**(2,360)**	1,274
Inter-segment transactions	**540**	540	**(540)**	(540)	**–**	–	**–**	–
(Loss)/Profit from operations	**(1,414)**	(3,065)	**(946)**	4,339	**–**	–	**(2,360)**	1,274
Unallocated income and expenses							**(1,543)**	(2,070)
Finance costs							**(2,165)**	(379)
Loss before taxation							**(6,068)**	(1,175)
Taxation							**–**	–
Loss attributable to shareholders							**(6,068)**	(1,175)
Segment assets	**8,060**	572	**15,489**	16,570	**–**	–	**23,549**	17,142
Unallocated assets							**3,628**	102
Total assets							**27,177**	17,244
Segment liabilities	**3,989**	4,413	**16**	789	**–**	–	**4,005**	5,202
Unallocated liabilities							**25,362**	11,305
Total liabilities							**29,367**	16,507
Other information								
Bad debts recovered	**288**	288	**–**	–	**–**	–	**288**	288
Impairment loss on other receivables	**(5)**	(8)	**–**	–	**–**	–	**(7,879)**	(8)
Depreciation and amortisation of land lease prepayment	**–**	(1)	**(393)**	(286)	**–**	–	**(393)**	(287)
Impairment loss on land lease prepayment	**–**	–	**(686)**	–	**–**	–	**(686)**	–

Notes to the Financial Statements

For the year ended 31 December 2006

29. SEGMENT REPORTING (Continued)

a) Business segments (Continued)

Segment assets consist primarily of fixed assets, land lease prepayments, receivables, net of allowance and provisions and operating cash, while most such assets can be directly attributed to individual segments. Segment liabilities comprise bank borrowings and operating liabilities.

Inter-segment revenue eliminated on consolidation represents inter-company rental charges on a property owned by the Group. Inter-segment transactions are charged in accordance with the relevant tenancy agreements.

b) Secondary reporting segment – Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's trading of automotive products are carried out in 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 assets.

	Hong Kong		**The PRC**		**Consolidated**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	**150**	3,528	**7,874**	960	**8,024**	4,488
Segment assets	**19,303**	17,244	**–**	–	**19,303**	17,244
Capital expenditure	**–**	–	**–**	–	**–**	–

30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

a) Name and relationship with related parties

		2006	2005
		HK$'000	HK$'000
A Director			
Mr. Chan Chun Choi	Settlement of liabilities by the Group on behalf	**11**	–
	Settlement of liabilities on behalf of the Group	**110**	–

Notes to the Financial Statements

For the year ended 31 December 2006

30. RELATED PARTY TRANSACTIONS (Continued)

b) Balances with related parties

	2006 HK$'000	2005 HK$'000
Non-trade balances due to directors	**4,901**	–
Non-trade balance due to a related party	**2,197**	2,197

c) Key management personnel compensation of the Group

Key management personnel of the Group in 2006 and 2005 included all Directors of the Company and details of their emoluments are also disclosed in the Corporate Governance Report.

	2006 HK$'000	2005 HK$'000
Salaries and other short-term employee benefits	**362**	1,226
Post-employment benefits	**12**	12
	374	1,238

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 2006, the gross aggregate amount of employer's contribution made by the Group to the MPF scheme was approximately HK$50,000 (2005: HK$48,000). As at 31 December 2006 and 2005, there was no forfeited contribution available to reduce future contribution.

32. COMMITMENTS

The Group had no commitments outstanding at 31 December 2006.

Notes to the Financial Statements

For the year ended 31 December 2006

33. SIGNIFICANT ACCOUNTING JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

The Group's property comprises a portion that is held to earn rentals and another portion that is held for use in the supply of services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

The Directors consider that only an insignificant portion of the Group's property was leased out which could rarely be sold separately. Accordingly, the property is classified as leasehold building.

34. SIGNIFICANT ACCOUNTING ESTIMATES

The key source of estimation uncertainty at the balance sheet date that have a risk of causing a material adjustment to the carrying amounts of the assets are discussed below.

a) Depreciation of fixed assets

Fixed assets are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful lives of the fixed assets and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period.

b) Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current credit-worthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

Notes to the Financial Statements

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35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the Hong Kong Institute of Certified Public Accountants has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2006 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
HKAS 1, Amendment, Presentation of financial statements: – capital disclosures	1 January 2007
HKAS 23 (Revised), Borrowing costs	1 January 2009
HKFRS 7, Financial instruments: disclosures	1 January 2007
HKFRS 8, Operating segments	1 January 2009
HK(IFRIC) – Int 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC) – Int 8, Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 9, Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) – Int 10, Interim financial reporting and impairment	1 November 2006
HK(IFRIC) – Int 11, HKFRS 2 – Group and Treasury Share	1 March 2007
HK(IFRIC) – Int 12, Service concession arrangements	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 5 September 2007.

Summary Financial Information

For the year ended 31 December 2006

RESULTS

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)		
Revenue	**8,024**	4,488	2,240	5,216	33,433
(Loss)/profit before taxation	**(6,068)**	(1,175)	111	(5,045)	(6,256)
Taxation	**–**	–	–	(27)	3,741
Net (loss)/profit attributable to shareholders	**(6,068)**	(1,175)	111	(5,072)	(2,515)

ASSETS AND LIABILITIES

	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	
Fixed assets	**1,983**	2,032	2,081	2,130	8,101
Land lease prepayment – non-current portion	**13,083**	14,096	10,002	5,189	–
Investment properties	**–**	–	–	–	11,500
Current assets	**12,111**	1,116	3,140	2,122	4,557
Current liabilities	**(29,301)**	(16,463)	(20,337)	(26,516)	(37,586)
Net current liabilities	**(17,190)**	(15,347)	(17,197)	(24,394)	(33,029)
Total assets less current liabilities	**(2,124)**	781	(5,114)	(17,075)	(13,428)
Non-current liabilities	**(66)**	(44)	(41)	(57)	–
Net liabilities	**(2,190)**	737	(5,155)	(17,132)	(13,428)