



VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1139)

(the "Company")

ANNUAL REPORT 2007

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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

(resigned on 25 August 2008)

Yuen Kwok Wah, Bernard

(resigned on 25 August 2008)

Lam Williamson

(resigned on 10 September 2008)

Wong Ka Hing

(appointed on 2 February 2009)

Leung Wai Tat, Henry

(appointed on 2 February 2009)

Leung Wai Kei *(appointed on 3 April 2009)*

AUDIT COMMITTEE

Leung Wai Kei *(Chairman)*

Wong Ka Hing

Leung Wai Tat, Henry

REMUNERATION COMMITTEE

Wong Ka Hing *(Chairman)*

Leung Wai Tat, Henry

Leung Wai Kei

NOMINATION COMMITTEE

Leung Wai Tat, Henry *(Chairman)*

Wong Ka Hing

Leung Wai Kei

COMPANY SECRETARY

Ben Leung *CPA ACIS*

(resigned on 19 November 2008)

Joshua Lee *FCCA CPA*

(appointed on 1 April 2009)

PRINCIPAL BANKER

Standard Chartered Bank (HK) Limited

Shop No. 1, 2, 3

G/F, Katherine House

No. 53-55 Chatham Road South

Kowloon

Hong Kong

AUDITOR

Lak & Associates C.P.A. Limited

3rd Floor, Chinachem Tower

34-37 Connaught Road Central

Hong Kong

PRINCIPAL SHARE

REGISTRAR AND

TRANSFER OFFICE

The Bank of Bermuda Limited

6 Front Street

Hamilton HM 11

Bermuda

HONG KONG BRANCH

SHARE REGISTRAR AND

TRANSFER OFFICE

Tricor Tengis Limited

Level 28

Three Pacific Place

1 Queen's Road East

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

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

PROFILES OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Chan Chun Choi, aged 64, 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.

Ms. Lu Su Hua, aged 39, 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. Ms. Lu is the spouse of Mr. Chan Chun Choi. Save as disclosed above, Ms. Lu did not act as a director in any other listed public company in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Ka Hing, aged 49, a practicing solicitor with a LLB and graduated from University of London in 1987. With over 10 years legal experience, acted as Barrister at Law in 1992. Mr. Wong has been a Legal adviser to the Chinese Fraternal Charity Foundation since 2006 and was University’s visiting Professor to Armstrong University in 2006. He is also a full member of the Society of Registered Financial Planners in 2008.

Mr. Leung Wai Tat, Henry, aged 60, a practicing engineer and has been a director of Honesty Consultants Limited. He had held positions such as Managing Director of an international engineering consulting company for 15 years, and had worked with contractors, consultants and government for over 35 years. He was a Hong Kong University graduate in 1973.

Ms. Leung Wai Kei, aged 43, a member of Hong Kong Institute of Certified Public Accountants, and graduated from The Curtin University of Technology with a Master of Accounting. She has worked in different industries and has over 24 years of experience in the accounting field.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I hereby present the annual report for the year ended 31 December 2007 of Victory Group Limited and its subsidiaries (collectively referred to as the "Group") on behalf of the Board of Directors.

FINANCIAL REVIEW HIGHLIGHT

For the year ended 31 December 2007, the Group recorded turnover of HK\$6.58 million. Net loss attributable to equity shareholders of the Company for the year was HK\$0.43 million.

The Board did not recommend to pay any dividend for the year ended 31 December 2007 (2006: Nil).

BUSINESS REVIEW

The Group had another unsatisfactory financial year due to the lack of operating funds. The distribution business of light-emitting diode ("LED") auto products helps the Group maintain its operating results as a whole. Nonetheless, the improvements in both turnover and gross profit were largely limited to the working fund in hand. Though the Group has not exactly considered the marketing and distribution of LED auto products a relatively long-term core business, the present funding strategy keeps the Group going towards its goal bit by bit. In view of the 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 broadening the Group's revenue stream and turning the bottom-line around.

At the request of the Company, trading of the Company's shares has been suspended since 27 September 2006. On 18 December 2008, the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") decided to place the Company in the third stage of the delisting procedures in accordance with Practice Note 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the year under review, the Board comprised Mr. Chan Chun Choi and Ms. Lu Su Hua as executive directors; Mr. Ng Chi Shing, Mr. Yuen Kwok Wah, Bernard and Mr. Lam Williamson as independent non-executive directors.

As of the date of this report, the Board has been restructured and the management has put in all their effort to formulate a viable resumption proposal. Upon successfully reorganized, the Group will have adequate resources to continue with sustainable business operations. The Board has confidence to bring the Company back profitable track once the trading of the Company's shares is resumed.

CHAIRMAN'S STATEMENT

APPRECIATION

I would like to express sincere thanks to all our management and staff for their contribution and commitment. On behalf of the Board of Directors, I would also like to take this opportunity to thank our shareholders, professional advisors for their encouragement and support.

By Order of the Board
Chan Chun Choi
Chairman and Managing Director

Hong Kong, 25 May 2009

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31 December 2007, the Group recorded turnover of HK\$6.58 million. Net loss attributable to equity shareholders of the Company for the year was HK\$0.43 million.

BUSINESS REVIEW

Comparing to last financial year, the decreased audited net loss for 2007 was primarily due to a waiver of loan debt due to an independent creditor of approximately HK\$1.7 million and reversal of impairment loss on land lease prepayment of approximately HK\$1.9 million.

During the year under review, 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 LED auto products in order to make a new stream of distribution to the earnings of the Group.

During the year under review, the Group achieved a turnover and the profit margin of approximately HK\$6.58 million and HK\$0.36 million respectively out of the distribution of LED auto products.

LIQUIDITY AND FINANCIAL RESOURCES

The current ratio of the Group in 2007 was 0.62 (2006: 0.41). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital was 3.21 (2006: 1.89). Details of the Group's exposure to credit risk, liquidity risk, fluctuation in exchange rates and any related hedges are stated in note 6 to this financial statement. At as 31 December 2007, the Group had no trade receivables and trade payables (2006: HK\$7,874,000 and HK\$3,387,000, respectively).

As at 31 December 2007, the Group's net current liabilities amounted to HK\$19,101,000 (2006: HK\$17,190,000) and net liabilities amounted to HK\$2,620,000 (2006: HK\$2,190,000). At the same day, the Group's cash and bank balances amounted to HK\$30,096,000 (2006: HK\$3,858,000). The total bank and other borrowings at 31 December 2007 were HK\$41,776,000 (2006: HK\$15,256,000).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group borrowed a loan of HK\$30 million pursuant to a loan agreement dated 28 December 2007 from a potential investor. The loan facilities are primarily for the purpose of providing funds for costs and expenses of restructuring in relation to an agreement for the implementation of a restructuring proposal dated 9 November 2007 and as working capital to revitalize the business of the Group. The loan is secured by a share mortgage in respect of entire issued share capital in a wholly-owned subsidiary of the Company, Oriental Surplus Limited (“OSL”), interest free and repayable on demand. OSL was incorporated in the British Virgin Islands on 2 October 2007. In the opinion of the Directors, OSL was established for borrowing a loan facility of HK\$30,000,000 from the said investor. As at the date of this report, the 2007 restructuring proposal entered into between the said investor and the Company had been lapsed.

DELAYED PUBLICATION OF THE 2007 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 2007 annual report and the related results announcement on or before 30 April 2008. The publication of the Group’s 2007 annual results announcement and the despatch of the 2007 annual report were delayed solely because the annual audit for the year ended 31 December 2007 was hindered as the Company failed to settle the professional fees due to its auditor, 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 2007.

SUSPENSION OF TRADING

At the request of the Company, trading of the Company’s shares has been suspended since 27 September 2006. On 18 December 2008, the Listing Committee of the Stock Exchange decided to place the Company in the third stage of the delisting procedures in accordance with Practice Note 17 of the Listing Rules.

FUTURE OUTLOOK

As of the date of this report, the Board has been restructured and the management has put in all their effort to formulate a viable resumption proposal. The Board will use its best endeavors to look for new business and investment opportunities with an aim to broadening the Group’s revenue stream and turning the bottom-line around. Upon successfully reorganized, the Group will have adequate resources to continue with sustainable business operations. The Board is confident to bring the Company back profitable track once the trading of the Company’s shares is resumed.

REPORT OF THE DIRECTORS

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consist of the marketing and distribution of automotive products. 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 three 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 55 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 56 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 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 25 to 73.

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 74. This summary is not part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND LAND LEASE PREPAYMENT

Details of movements in property, plant and equipment and land lease prepayment of the Group are set out in notes 16 and 17 to the financial statements respectively.

REPORT OF THE DIRECTORS

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 18 to the financial statements.

BORROWINGS

Details of the Group's borrowings are set out in note 24 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 25 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 26 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2007, 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 2007.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Company and the Group as at 31 December 2007 are set out in note 33 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. 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 2007, the Directors are not aware of any significant change from the position as at 31 December 2006 and the information published in the report and accounts for the year ended 31 December 2006. 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 32 to financial statements, there were no related party transactions in the year under review.

SIGNIFICANT SUBSEQUENT EVENT

Details of the significant subsequent event are set out in note 34 to the financial statements.

EMPLOYEES

As at 31 December 2007, the Group had a total of 4 employees (2006: 6 employees), of whom all 4 (2006: 5) were based in Hong Kong and no local staff was employed in the PRC (2006: 1). The remuneration package for Hong Kong staff was strictly on a monthly-salary basis. 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\$1,674,000 (2006: HK\$1,785,000). 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.

REPORT OF THE DIRECTORS

PLEDGE OF ASSETS

The Group's leasehold building and land with an aggregate carrying amount of HK\$16,913,000 (2006: HK\$15,393,000) and a pledged bank deposit of HK\$Nil (2006: HK\$3,588,000) were pledged to secure bank and other borrowings of the Group. The Group borrowed a loan of HK\$30 million from a potential investor pursuant to a loan agreement dated 28 December 2007. The loan is secured by a share mortgage in respect of entire issued share capital in OSL, interest free and repayable on demand.

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\$14,978,000 and HK\$2,882,000 respectively giving rise to a reversal of impairment loss on land lease prepayment of HK\$1,895,000 (2006: Impairment loss on land lease prepayment of HK\$686,000).

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year, save and except for OSL, there were no material acquisitions and disposals of the Company's subsidiaries. Details of OSL are set out in notes 2 and 24 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Chan Chun Choi	<i>(Chairman and Managing Director)</i>
Lu Su Hua	<i>(Deputy Chairman)</i>

Independent non-executive Directors:

Ng Chi Shing	<i>(resigned on 25 August 2008)</i>
Yuen Kwok Wah, Bernard	<i>(resigned on 25 August 2008)</i>
Lam Williamson	<i>(resigned on 10 September 2008)</i>
Wong Ka Hing	<i>(appointed on 2 February 2009)</i>
Leung Wai Tat, Henry	<i>(appointed on 2 February 2009)</i>
Leung Wai Kei	<i>(appointed on 3 April 2009)</i>

In accordance with clause 86(2) of the Company's bye-laws, Mr. Wong Ka Hing, Mr. Leung Wai Tat, Henry and Ms. Leung Wai Kei shall retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting on 27 July 2009.

REPORT OF THE DIRECTORS

DIRECTORS BIOGRAPHIES

Biographical details of the Directors are set out on page 3 to this 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 11 and 12 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

All Directors (except for the independent non-executive 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.

DIRECTORS' INTERESTS IN CONTRACTS

Except for the related party transactions as disclosed in the note 32 to the financial statements, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

MANAGEMENT CONTRACTS

Except for those as disclosed in note 32 to the financial statements, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed 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 of the Group ("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.

REPORT OF THE DIRECTORS

Subsequent to the adoption of the Scheme on 22 January 1998, the Stock Exchange introduced a number of changes to the Rules Governing the Listing of Securities on the Stock Exchange (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.

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 25 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 share option scheme as described in note 25 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 of the Company 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.

REPORT OF THE DIRECTORS

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

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:

(i) The Company

Name of Directors	Number of shares held (other interest)
Chan Chun Choi	43,337,758

(i) 6,837,758 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) 36,500,000 shares are held by Winsley Investment Limited ("Winsley").

(ii) Associated Corporation

Name of associated corporation	Name of Directors	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.

REPORT OF THE DIRECTORS

ULTIMATE HOLDING COMPANY AND SUBSTANTIAL SHAREHOLDERS

The Directors consider the ultimate holding company of the Company at the balance 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, other than Winsley, EVEI and the person set out below, no persons 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.

Long Position

Name	Number of issued Shares held	Percentage of the issued share capital of the Company
Li Lixin Thomas	9,000,000	5.81 per cent

AUDITOR

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

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 and Managing Director

Hong Kong, 25 May 2009

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 exercising 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 2007 Annual Report.

THE BOARD OF DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

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

Independent non-executive Directors:

Ng Chi Shing	(resigned on 25 August 2008)
Yuen Kwok Wah, Bernard	(resigned on 25 August 2008)
Lam Williamson	(resigned on 10 September 2008)
Wong Ka Hing	(appointed on 2 February 2009)
Leung Wai Tat, Henry	(appointed on 2 February 2009)
Leung Wai Kei	(appointed on 3 April 2009)

Lu Su Hua is the spouse of Mr. Chan Chun Choi.

The Board consists of a good mix of expertise, knowledge, experience and skills, the essential abilities to guide the 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"), Ms. Leung Wai Kei (appointed on 3 April 2009) 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.

The Company has 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 video conference 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, three board meetings were held and the attendance summary is as below:

Name of Director	Number of attendance	Attendance rate
Chan Chun Choi	3	100%
Lu Su Hua	3	100%
Ng Chi Shing	1	33%
Yuen Kwok Wah, Bernard	1	33%
Lam Williamson	1	33%

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. In accordance with clause 86(2) of the Bye-laws, Mr. Wong Ka Hing, Mr. Leung Wai Tat, Henry and Ms. Leung Wei Kei would retire from their offices and offer themselves for re-election at the Company's upcoming annual general meeting.

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. The Chairman solely oversees the functions of the Board and the management team takes responsibility for the Group's day-to-day business operations.

INTERNAL CONTROL

The Board ensures the maintenance of sound and effective internal controls to safeguard the Shareholders' investment and the assets of the Company. The Board also considered that there was room for improvement upon the finalization of the 2007 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.

CORPORATE GOVERNANCE REPORT

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 will 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 satisfied that all Directors 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 C.P.A. Limited, the auditor of the Company (the "Auditor") for audit services were approximately HK\$240,000 and no non-audit service has been provided for the Company.

AUDIT COMMITTEE

The Audit Committee comprises 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.

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 2007 accounts, the existing 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, the Auditor rendered no non-audit services to the Group and the Group also did not incur any non-audit service fees.

The Group's 2007 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 the Auditor be re-appointed as our auditor in the Company's upcoming annual general meeting.

CORPORATE GOVERNANCE REPORT

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2007 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 remuneration package for Hong Kong staff is strictly on a monthly-salary basis. 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 2007.

CORPORATE GOVERNANCE REPORT

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

Name of Directors	Director's Fee 2007 <i>HK\$'000</i>	Salaries, allowances and other benefits 2007 <i>HK\$'000</i>	Employer's contribution to MPF 2007 <i>HK\$'000</i>	Total 2007 <i>HK\$'000</i>	Total 2006 <i>HK\$'000</i>
Executive Directors					
Chan Chun Choi	0	12	12	24	24
Lu Su Hua	100	0	0	100	100
	<u>100</u>	<u>12</u>	<u>12</u>	<u>124</u>	<u>124</u>
Independent Non-executive Directors					
Ng Chi Shing	100	0	0	100	100
Yuen Kwok Wah	100	0	0	100	100
Lam Williamson	50	0	0	50	50
	<u>250</u>	<u>0</u>	<u>0</u>	<u>250</u>	<u>250</u>
Total	<u>350</u>	<u>12</u>	<u>12</u>	<u>374</u>	<u>374</u>

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:

	2007 Number of Directors	2006 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.

CORPORATE GOVERNANCE REPORT

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.

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.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Victory Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 73, which comprise the consolidated and company balance sheets as at 31 December 2007, 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. Except for the limitation in the scope of our work as explained below, 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. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

- (a) **Scope limitation – Material uncertainty relating to the newly established subsidiary, Oriental Surplus Limited**
- (i) Oriental Surplus Limited ("OSL") is a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 2 October 2007. In the opinion of the Directors of the Company, OSL was established for borrowing a loan facility of HK\$30,000,000 from a potential investor, which was secured by the entire share capital of OSL, as set out in note 24 to the financial statements. The loan facility is primarily for the purpose of providing funds for costs and expenses of restructuring in relation to the Agreement for the Implementation

INDEPENDENT AUDITOR'S REPORT

of a Restructuring Proposal dated 9 November 2007 and as working capital to revitalize the business of the Group. The Directors of the Company represented that OSL has been inactive during the period from its incorporation to the balance sheet date.

- (ii) As further explained by the Directors of the Company in note 2 to the financial statements, the financial statements of OSL have been prepared based on the available books and records maintained by the Company and OSL. However, due to the fact that the Directors of the Company have lost contact with the sole director of OSL since early 2008, the Directors of the Company were unable to represent that all transactions entered into by OSL for the period from 2 October 2007 to 31 December 2007 and subsequent to the balance sheet date have been properly reflected in the books and records and in the financial statements of OSL. In this context, the Directors of the Company were unable to represent as to the completeness and correctness of the financial information of OSL and all the related disclosures required by the Hong Kong Companies Ordinance, Hong Kong Financial Reporting Standards and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including but not limited to the disclosures of commitments, contingent liabilities and events after the balance sheet date included in the financial statements of the Group.

In addition, for the same reasons stated above, we have not been able to obtain all necessary information for us to conduct a review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in and/or disclosed as notes to the financial statements of the Group as at 31 December 2007.

There were no alternative audit procedures that we could adopt to satisfy ourselves as to the matters set out above. Any adjustments to the liabilities, commitments and contingent liabilities of OSL may have consequential significant effects on the Group's net liabilities as at 31 December 2007, the Group's loss for the year then ended, and on classification of such items and their related disclosures in the financial statements.

(b) Material uncertainty relating to going concern basis

The Group incurred a loss of approximately HK\$430,000 for the year ended 31 December 2007 and, as at 31 December 2007, the Group had net current liabilities of approximately HK\$19,101,000. 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 on which the financial statements have been prepared. As detailed in note 2 to the financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity position. The financial statements have been prepared on a 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.

INDEPENDENT AUDITOR'S REPORT

We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we consider that this material uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Lak & Associates C.P.A. Limited

Certified Public Accountants

3rd Floor, Chinachem Tower

34-37 Connaught Road Central

Hong Kong

25 May 2009

Yip Ka Ki

Practising Certificate Number P05061

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Revenue	7	6,585	8,024
Cost of inventories sold		(6,223)	(7,470)
Gross profit		362	554
Other income	8	3,844	308
Selling and distribution expenses		(8)	(33)
Administrative expenses		(3,411)	(4,504)
Other operating expenses		(5)	(52)
Profit/(loss) from operation		782	(3,727)
Finance costs	9	(1,212)	(2,341)
Loss before taxation	10	(430)	(6,068)
Taxation	13	–	–
Net loss attributable to equity shareholders of the Company	14	(430)	(6,068)
Loss per share – Basic	15	(0.28 cents)	(4.28 cents)

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	16	1,943	1,983
Land lease prepayment	17	14,604	13,083
		16,547	15,066
Current assets			
Land lease prepayment	17	374	327
Trade receivable	19	–	7,874
Prepayments, deposits and other receivables	19	63	52
Cash and cash equivalents	20	30,096	3,858
		30,533	12,111
Current liabilities			
Trade payable	21	–	3,387
Other payables and accruals	21	1,066	3,560
Amount due to a related party	22	2,197	2,197
Amounts due to directors	22	4,595	4,901
Bank and other borrowings	24	41,776	15,256
		49,634	29,301
Net current liabilities		(19,101)	(17,190)
Total assets less current liabilities		(2,554)	(2,124)
Non-current liabilities			
Provision for long service payment		66	66
NET LIABILITIES		(2,620)	(2,190)
CAPITAL AND RESERVES			
Share capital	25	15,480	15,480
Reserves	26	(18,100)	(17,670)
TOTAL EQUITY		(2,620)	(2,190)

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 2007

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Operating activities			
Loss before taxation		(430)	(6,068)
Adjustments for:			
Interest expenses		1,212	2,341
Interest income		(95)	(20)
Depreciation		51	49
Amortisation of land lease prepayment		327	344
Impairment loss on land lease prepayment		–	686
Reversal of impairment loss on land lease prepayment		(1,895)	–
Operating loss before changes in working capital		(830)	(2,668)
Decrease/(increase) in trade receivable		7,874	(7,824)
(Increase)/decrease in prepayments, deposits and other receivables		(11)	72
(Decrease)/increase in trade payable		(3,387)	3,387
(Decrease)/increase in other payables and accruals		(2,539)	593
Increase in provision for long service payment		–	22
Cash generated from/(used in) operation		1,107	(6,418)
Interest received		95	20
Interest paid		(1,167)	(3,122)
Net cash from/(used in) operating activities		35	(9,520)
Investing activities			
Decrease/(increase) in pledged bank deposit		3,588	(3,588)
Purchase of office equipment		(11)	–
Net cash from/(used in) investing activities		3,577	(3,588)
Financing activities			
Issue of share capital		–	3,612
Share issue expenses		–	(471)
Proceeds from new trust receipt loans		746	4,083
Repayment of trust receipt loans		(4,083)	–
Repayment of bank loans		–	(8,317)
Proceeds from other borrowing		30,000	–
Cash advance from directors		4,412	5,216
Cash repaid to directors		(4,718)	(315)
Net cash from financing activities		26,357	3,808
Net increase/(decrease) in cash and cash equivalents		29,969	(9,300)
Cash and cash equivalents at 1 January		(10,903)	(1,603)
Cash and cash equivalents at 31 December	<i>20</i>	19,066	(10,903)

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

BALANCE SHEET

As at 31 December 2007

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	18	1	–
Current assets			
Prepayments, deposits and other receivables	19	11	1
Cash and cash equivalents	20	60	30
		71	31
Current liabilities			
Accruals	21	628	924
Amounts due to directors	22	1,814	525
		2,442	1,449
Net current liabilities		(2,371)	(1,418)
Total assets less current liabilities		(2,370)	(1,418)
Non-current liabilities			
Amounts due to subsidiaries	23	138	–
NET LIABILITIES		(2,508)	(1,418)
CAPITAL AND RESERVES			
Share capital	25	15,480	15,480
Reserves	26	(17,988)	(16,898)
TOTAL EQUITY		(2,508)	(1,418)

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 2007

	Share capital	Share premium account	Contributed surplus	Enterprise expansion fund	Exchange fluctuation reserve	Accumulated losses	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	12,900	49,530	710	445	(165)	(62,683)	737
Placing of new shares	25	2,580	-	-	-	-	2,580
Issue of new shares pursuant to share placing	26	-	1,032	-	-	-	1,032
Share issue expenses	26	-	(471)	-	-	-	(471)
Net loss for the year		-	-	-	-	(6,068)	(6,068)
At 31 December 2006 and 1 January 2007	15,480	50,091	710	445	(165)	(68,751)	(2,190)
Net loss for the year		-	-	-	-	(430)	(430)
At 31 December 2007	15,480	50,091	710	445	(165)	(69,181)	(2,620)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. GENERAL

The Company is a public listed company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of Company's shares has been suspended since 27 September 2006.

The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

In the opinion of the Directors, the parent and ultimate controlling party is Winsley Investment Limited ("Winsley") which is incorporated in Hong Kong.

During the year, the Group was principally engaged in the marketing and distribution of automotive products.

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Going concern

The Group sustained a loss attributable to equity shareholders of the Company of approximately HK\$430,000 (2006: HK\$6,068,000) for the year ended 31 December 2007. At 31 December 2007, the Group had net current liabilities and net liabilities of approximately HK\$19,101,000 (2006: HK\$17,190,000) and HK\$2,620,000 (2006: HK\$2,190,000) respectively.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the Directors of the Company have adopted the following measures:

- (i) The Directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercise, including but not limited to, a private placement, an open offer or a right issue of new shares of the Company.
- (ii) The Directors of the Company continue to take action to tighten cost controls over various operating expenses, and are actively seeking new investment and business opportunities with an aim to attaining profitable and positive cash flow operations.

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 2007.

NOTES TO THE FINANCIAL STATEMENTS

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.

Newly established subsidiary, Oriental Surplus Limited

Oriental Surplus Limited (“OSL”) is a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 2 October 2007. In the opinion of the Directors of the Company, OSL was established for borrowing a loan facility of HK\$30,000,000 from a potential investor, which was secured by the entire share capital of OSL, as set out in note 24 to the financial statements. The loan facility is primarily for the purpose of providing funds for costs and expenses of restructuring in relation to the Agreement for the Implementation of a Restructuring Proposal dated 9 November 2007 and as working capital to revitalize the business of the Group. The Directors of the Company represented that OSL has been inactive during the period from its incorporation to the balance sheet date. The unaudited financial information of OSL for the period from 2 October 2007 (date of incorporation) to 31 December 2007 was included in the financial statements of the Group based on the available books and records maintained by the Directors of the Company and OSL.

However, due to the fact that the Directors of the Company have lost contact with the sole director of OSL since early 2008, the Directors of the Company were unable to represent that all transactions entered into by OSL for the period from 2 October 2007 to 31 December 2007 and subsequent to the balance sheet date have been properly reflected in the books and records and in the financial statements of OSL. In this context, the Directors of the Company were unable to represent as to the completeness and correctness of the financial information of OSL included in the financial statements of the Group.

In addition, as explained in preceding paragraphs, the Directors of the Company were uncertain as to the accuracy and completeness of all related disclosures required by the Hong Kong Companies Ordinance, Hong Kong Financial Reporting Standards and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including but not limited to the disclosures of commitments, contingent liabilities and events after the balance sheet date included in the financial statements of the Group.

Basis of preparation of the financial statements

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all applicable individual Hong Kong Financial Reporting Standards, 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 Listing Rules. They have been prepared under the historical cost convention.

NOTES TO THE FINANCIAL STATEMENTS

The preparation of 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 in the next year are discussed in note 5.

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

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7 “Financial instruments: Disclosures” and the amendment to HKAS 1 “Presentation of financial statements: Capital disclosures”, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group’s financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32 “Financial instruments: Disclosure and presentation”. These disclosures are provided throughout these financial statements, in particular in note 6.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group’s and Company’s objectives, policies and processes for managing capital. These new disclosures are set out in note 27.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new and revised HKFRSs, that have been issued but are not yet effective in these financial statements (see note 35).

NOTES TO THE FINANCIAL STATEMENTS

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 (collectively referred to as the “Group”) 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.

(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 interests in subsidiaries 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) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment 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 item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset or as a replacement.

NOTES TO THE FINANCIAL STATEMENTS

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	20%–30%
Office equipment	20%–30%
Motor vehicles	30%

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

The Group assesses at each reporting date whether there is any indication that any items of property, plant and equipment may be impaired and that an impairment loss recognised in prior periods for an item may have decreased. If any such indication exists, the Group estimates the recoverable amount of the item. An impairment loss, being the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, or a reversal of impairment loss is recognised immediately in the income statement.

(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 (note 4(f)), 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 leased 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 property, plant and equipment and depreciated over the shorter of the lease terms and the estimated 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.

NOTES TO THE FINANCIAL STATEMENTS

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 non-financial 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.

(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.

Impairment loss is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due. When the Group considers that the debt is doubtful, the impairment loss for bad and doubtful debt is recorded using an allowance account. When the Group is satisfied that the recovery of debt is remote, the amount considered irrecoverable is written off against other receivable directly and any amount held in the allowance account relating to that debt is reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

Trade and other receivables are derecognised when the rights to receive cash flows from the trade and other receivables expire or, the trade and other receivables are transferred and the Group has transferred substantially all the risks and rewards of ownership of the trade and other receivables. On derecognition of a receivable, the difference between the receivable's carrying amount and the sum of the consideration received and receivable.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(i) Financial liabilities

Financial liabilities including trade and other payables, amounts due to related parties/directors and bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires. The difference between the respective carrying amounts of the financial liability derecognised and the consideration paid and payable is recognised in the income statement.

(j) 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 to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 utilized, 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.

(k) 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:

Revenue from 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 involvement 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.

Bank interest income is accrued using the effective interest method.

(l) 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.

(m) 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 recognised in the income statement. 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.

NOTES TO THE FINANCIAL STATEMENTS

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollars. 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.

(n) Employee benefits

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

- (a) Contributions to Mandatory Provident Fund (“MPF”) as required under the Hong Kong MPF Scheme 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

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.

(o) **Related parties**

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

- (i) the party has the ability, directly or indirectly, through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group'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 Group or of any entity that is a related party of the Group.

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.

NOTES TO THE FINANCIAL STATEMENTS

(p) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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. 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.

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, bank and other borrowings (except for bank overdrafts), corporate and financing expenses.

(q) Financial guarantees issued and provision and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instruments.

NOTES TO THE FINANCIAL STATEMENTS

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 4(q)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) *Other provision 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.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

NOTES TO THE FINANCIAL STATEMENTS

Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, 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.

Key sources of estimates uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Depreciation

Property, plant and equipment 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 property, plant and equipment 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) Impairment of receivables

The policy for impairment of receivables 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 debtor. If the financial conditions of debtor of the Group were to deteriorate resulting in an impairment of their ability to make payments, additional impairment may be required.

NOTES TO THE FINANCIAL STATEMENTS
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6. FINANCIAL INSTRUMENTS

Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

The Group

Financial assets	Loans and receivables	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivable	–	7,874
Prepayments, deposits and other receivables	47	47
Cash and cash equivalents	30,096	3,858
	30,143	11,779
	30,143	11,779

Financial liabilities	Financial liabilities at amortised cost	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payable	–	3,387
Other payables and accruals	979	3,473
Bank and other borrowings, secured		
– Bank overdrafts	530	–
– Bank revolving loan	10,500	–
– Trust receipt loans	746	4,083
– Other loan	30,000	11,173
Amount due to a related party	2,197	2,197
Amounts due to directors	4,595	4,901
	49,547	29,214
	49,547	29,214

NOTES TO THE FINANCIAL STATEMENTS

The Company

Financial assets	Loans and receivables	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments, deposits and other receivables	11	1
Cash and cash equivalents	60	30
	<u>71</u>	<u>31</u>
	<u>71</u>	<u>31</u>
	Financial liabilities	
	at amortised cost	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals	628	924
Amounts due to directors	1,814	525
Amounts due to subsidiaries	138	–
	<u>2,580</u>	<u>1,449</u>
	<u>2,580</u>	<u>1,449</u>

Financial risk management

Exposure to credit risk, liquidity risk and market risks arises in the normal course of the Group's business. These risks are mitigated by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amount of cash balances at banks which are concentrated on a single counterparty. The credit risk and the concentration of credit risk on these assets is limited because the cash and bank balances were placed with licensed and creditworthy commercial banks in Hong Kong.

For 2006, the Group's credit risk was attributable to trade receivable and pledged bank deposit. The Group has significant concentration of credit risk in relation to the trade receivable and pledged bank deposit as the balance were due from two counterparties and a single counterparty only respectively. The Group manages its exposure to credit risk through continual monitoring of the credit quality of its customers, taking into account their financial position, collection history, past experience and other relevant factors. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced. Although the pledged bank deposit is concentrated on a single counterparty, the credit risk on liquid funds is limited because the counterparty is licensed and creditworthy commercial bank in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

(b) *Liquidity risk*

The Group is exposed to liquidity risk on financial liabilities. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserve of cash and adequate committed lines of funding from the Group's bankers to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 3 months or on demand <i>HK\$'000</i>	4 to less than 12 months <i>HK\$'000</i>
2007				
Other payables and accruals	979	979	979	-
Bank and other borrowings, secured				
- Bank overdrafts	530	530	530	-
- Bank revolving loan	10,500	10,505	10,505	-
- Trust receipt loans	746	759	759	-
- Other loan	30,000	30,000	30,000	-
Amount due to a related party	2,197	2,197	2,197	-
Amounts due to directors	4,595	4,595	4,595	-
	49,547	49,565	49,565	-
	49,547	49,565	49,565	-

NOTES TO THE FINANCIAL STATEMENTS

2006	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 3 months or on demand <i>HK\$'000</i>	4 to less than 12 months <i>HK\$'000</i>
Trade payables	3,387	3,387	3,387	–
Other payables and accruals	3,473	3,473	3,473	–
Bank and other borrowings, secured				
– Trust receipt loans	4,083	4,166	556	3,610
– Other loan	11,173	11,173	11,173	–
Amount due to a related party	2,197	2,197	2,197	–
Amounts due to directors	4,901	4,901	4,901	–
	<u>29,214</u>	<u>29,297</u>	<u>25,687</u>	<u>3,610</u>

The Company

2007	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 3 months or on demand <i>HK\$'000</i>	4 to less than 12 months <i>HK\$'000</i>	More than 12 months <i>HK\$'000</i>
Accruals	628	628	628	–	–
Amounts due to directors	1,814	1,814	1,814	–	–
Amounts due to subsidiaries	138	138	–	–	138
	<u>2,580</u>	<u>2,580</u>	<u>2,442</u>	<u>–</u>	<u>138</u>

2006	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 3 months or on demand <i>HK\$'000</i>	4 to less than 12 months <i>HK\$'000</i>	More than 12 months <i>HK\$'000</i>
Accruals	924	924	924	–	–
Amounts due to directors	525	525	525	–	–
	<u>1,449</u>	<u>1,449</u>	<u>1,449</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

(c) *Market risks*

(i) *Foreign currency risk*

The Group has certain financial assets and liabilities which are denominated in foreign currencies which expose the Group to foreign currency risk. The Group 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.

Exposure to foreign currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group

	Japanese Yen ("JPY'000")	United States Dollars ("USD'000")	Renminbi ("RMB'000")
2007			
Cash and cash equivalents	198	-	-
Other payables and accruals	-	(2)	-
	<hr/>	<hr/>	<hr/>
Overall net exposure	198	(2)	-
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
2006			
Cash and cash equivalents	1,659	1	-
Trade payable	-	(130)	(2,375)
Other payables and accruals	-	(3)	(1,300)
	<hr/>	<hr/>	<hr/>
Overall net exposure	1,659	(132)	(3,675)
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

NOTES TO THE FINANCIAL STATEMENTS

The Company

	2007 United States Dollars <i>("USD'000")</i>	2006 United States Dollars <i>("USD'000")</i>
Accruals	(2)	(3)
Overall net exposure	(2)	(3)

Sensitivity analysis

In the opinion of the management, since HKD is pegged to USD, the exposure to exchange fluctuation is limited and hence no sensitivity analysis in related to HKD against USD is presented. The Group therefore mainly exposes to the currencies of JPY and RMB.

The following table indicates the approximate change in the Group's loss after tax and accumulated losses in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The Group

	2007			2006		
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in loss after tax <i>HK\$'000</i>	Increase/ (decrease) in accumulated losses <i>HK\$'000</i>	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in loss after tax <i>HK\$'000</i>	Increase/ (decrease) in accumulated losses <i>HK\$'000</i>
JPY	5% (5%)	(1) 1	(1) 1	5% (5%)	(5) 5	(5) 5
RMB	5% (5%)	- -	- -	5% (5%)	183 (183)	183 (183)

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

NOTES TO THE FINANCIAL STATEMENTS

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between HKD and USD would be materially unaffected by any changes in movement in value of the USD against other currencies. The analysis has been performed on the same basis for 2006.

In the management's opinion, the sensitivity analysis is unrepresentative of the exchange rate risk as the year end exposure does not reflect the exposure during the year.

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk primarily arising from bank overdrafts, bank revolving loan and trust receipt loans which carrying at floating interest rates. The Group is also exposed to fair value interest rate risk primarily arising from the fixed rate pledged bank deposit and fixed rate other loan.

Sensitivity analysis

It is estimated that a general increase/decrease of 100 basis points in interest rates at 31 December 2007, with all other variables held constant, would have increased/decreased the Group's loss after tax and accumulated losses by approximately HK\$118,000 (2006: HK\$41,000).

The sensitivity analysis above has been determined based on the exposure to interest rates for floating bank overdrafts, bank revolving loan and trust receipt loans as at the balance sheet date. It has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. For the floating rate bank overdrafts, bank revolving loan and trust receipt loans, the analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis has been performed on the same basis for 2006.

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE FINANCIAL STATEMENTS
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(d) *Fair values*

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except as follows:

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose their fair values.

7. 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 revenue during the year is as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trading of automotive products	6,585	7,874
Gross rental income	–	150
	6,585	8,024

8. OTHER INCOME

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bad debt recovered	144	288
Foreign exchange gain, net	14	–
Interest income	95	20
Waiver of a loan debt due to an independent creditor	1,696	–
Reversal of impairment loss on land lease prepayment	1,895	–
	3,844	308

NOTES TO THE FINANCIAL STATEMENTS
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9. FINANCE COSTS

Interest on bank and other borrowings wholly repayable within 5 years:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank overdrafts	185	176
Interest on bank loans	–	1,965
Interest on trust receipt loans	171	–
Interest on bank revolving loan	562	–
Interest on other loan	294	200
	<u>1,212</u>	<u>2,341</u>
	<u>1,212</u>	<u>2,341</u>

10. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting) the following:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration		
– provision for year	240	186
– overprovision in prior year	(6)	–
	<u>234</u>	<u>186</u>
	<u>234</u>	<u>186</u>
Amortisation of land lease prepayment	327	344
Cost of inventories sold	6,223	7,470
Depreciation	51	49
Impairment loss on other receivables	5	5
Impairment loss on land lease prepayment	–	686
Foreign exchange (gain)/loss, net	(14)	48
Interest on bank and other borrowings wholly repayable within five years	1,212	2,341
Staff costs (including directors' remuneration – <i>Note 11</i>)		
– salaries, allowances and other benefits	1,630	1,735
– contributions to defined contribution plans	44	50
	<u>1,674</u>	<u>1,785</u>
	<u>1,674</u>	<u>1,785</u>
Reversal of impairment loss on land lease prepayment	(1,895)	–
Waiver of a loan debt due to an independent creditor	(1,696)	–
Bad debt recovered	(144)	(288)
Interest income	(95)	(20)
Gross rental income	–	(150)
	<u>(1,895)</u>	<u>(1,895)</u>
	<u>(1,895)</u>	<u>(1,895)</u>

NOTES TO THE FINANCIAL STATEMENTS
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11. 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".

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2006: one) director, details of whose remuneration are set out in the "Corporate Governance Report". Details of the remuneration of the remaining four (2006: four) non-director, highest paid employees for the year are as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,091	1,164
Retirement scheme contributions	23	29
	1,114	1,193

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

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

13. 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 assessable profit that is subject to Hong Kong or overseas income taxes (2006: HK\$Nil).

NOTES TO THE FINANCIAL STATEMENTS

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	<u>(430)</u>	<u>(6,068)</u>
Calculated at a taxation rate of 17.5% (2006: 17.5%)	(75)	(1,062)
Tax effect of:		
– income not subject to taxation	(629)	–
– expenses not deductible for taxation purposes	241	519
– prior year's unrecognised deferred tax asset from impairment of land utilized in this year	(46)	(45)
– unrecognised deferred tax assets in respect of tax losses	<u>509</u>	<u>588</u>
Tax charge for the year	<u>–</u>	<u>–</u>

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

14. NET LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The net loss attributable to equity shareholders of the Company includes a loss of approximately HK\$1,090,000 (2006: HK\$4,022,000) which has been dealt with in the financial statements of the Company.

15. LOSS PER SHARE

The calculation of the basic loss per share amounts is based on the net loss for the year attributable to equity shareholders of the Company of HK\$430,000 (2006: HK\$6,068,000), and the weighted average number of ordinary shares in issue during the year of 154,801,160 (2006: 141,865,818), as adjusted to reflect the issue of shares during the year.

Weighted average number of ordinary shares for the purpose of basic loss per share:

	2007	2006
Issued ordinary shares at 1 January	154,801,160	129,001,160
Effect of issue of new shares (<i>note 25</i>)	<u>–</u>	<u>12,864,658</u>
Weighted average number of ordinary shares	<u>154,801,160</u>	<u>141,865,818</u>

NOTES TO THE FINANCIAL STATEMENTS

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

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold building HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At 1 January 2006, 31 December 2006 and 1 January 2007	2,661	69	567	1,107	2,421	6,825
Additions	-	-	-	11	-	11
At 31 December 2007	2,661	69	567	1,118	2,421	6,836
Accumulated depreciation						
At 1 January 2006	629	69	567	1,107	2,421	4,793
Charge for the year	49	-	-	-	-	49
At 31 December 2006 and 1 January 2007	678	69	567	1,107	2,421	4,842
Charge for the year	48	-	-	3	-	51
At 31 December 2007	726	69	567	1,110	2,421	4,893
Carrying amount						
At 31 December 2007	1,935	-	-	8	-	1,943
At 31 December 2006	1,983	-	-	-	-	1,983

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

NOTES TO THE FINANCIAL STATEMENTS
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As at 31 December 2007, the Group's leasehold building with carrying amount of approximately HK\$1,935,000 (2006: HK\$1,983,000) was pledged to secure general banking facilities (2006: other borrowings) as set out in note 24 to the financial statements.

17. LAND LEASE PREPAYMENT

	The Group <i>HK\$'000</i>	
Cost		
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	20,945	-----
Accumulated amortisation and impairment loss		
At 1 January 2006	6,505	
Amortisation charge for the year	344	
Impairment loss for the year	686	-----
At 31 December 2006 and 1 January 2007	7,535	
Amortisation charge for the year	327	
Reversal of impairment loss for the year	(1,895)	-----
At 31 December 2007	5,967	-----
Carrying amount		
At 31 December 2007	14,978	=====
At 31 December 2006	13,410	=====
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as:		
Current asset	374	327
Non-current asset	14,604	13,083
	-----	-----
	14,978	13,410
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

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

As at 31 December 2007, the Group's land lease prepayment with carrying amount of approximately HK\$14,978,000 (2006: HK\$13,410,000) was pledged to secure general banking facilities (2006: other borrowings) as set out in note 24 to the financial statements.

Reversal of impairment loss for the year ended 31 December 2007 and impairment loss made for the year ended 31 December 2006 were determined by reference to property valuations carried out by an external qualified valuer, Vigers Appraisal & Consulting Limited.

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	76,310	76,309
Amounts due from subsidiaries	81,713	81,774
	158,023	158,083
Impairment loss	(158,022)	(158,083)
	1	-

Movement in the allowance for impairment loss on the amounts due from subsidiaries is as follows:

	The Company	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	158,083	155,405
Impairment loss for the year	476	2,678
Reversal of impairment loss for the year	(537)	-
At 31 December	158,022	158,083

The allowance for/reversal of impairment loss on the amounts due from subsidiaries was concluded from the assessment of the financial position of the subsidiaries individually.

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

NOTES TO THE FINANCIAL STATEMENTS

In the opinion of the Directors, no repayment will be demanded within the next twelve months from the balance sheet date. Accordingly, the amounts due were classified as non-current assets.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operation	Nominal value of issued/ registered share capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Victory Group (BVI) Limited #	British Virgin Islands	Ordinary HK\$100,000	100%	–	Investment holding
Victory Motors Centre Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$3,000,000	–	100%	Investment holding
Victory Realty Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Inactive
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%	Inactive
Victory H-Tech Company Limited	Hong Kong	Ordinary HK\$100,000	–	100%	Inactive
Oriental Surplus Limited #^	British Virgin Islands	Ordinary US\$100	100%	–	Inactive

Not audited by Lak & Associates C.P.A. Limited

^ *The subsidiary is established by the Group on 2 October 2007*

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

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivable	-	7,874	-	-
Prepayments, deposits and other receivables	107	91	16	1
Less: Impairment loss on other receivables	(44)	(39)	(5)	-
	<u>63</u>	<u>52</u>	<u>11</u>	<u>1</u>
	<u>63</u>	<u>7,926</u>	<u>11</u>	<u>1</u>

Movement in the allowance for impairment loss on other receivables is as follows:

	The Group		The Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	39	34	-	-
Impairment loss for the year	<u>5</u>	<u>5</u>	<u>5</u>	<u>-</u>
At 31 December	<u>44</u>	<u>39</u>	<u>5</u>	<u>-</u>

Aging analysis of trade receivables included in trade and other receivables (net of impairment loss for bad and doubtful debts) based on the invoice date, as at the balance sheet date is as follows:

	The Group		The Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	<u>-</u>	<u>7,874</u>	<u>-</u>	<u>-</u>

Normally, debts are due within 28 days from the date of billing. All of the trade and other receivables are expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS
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Aging analysis of trade receivables that is neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	–	3,599
Between 31 days and 60 days	–	4,275
	<hr/>	<hr/>
	–	7,874
	<hr/> <hr/>	<hr/> <hr/>

Receivables that are neither past due nor impaired relate to an independent customer for whom there was no recent history of default.

Receivables that were past due but not impaired relate to an independent customer that have a good track record with the Group. Based on past experience, the management believes that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS
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20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	30,096	270	60	30
Pledged bank deposit	<u>–</u>	<u>3,588</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents in the balance sheets	30,096	3,858	<u>60</u>	<u>30</u>
Bank overdrafts (<i>note 24</i>)	(530)	–		
Bank revolving loan with maturity within one month (<i>note 24</i>)	(10,500)	–		
Other loan with maturity within one month (<i>note 24</i>)	–	(11,173)		
Less: Pledged bank deposit – pledged for trust receipt loan (<i>note 24</i>)	<u>–</u>	<u>(3,588)</u>		
Cash and cash equivalents in the consolidated cash flow statement	<u>19,066</u>	<u>(10,903)</u>		

Cash at banks earn interest at floating rates based on daily bank deposits rates. Pledged bank deposits earned interest at the respective short term time deposit rates.

The pledged bank deposit represented a deposit pledged to a bank as a security for general banking facilities of trust receipt loan granted to the Group as set out in note 24 to the financial statements, and are classified as current assets. The pledged bank deposit was released upon the settlement of relevant bank borrowings during the current year.

NOTES TO THE FINANCIAL STATEMENTS

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payable	-	3,387	-	-
Other payables	53	2,049	-	-
Accruals	1,013	1,511	628	924
	<u>1,066</u>	<u>3,560</u>	<u>628</u>	<u>924</u>
	<u>1,066</u>	<u>6,947</u>	<u>628</u>	<u>924</u>

Aging analysis of trade payables included in trade and other payables based on the invoice date, as at the balance sheet date is as follows:

	The Group		The Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	<u>-</u>	<u>3,387</u>	<u>-</u>	<u>-</u>

Included in the other payables as at 31 December 2006 was an amount of approximately HK\$1,996,000 payable to an independent creditor. The amount was unsecured and interest free. The other payable was settled by cash of HK\$300,000 and the Group obtained a waiver of the remaining balance due of HK\$1,696,000 from the independent creditor during the current year. The balance was HK\$Nil as at 31 December 2007.

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

22. AMOUNTS DUE TO A RELATED PARTY/ DIRECTORS

The amounts due to a related party/directors are unsecured, interest free and repayable on demand.

23. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest free and have no fixed term of repayment. In the opinion of the Directors of the Company, no repayment will be demanded within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current liabilities.

NOTES TO THE FINANCIAL STATEMENTS
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24. BANK AND OTHER BORROWINGS

	Maturity	The Group 2007 HK\$'000	Maturity	2006 HK\$'000
Bank borrowings:				
Bank overdrafts, secured	On demand	530		–
Bank revolving loan, secured	2008	10,500		–
Trust receipt loans, secured	2008	746	2007	4,083
		11,776		4,083
Other borrowings:				
Other loan, secured	On demand	30,000	2007	11,173
		41,776		15,256

All of the bank and other borrowings are repayable within one year and classified under current liabilities.

Bank overdraft bears prime rate of the bank or HIBOR plus 1.5% per annum, whichever is higher (2006: Hong Kong prime rate plus 10% per annum).

The bank revolving loan and trust receipt loans bear interest at HIBOR plus 1.5% (2006: HIBOR plus 1.5%) per annum.

As at 31 December 2007, the banking facilities of HK\$14,546,000 are secured by the Group's leasehold land and building with an aggregate carrying amount of approximately HK\$16,913,000, joint and several personal guarantee to be executed by the Director of the Company, Mr. Chan Chun Choi and a third party of HK\$14,000,000 plus accrued interest, and a fixed deposit of HK\$546,000 in the name of Mr. Li Li Xin, Thomas. At the balance sheet date, the banking facilities were utilized by the Group to the extent of approximately HK\$11,776,000.

The Group borrowed a loan of HK\$30,000,000 pursuant to the loan agreement dated 28 December 2007 from a potential investor. The loan facilities are primarily for the purpose of providing funds for costs and expenses of restructuring in relation to the Agreement for the Implementation of a Restructuring Proposal dated 9 November 2007 and as working capital to revitalize the business of the Group. The loan is secured by a share mortgage in respect of entire issued shares capital in a wholly-owned subsidiary of the Company, OSL, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS
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The other loan outstanding at 31 December 2006 bore a lump sum interest of HK\$200,000. As at 31 December 2006, the trust receipt loans of approximately HK\$4,083,000 and other borrowings of approximately HK\$11,173,000 were secured by the Group's pledged bank deposit of approximately HK\$3,588,000 and leasehold land and building with an aggregate carrying amount of HK\$15,393,000 respectively.

25. SHARE CAPITAL

	The Company			
	Number of shares		Share capital	
	2007	2006	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.1 each (2006: HK\$0.1 each)	<u>220,558,640</u>	<u>220,558,640</u>	<u>22,056</u>	<u>22,056</u>
Issued and fully paid:				
At 1 January				
Ordinary shares of HK\$0.1 each (2006: HK\$0.1 each)	154,801,160	129,001,160	15,480	12,900
Issue of new shares pursuant to share placing (<i>note i</i>)	<u>–</u>	<u>25,800,000</u>	<u>–</u>	<u>2,580</u>
At 31 December				
Ordinary shares of HK\$0.1 each	<u>154,801,160</u>	<u>154,801,160</u>	<u>15,480</u>	<u>15,480</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

NOTES TO THE FINANCIAL STATEMENTS

Notes:

(i) Placing

Pursuant to a resolution passed in the meeting of 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 places 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.

(ii) 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.

26. 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 29 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.

NOTES TO THE FINANCIAL STATEMENTS

(b) The Company

	Share premium account <i>HK\$'000</i>	Contributed surplus [#] <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	49,530	64,809	(127,776)	(13,437)
Issue of new shares pursuant to share placing	1,032	-	-	1,032
Share issue expenses	(471)	-	-	(471)
Net loss for the year	-	-	(4,022)	(4,022)
	<u>50,091</u>	<u>64,809</u>	<u>(131,798)</u>	<u>(16,898)</u>
At 31 December 2006	<u>50,091</u>	<u>64,809</u>	<u>(131,798)</u>	<u>(16,898)</u>
At 1 January 2007	50,091	64,809	(131,798)	(16,898)
Net loss for the year	-	-	(1,090)	(1,090)
	<u>50,091</u>	<u>64,809</u>	<u>(132,888)</u>	<u>(17,988)</u>
At 31 December 2007	<u>50,091</u>	<u>64,809</u>	<u>(132,888)</u>	<u>(17,988)</u>

[#] *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.*

27. CAPITAL MANAGEMENT

Capital comprises share capital and reserves stated on the balance sheet. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

NOTES TO THE FINANCIAL STATEMENTS

The Group manages capital by regularly monitoring its current and expected liquidity requirements rather than using debt/equity ratio analyses. The share capital of the Company is approximately HK\$15,480,000. If there is a deficit in capital, the Group's operation would source from fund-raising exercises or using banking facilities of bank overdrafts and bank loans. The objectives and policies were unchanged during the years presented.

The Group is not subject to either internally or externally imposed capital requirements.

28. DEFERRED TAXATION

(a) The Group

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

Deferred tax arising from:	Accelerated tax depreciation <i>HK\$'000</i>	Impairment loss of land lease prepayment <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	423	(423)	-	-
Charged/(credited) to consolidated income statement	45	(45)	-	-
At 31 December 2006	468	(468)	-	-
At 1 January 2007	468	(468)	-	-
Charged/(credited) to consolidated income statement	46	(46)	-	-
At 31 December 2007	514	(514)	-	-

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007, the Group has unused tax losses of approximately HK\$123,552,000 (2006: HK\$120,634,000) 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 approximately HK\$3,649,000 (2006: HK\$5,552,000). Deferred tax assets have been recognised in respect of approximately HK\$2,937,000 (2006: HK\$2,674,000) of such differences. No deferred tax assets have been recognised in respect of the remaining HK\$712,000 (2006: HK\$2,878,000) 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 (2006: HK\$Nil).

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, revenue is based on the country in which the customers are located.

(a) Business segments

During the year, the Group is principally engaged in the trading of automotive products; therefore, no business segments analysis of the Group is presented.

In 2006, the Group comprised two major business segments:

- (i) Trading of automotive products
- (ii) Property investment – leasing of office premise

NOTES TO THE FINANCIAL STATEMENTS

Segment information about the two segments for 2006 is as follows:

	Trading of automotive products 2006 <i>HK\$'000</i>	Property investment 2006 <i>HK\$'000</i>	Inter- segment elimination 2006 <i>HK\$'000</i>	Consolidated 2006 <i>HK\$'000</i>
Segment revenue				
Revenue from external customers	7,874	150	-	8,024
Inter-segment revenue	-	540	(540)	-
	7,874	690	(540)	8,024
Segment result				
	(1,956)	(406)	-	(2,362)
Unallocated operating income and expenses				
				(1,541)
Finance costs				(2,165)
Loss before taxation				
				(6,068)
Taxation				
				-
Loss attributable to equity shareholders of the Company				
				(6,068)
Segment assets				
	8,060	15,489	-	23,549
Unallocated assets				3,628
Total assets				
				27,177
Segment liabilities				
	3,989	16	-	4,005
Unallocated liabilities				25,362
Total liabilities				
				29,367
Other information				
Bad debts recovered	288	-	-	288
Impairment loss on other receivables	-	-	(5)	(5)
Depreciation and amortisation	-	(393)	-	(393)
Impairment loss on land lease prepayment	-	(686)	-	(686)

NOTES TO THE FINANCIAL STATEMENTS

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) 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	
	2007	2006	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	-	150	6,585	7,874	6,585	8,024
Segment assets	47,080	27,177	-	-	47,080	27,177
Capital expenditure	-	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

30. 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 2007, the gross aggregate amount of employer's contribution made by the Group to the MPF scheme was approximately HK\$44,000 (2006: HK\$50,000). As at 31 December 2007 and 2006, there was no forfeited contribution available to reduce future contribution.

31. COMMITMENTS

At the balance sheet date, neither the Group nor the Company had any significant commitments outstanding.

NOTES TO THE FINANCIAL STATEMENTS
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32. RELATED PARTY TRANSACTIONS

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

Name	Nature of transaction	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
<i>A Director</i>			
Mr. Chan	Settlement of liabilities	17	11
Chun Choi	by the Group on behalf		
	Settlement of liabilities	2,232	110
	on behalf of the Group	<u> </u>	<u> </u>

- (b) **Balances with related parties:**

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-trade balances due to directors	<u>4,595</u>	<u>4,901</u>
Non-trade balance due to a related party	<u>2,197</u>	<u>2,197</u>

- (c) **Key management personnel compensation**

Key management personnel of the Group in 2007 and 2006 included all Directors of the Company and details of their emoluments are also disclosed in the "Corporate Governance Report".

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Short-term employee benefits	362	362
Post-employment benefits	<u>12</u>	<u>12</u>
	<u>374</u>	<u>374</u>

NOTES TO THE FINANCIAL STATEMENTS

33. CONTINGENT LIABILITIES

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

	The Group		The Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other borrowing guaranteed by the Company which were utilised by a subsidiary (<i>note</i>)	-	-	-	11,173

Notes: It represented the guarantee in respect of the secured other loan granted by a lender to a subsidiary of the Company, Hong Kong Waho Development Limited, as set out in note 24 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 during the current year upon the full repayment of the other loan by the subsidiary.

No financial liabilities were recorded as, in the opinion of the Directors, the fair values of the financial guarantee contracts were not significant at 31 December 2006.

Save as disclosed above, the Group did not have other material contingent liabilities as at the balance sheet date.

34. EVENTS AFTER BALANCE SHEET DATE

(a) Loss of contact with the sole director of OSL

As explained in note 2 to the financial statements, the Directors of the Company have lost contact with the sole director of OSL since early 2008. In this context, the Directors of the Company were unable to provide sufficient documentary evidence for the transactions entered into by OSL subsequent to the balance sheet date.

Subsequent to the balance sheet date, the Directors of the Company were unable to represent the directorship of OSL. In this event, because of conflicting instructions received by the OSL's banker from one or more of the authorized signatories of the account(s) who has/have requested the banker not to permit further operation of the account(s), the banker was unable to act on any instructions to operate the account(s) and the account(s) was frozen effective from 18 March 2009.

NOTES TO THE FINANCIAL STATEMENTS

(b) Proceeding to third stage of delisting procedures

On 18 December 2008, the Stock Exchange announced that effective from 18 December 2008, the Company was placed into the third stage of delisting procedures in accordance with Practice Note 17 of the Listing Rules (the "Delisting Procedures").

Pursuant to the Delisting Procedures, the Company was given a final period of six months for the submission of a viable resumption proposal to the Stock Exchange. If the Company has not submitted a viable resumption proposal as required, the Stock Exchange intends to cancel the listing of the Company on the expiry on the six months from the date of the announcement (i.e. 17 June 2009).

Further announcement will be made in this regard in compliance with the Listing Rules. Trading in the shares of the Company will remain suspended until further notice.

(c) Lapse of the agreement for the implementation of a restructuring proposal

Subsequent to the balance sheet date, in the opinion of the Directors of the Company, the Agreement for the Implementation of a Restructuring Proposal dated 9 November 2007 as referred to the note 24 to the financial statements has been lapsed because the conditions precedent set out in the agreement have not been fulfilled on or before the Long Stop Date (i.e. 30 June 2008 or such later that as may be agreed in writing between the potential investor and the Company) in accordance with the agreement.

NOTES TO THE FINANCIAL STATEMENTS

35. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

HKFRSs that have been issued but are not yet effective for the year include the following HKFRSs which may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
HKFRSs (Amendments), Improvements to HKFRSs	1 January 2009 except the amendments to HKFRS 5, effective for accounting periods beginning on or after 1 July 2009
HKAS 1 (Revised), Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised), Borrowing Costs	1 January 2009
HKFRS 1 & HKAS 27 (Amendments), Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
HKFRS 7 (Amendment), Improving Disclosures about Financial Instruments	1 January 2009
HKFRS 8, Operating Segments	1 January 2009
HKAS 27 (Revised), Consolidated and Separate Financial Statements	1 July 2009
HKFRS 3 (Revised), Business Combinations	1 July 2009
HK(IFRIC)-Int 17, Distributions of Non-cash Assets to Owners	1 July 2009

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are 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 of Directors on 25 May 2009.

SUMMARY FINANCIAL INFORMATION

	Year ended 31 December				
	2007	2006	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	(Restated) <i>HK\$'000</i>	<i>HK\$'000</i>
RESULTS					
Revenue	<u>6,585</u>	<u>8,024</u>	<u>4,488</u>	<u>2,240</u>	<u>5,216</u>
(Loss)/profit before taxation	(430)	(6,068)	(1,175)	111	(5,045)
Taxation	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(27)</u>
Net (loss)/profit attributable to equity shareholders of the Company	<u>(430)</u>	<u>(6,068)</u>	<u>(1,175)</u>	<u>111</u>	<u>(5,072)</u>
	2007	2006	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	(Restated) <i>HK\$'000</i>	(Restated) <i>HK\$'000</i>
ASSETS AND LIABILITIES					
Property, plant and equipment	1,943	1,983	2,032	2,081	2,130
Land lease prepayment – non-current portion	14,604	13,083	14,096	10,002	5,189
Current assets	30,533	12,111	1,116	3,140	2,122
Current liabilities	<u>(49,634)</u>	<u>(29,301)</u>	<u>(16,463)</u>	<u>(20,337)</u>	<u>(26,516)</u>
Net current liabilities	(19,101)	(17,190)	(15,347)	(17,197)	(24,394)
Total assets less current liabilities	(2,554)	(2,124)	781	(5,114)	(17,075)
Non-current liabilities	<u>(66)</u>	<u>(66)</u>	<u>(44)</u>	<u>(41)</u>	<u>(57)</u>
Net (liabilities)/assets	<u>(2,620)</u>	<u>(2,190)</u>	<u>737</u>	<u>(5,155)</u>	<u>(17,132)</u>