



# **VICTORY GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 1139)**

**(the "Company")**

**INTERIM REPORT 2010**

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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*

Leung Wai Tat, Henry

Leung Wai Kei

Ip Ka Keung (appointed on 18 January 2010)

Lam King Hang (appointed on 1 June 2010)

Hong Po Kui, Martin

(resigned on 11 January 2010)

### **AUDIT COMMITTEE**

Leung Wai Kei *(Chairman)*

Ip Ka Keung

Leung Wai Tat, Henry

Lam King Hang

### **REMUNERATION COMMITTEE**

Ip Ka Keung *(Chairman)*

Leung Wai Tat, Henry

Leung Wai Kei

Lam King Hang

### **NOMINATION COMMITTEE**

Leung Wai Tat, Henry *(Chairman)*

Ip Ka Keung

Leung Wai Kei

Lam King Hang

### **COMPANY SECRETARY**

Joshua Lee *FCCA CPA*

### **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

16th Floor, Alliance Building

130-136 Connaught Road Central

Sheng Wan, 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

9 Science Museum Road

Tsimshatsui East

Kowloon

Hong Kong

### **STOCK CODE**

1139

## FINANCIAL HIGHLIGHTS

	Six months ended		Change %
	30 June		
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	
Revenue	–	–	–
Net loss attributable to equity shareholders of the Company	<b>(3,136)</b>	(1,377)	(128)
Loss per share	<b>(2.03 cents)</b>	(0.89 cents)	

Victory Group Limited (the “Company”) and its board of directors (the “Board”) announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2010 (the “Period”) together with the comparative figures for the corresponding period in last year (the “Last Period”) or for the last financial year ended 31 December 2009, where applicable.

## CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

	<i>Note</i>	Six months ended 30 June	
		2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Revenue</b>	3	–	–
Other income	4	196	1,065
Administrative expenses		<u>(3,104)</u>	<u>(2,242)</u>
<b>Operating loss</b>		<b>(2,908)</b>	<b>(1,177)</b>
Net effect of deconsolidation of a subsidiary	2	(24)	–
Finance costs	5	<u>(204)</u>	<u>(200)</u>
<b>Loss before tax</b>	6	<b>(3,136)</b>	<b>(1,377)</b>
Income tax expense	7	<u>–</u>	<u>–</u>
<b>Net loss attributable to equity shareholders of the Company</b>		<b><u>(3,136)</u></b>	<b><u>(1,377)</u></b>
Interim dividend	8	<u>–</u>	<u>–</u>
<b>Loss per share</b>	9	<b><u>(2.03 cents)</u></b>	<b><u>(0.89 cents)</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME –  
UNAUDITED**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Loss for the period	<u><b>(3,136)</b></u>	<u><b>(1,377)</b></u>
<b>Total comprehensive income attributable to equity shareholders of the Company</b>	<u><b>(3,136)</b></u>	<u><b>(1,377)</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED**

		<b>30 June 2010</b>	31 December 2009
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	<b>1,826</b>	1,841
Land lease prepayment	<i>11</i>	<b>14,086</b>	14,091
		<u>15,912</u>	<u>15,932</u>
<b>Current assets</b>			
Land lease prepayment	<i>11</i>	<b>386</b>	381
Prepayments, deposits and other receivables	<i>12</i>	<b>47</b>	47
Cash and cash equivalents	<i>13</i>	<b>192</b>	549
		<u>625</u>	<u>977</u>
<b>Current liabilities</b>			
Trade payables	<i>14</i>	<b>100</b>	100
Other payables and accruals	<i>14</i>	<b>1,708</b>	1,531
Amount due to a related party	<i>15</i>	<b>2,197</b>	2,197
Amounts due to directors	<i>15</i>	<b>4,335</b>	4,467
Bank and other borrowings	<i>16</i>	<b>21,341</b>	18,622
		<u>29,681</u>	<u>26,917</u>
<b>Net current liabilities</b>		<u>(29,056)</u>	<u>(25,940)</u>
<b>NET LIABILITIES</b>		<u>(13,144)</u>	<u>(10,008)</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>17</i>	<b>15,480</b>	15,480
Reserves	<i>18</i>	<b>(28,624)</b>	(25,488)
<b>TOTAL EQUITY</b>		<u>(13,144)</u>	<u>(10,008)</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED

	<b>Six months ended</b>	
	<b>30 June</b>	
<i>Note</i>	<b>2010</b>	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Operating activities</b>		
Loss before tax	(3,136)	(1,377)
Adjustments for:		
Interest expenses	204	200
Depreciation	26	28
Amortisation of land lease prepayment	190	175
Reversal of impairment loss on land lease prepayment	(190)	(837)
Net effect of deconsolidation of a subsidiary	2      24	–
	(2,882)	(1,811)
Operating loss before changes in working capital		
Decrease in trade receivable	–	14,088
Increase in prepayments, deposits and other receivables	–	(53)
Decrease in trade payables	–	(12,077)
(Decrease)/increase in other payables and accruals	181	(797)
	(2,701)	(650)
Cash used in operation		
Interest paid	(208)	(235)
	(2,909)	(885)
<b>Net cash used in operating activities</b>	(2,909)	(885)
<b>Investing activities</b>		
Purchase of office equipment	(11)	(3)
Deconsolidation of a subsidiary	2      (146)	–
	(157)	(3)
<b>Net cash used in investing activities</b>	(157)	(3)
<b>Financing activities</b>		
Repayment of trust receipt loans	–	(2,000)
Repayment of other borrowings	–	(2,627)
Proceeds from other borrowing	1,000	2,000
Cash advanced from directors	148	1,523
Cash repaid to directors	(280)	(507)
	868	(1,611)
<b>Net cash used in financing activities</b>	868	(1,611)
<b>Net decrease in cash and cash equivalents</b>	(2,198)	(2,499)
<b>Cash and cash equivalents at 1 January</b>	(9,951)	(7,662)
<b>Cash and cash equivalents at 30 June</b>	13      (12,149)	(10,161)



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to equity shareholders of the Company						
	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Enterprise expansion fund <i>HK\$'000</i>	Exchange fluctuation reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010	15,480	50,091	710	445	(165)	(76,569)	(10,008)
Total comprehensive loss	-	-	-	-	-	(3,112)	(3,112)
Deconsolidation of a subsidiary	-	-	-	-	-	(24)	(24)
At 30 June 2010	<u>15,480</u>	<u>50,091</u>	<u>710</u>	<u>445</u>	<u>(165)</u>	<u>(79,705)</u>	<u>(13,144)</u>
At 1 January 2009	15,480	50,091	710	445	(165)	(72,552)	(5,991)
Total comprehensive loss	-	-	-	-	-	(1,377)	(1,377)
At 30 June 2009	<u>15,480</u>	<u>50,091</u>	<u>710</u>	<u>445</u>	<u>(165)</u>	<u>(73,929)</u>	<u>(7,368)</u>

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 1. General Information

The Company is a publicly 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 interim report.

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

During the Period, the Group had no revenue generated.

This unaudited interim consolidated financial statements are presented in Hong Kong dollars (“HKD”), which is the same as the functional currency of the Group. This unaudited interim consolidated financial statements was approved for issue on 25 August 2010.

### 2. Basis of Preparation of Financial Statements

#### *Basis of Presentation and Accounting Policies*

The unaudited interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial statements have been prepared on a basis consistent with the accounting policies adopted in the annual financial statements for the year ended 31 December 2009.

### *Deconsolidation of a Subsidiary*

Oriental Surplus Limited (“OSL”) was a wholly-owned subsidiary of the Company incorporated in the British Virgin Island on 2 October 2007. 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 were 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 (the “Agreement”) and as working capital to revitalize the business of the Group.

As mentioned in the Company’s 2009 annual report, as the Company had lost contact with the sole director of OSL since early 2008 and did not have sufficient documentary evidence available, the Directors were unable to represent as to the completeness and correctness of the financial information of OSL included in the financial statements of the Group.

The Company received a letter dated 4 September 2009 from the legal advisors of the said lender, informing the Company that the entire share capital in OSL has been transferred to the lender on 7 February 2009 and among the dispute over the execution of the Agreement. The said letter also stated that lender is now in possession of all the records and documents including company kit, and is the legal and beneficial owner of the entire share capital of OSL.

Due to the above reason, the directors considered that it is inappropriate to consolidate the financial results of OSL into the Group. The results, assets and liabilities and cash flows of OSL was deconsolidated from the financial statements of the Group from 1 January 2010. The Group recorded a gain of approximately HK\$24,000 on deconsolidation of OSL for the period ended 30 June 2010 based on its financial information as of 31 December 2009.

Details of the net effect of deconsolidation of Subsidiary during the period ended 30 June 2010 are as follows:

	<i>HK\$’000</i>
Aggregate assets deconsolidated	
Cash and bank balances	146
Aggregate liabilities deconsolidated	
Other borrowings	122
	<hr/>
Net effect of deconsolidation of a Subsidiary	<u>24</u>

### **3. Revenue and Segment Information**

#### *(a) Revenue*

Revenue represents the invoiced value of installation service income rendered and inventories sold, net of discounts and returns.

The Group had no revenue during both periods presented.

#### *(b) Segment information*

For management purposes, the Group is organized into business units based on their products and services.

(c) *Segment result*

During the Period, the Group was inactive; therefore, no segment result of the Group is presented.

(d) *Geographic information*

The geographical regions in this analysis are classified by the location of the principal operation of the subsidiary companies. During the periods presented, the Group's business activities were carried out in Hong Kong and all the assets of the Group were located in Hong Kong as at the end of the reporting period.

(e) *Seasonality of operations*

During the Period, the Group was inactive.

**4. Other Income**

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Over-provision of printing charges in prior years	–	228
Reversal of impairment loss on land lease prepayment	<b>190</b>	837
Provision for annual leave payment written back	<b>6</b>	–
	<b>196</b>	<b>1,065</b>

**5. Finance Costs**

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

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank overdrafts	<b>16</b>	–
Interest on trust receipt loans	–	9
Interest on bank revolving loan	<b>188</b>	191
	<b>204</b>	<b>200</b>

## 6. Loss Before Tax

Loss before tax was arrived at after charging/(crediting) the following:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Amortisation of land lease prepayment	190	175
Auditors' remuneration	–	100
Depreciation	26	28
Interest on bank and other borrowings wholly repayable within 5 years	–	200
Staff costs (including directors' remuneration)		
– Salaries, allowances and other benefits	602	426
– Mandatory Provident Fund (“MPF”) contributions	23	19
	<u>625</u>	<u>445</u>
	-----	-----
Over-provision of printing charges in prior years	–	(228)
Reversal of impairment loss on land lease prepayment	(190)	(837)
Provision for annual leave payment written back	(6)	–
	<u>(6)</u>	<u>–</u>

## 7. TAXATION

No Hong Kong or overseas income tax have been provided for in the Period as neither the Company nor any of its subsidiaries derived any assessable profit that is subject to Hong Kong or overseas income tax (2009: HK\$Nil).

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

## 8. Interim Dividend

No dividend was paid or proposed during the Period (2009: HK\$Nil).

## 9. Loss Per Share

The calculation of basic loss per share for the Period is based on the net loss for the Period attributable to equity shareholders of the Company of approximately HK\$3,136,000 (2009: HK\$1,377,000), and on the number of 154,801,160 (2009: 154,801,160) ordinary shares in issue during the Period.

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

## 10. Property, Plant and Equipment

	<b>2010</b> <i>HK\$'000</i>
Carrying amount at 1 January 2010	1,841
Additions	11
Depreciation	(26)
	<hr/>
Carrying amount at 30 June 2010	<u>1,826</u>

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

As at 30 June 2010, the Group's leasehold building with carrying amount of approximately HK\$1,814,000 (31 December 2009: HK\$1,838,000) was pledged to secure general banking facilities as set out in note 16.

## 11. Land Lease Prepayment

	<b>2010</b> <i>HK\$'000</i>
Carrying amount at 1 January 2010	14,472
Amortisation	(190)
Reversal of impairment loss	190
	<hr/>
Carrying amount at 30 June 2010	<u>14,472</u>

  

	<b>2010</b> <i>HK\$'000</i>
Analysed for reporting purpose as:	
Current asset	386
Non-current asset	14,086
	<hr/>
	<u>14,472</u>

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

As at 30 June 2010, the Group's land lease prepayment with carrying amount of approximately HK\$14,472,000 (31 December 2009: HK\$14,472,000) was pledged to secure general banking facilities as set out in note 16.

## 12. Prepayments, Deposits and Other Receivables

	<b>Group</b>	
	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Prepayments, deposits and other receivables	91	91
<i>Less:</i> Impairment loss on other receivables	<u>(44)</u>	<u>(44)</u>
Prepayments, deposits and other receivables	<u><b>47</b></u>	<u><b>47</b></u>

## 13. Cash and Cash Equivalents

	<b>Group</b>	
	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Cash and bank balances	<u>192</u>	<u>549</u>
Cash and cash equivalents in the consolidated statement of financial position	<b>192</b>	549
Bank overdraft	<b>(1,841)</b>	–
Bank revolving loan with maturity within one month	<u><b>(10,500)</b></u>	<u>(10,500)</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u><b>(12,149)</b></u>	<u>(9,951)</u>

Cash at bank earn interest at floating rates based on daily bank deposits rates.

## 14. Trade Payables, Other Payables and Accruals

	<b>Group</b>	
	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Trade payables	<u>100</u>	<u>100</u>
Other payables	<b>53</b>	53
Accruals	<u><b>1,655</b></u>	<u>1,478</u>
	<u><b>1,708</b></u>	<u>1,531</u>
	<u><b>1,808</b></u>	<u>1,631</u>

At 30 June 2010 and 31 December 2009, the aging analysis of the trade payables were as follows:

	<b>Group</b>	
	<b>30 June 2010</b>	31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
– within 3 months	–	–
– within 3 to 6 months	–	–
– within 6 to 12 months	<u>100</u>	<u>100</u>
	<u><u>100</u></u>	<u><u>100</u></u>

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

**15. Amount(s) Due to a Third Party/a Related Party/Directors**

The amount(s) due to a third party/a related party/directors are unsecured, interest free and repayable on demand.

**16. Interest-bearing Bank and Other Borrowings, Secured**

	<b>30 June 2010</b>	31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings:		
Bank overdraft, secured ( <i>note i</i> )	<b>1,841</b>	–
Bank revolving loan, secured ( <i>note i</i> )	<u><b>10,500</b></u>	<u>10,500</u>
	<u><b>12,341</b></u>	<u>10,500</u>
Other borrowings:		
Other loan, secured ( <i>note ii</i> )	–	122
Other loan, secured ( <i>note iii</i> )	<b>8,000</b>	8,000
Other loan, secured ( <i>note iv</i> )	<u><b>1,000</b></u>	<u>–</u>
	<u><b>9,000</b></u>	<u>8,122</u>
Bank borrowings repayable within one year or on demand	<u><u><b>21,341</b></u></u>	<u><u>18,622</u></u>

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

- (i) The bank overdraft and bank revolving loan bear interest at prime rate of the bank (31 December 2009: prime rate of the bank) and HIBOR plus 3.5% (31 December 2009: HIBOR plus 3.5%) per annum respectively.



As at 30 June 2010, the bank borrowings facilities of HK\$14,000,000 (31 December 2009: HK\$14,000,000) granted by a banker are secured by the Group's leasehold land and building with an aggregate carrying amount of approximately HK\$16,286,000 (31 December 2009: HK\$16,310,000), jointed and several personnel guarantee to be executed by the director, Mr. Chan Chun Choi and a third party of HK\$14,000,000 (31 December 2009: HK\$14,000,000) plus accrued interest. At the end of the reporting period, the facilities were utilized by the Group to the extent of approximately HK\$12,341,000 (31 December 2009: HK\$10,500,000).

- (ii) 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, Oriental Surplus Limited, interest free and repayable on demand. The balance of approximately HK\$122,000 has been deconsolidated upon the deconsolidation of a subsidiary as disclosed in Note 2.
- (iii) The Group borrowed a loan of HK\$8,000,000 pursuant to the loan agreement dated 16 November 2009 from a third party for general business purpose. The loan and the interest thereon is secured by a second legal charge over the Group's leasehold land and building with an aggregate carrying amount of approximately HK\$16,286,000 (31 December 2009: HK\$16,310,000). The amount due is interest free unless the lender has given not less than seven working days notice and repayable on demand. As at 30 June 2010, the balance was HK\$8,000,000 (31 December 2009: HK\$8,000,000).
- (iv) The Group borrowed a loan of HK\$1,000,000 pursuant to the loan agreement dated 30 June 2010 from a third party for general business purpose. The loan and the interest thereon is secured by a third legal charge over the Group's leasehold land and building with an aggregate carrying amount of approximately HK\$16,286,000, jointed and personnel guarantee to be executed by the director, Mr. Chan Chun Choi. As at 30 June 2010, the balance was HK\$1,000,000.

The amount due is repayable on 30 September 2010 unless the lender has given not less than seven working days notice to demand for repayment of any outstanding amount.

The amount due is interest free except for overdue sum at the interest rate of 12% per annum until full repayment.

## 17. Share Capital

	30 June 2010		31 December 2009	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
<b>Authorised Share Capital</b>				
At beginning of period/year and at end of period/year				
Ordinary shares of HK\$0.1 each	<u>220,558,640</u>	<u>22,056</u>	220,558,640	22,056
<b>Issued and Fully Paid Share Capital</b>				
At beginning of period/year and at end of period/year				
Ordinary shares of HK\$0.1 each	<u>154,801,160</u>	<u>15,480</u>	154,801,160	15,480

## 18. Reserves

	Share premium account HK\$'000	Contributed surplus* HK\$'000	Enterprise expansion fund* HK\$'000	Exchange fluctuation reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2010	50,091	710	445	(165)	(76,569)	(25,488)
Total comprehensive loss	-	-	-	-	(3,112)	(3,112)
Deconsolidation of a subsidiary	-	-	-	-	(24)	(24)
At 30 June 2010	<u>50,091</u>	<u>710</u>	<u>445</u>	<u>(165)</u>	<u>(79,705)</u>	<u>(28,624)</u>

# *The contributed surplus for the Group represents the excess of the fair 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 China.*

## 19. Capital Commitments

At the end of the reporting period, neither the Group nor the Company had any significant capital commitments outstanding.

## 20. Material Related Party Transactions

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transactions during the interim period.

(a) *Balances with related parties:*

	<b>30 June 2010</b>	31 December 2009
	<b>HK\$'000</b>	HK\$'000
Non-trade balances due to directors	<u>4,335</u>	<u>4,467</u>
Non-trade balance due to a related party	<u>2,197</u>	<u>2,197</u>

(b) *Key management personnel compensation*

The remuneration of Directors and other members of key management of the Group during the interim period was as follows:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Short-term employee benefits	<u>204</u>	130
Post-employment benefits	<u>6</u>	6
	<u>210</u>	<u>136</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business and Financial Review**

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

As of the date of this report, the Board has been restructured and on 2 June 2010, the Company submitted a resumption proposal in relation to the resumption of trading in the Company's shares to the Stock Exchange. 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.

### **Financial Summary**

At 30 June 2010, the Group's net current liabilities amounted to HK\$29,056,000 (31 December 2009: HK\$25,940,000) and net liabilities amounted to HK\$13,144,000 (31 December 2009: HK\$10,008,000). At the same day, the Group's cash and bank balances amounted to HK\$192,000 (31 December 2009: HK\$549,000).

In terms of liquidity, the current ratio at the end of the Period was 0.02 (31 December 2009: 0.04). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital was 1.92 at 30 June 2010 (31 December 2009: 1.74).

The Group's 2010 unaudited interim financial statements had not been reviewed by the auditors of the Company but had been duly reviewed by the Audit Committee with management. For the Period, the Directors are not aware of any significant change from the position as at 31 December 2009 and the information published in the report and accounts for the year ended 31 December 2009. Throughout the Period, the capital structure of the Company only consists of share capital, no other capital instrument had been issued by the Company.

### **Risk Management**

During the Period, the Group's exposure to credit risk, liquidity risk, fluctuation in exchange rates, interest rate risk and any related hedges are as follows:

- (i) 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 are limited because the cash and bank balances were placed with licensed and creditworthy commercial banks in Hong Kong.

- (ii) 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.
- (iii) 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, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.
- (iv) The Group is exposed to cash flow interest rate risk primarily arising from bank overdrafts and bank revolving loan which carrying at floating interest rates.

### **Future Outlook**

The Directors will continue to make the best efforts in improving business performance with all possible opportunities ahead. The Company will also keep on exercising stringent cost control, quality assurance, and expense control to minimize operating costs.

## DISCLOSURE OF ADDITIONAL INFORMATION

### Significant Issues

During the Period, there was no significant investment and material acquisitions or disposals of subsidiaries or associated companies. The Company and the Group had no significant commitments during the Period (Last Period and the year ended 31 December 2009: nil).

### Acquisition of subsidiaries

On 4 June 2010, the Company announced that the Company entered into a conditional sale and purchase agreement dated 1 June 2010 with an independent third party to acquire the whole issued share capital of Long Triumph Holdings Limited for a consideration of HK\$50,000,000. The acquisition constitutes a very substantial acquisition on the part of the Company under the Listing Rules and is subject to the approval of the Company's shareholders at a special general meeting to be convened. Further details of the acquisition are set out in the Company's announcement dated 4 June 2010. The aforesaid acquisition has not been completed as of the date of approval of these consolidated financial statements.

#### *Oriental Surplus Limited*

Oriental Surplus Limited ("OSL") was a wholly-owned subsidiary of the Company incorporated in the British Virgin Island on 2 October 2007. 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 were 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 (the "Agreement") and as working capital to revitalize the business of the Group. The loan was secured by a share mortgage in respect of entire issued share capital of OSL.

As mentioned in the Company's 2009 annual report, as the Company had lost contact with the sole director of OSL since early 2008 and did not have sufficient documentary evidence available, the Directors were unable to represent as to the completeness and correctness of the financial information of OSL included in the financial statements of the Group.

The Company received a letter dated 4 September 2009 from the legal advisors of the said lender, informing the Company that the entire share capital in OSL has been transferred to the lender on 7 February 2009 and among the dispute over the execution of the Agreement. The said letter also stated that lender is now in possession of all the records and documents including company kit, and is the legal and beneficial owner of the entire share capital of OSL.

Due to the above reason, the directors considered that the Group was unable to exercise its right as shareholder either to control the assets and operations or to exercise significant influence over the financial and operation policy decisions of OSL, and it is inappropriate to consolidate the financial results of OSL into the Group. Therefore, OSL was deconsolidated from 1 January 2010.

## **Pledge of Assets**

As at 30 June 2010, the bank borrowings facilities of HK\$14,000,000 (31 December 2009: HK\$14,000,000) granted by a banker are secured by the Group's leasehold land and building with an aggregate carrying amount of approximately HK\$16,286,000 (31 December 2009: HK\$16,310,000), jointed and several personnel guarantee to be executed by the director, Mr. Chan Chun Choi and a third party of HK\$14,000,000 (31 December 2009: HK\$14,000,000) plus accrued interest. As at 30 June 2010, the facilities were utilized by the Group to the extent of approximately HK\$12,341,000 (31 December 2009: HK\$10,500,000).

The Group borrowed a loan of HK\$8,000,000 pursuant to the loan agreement dated 16 November 2009 from a third party for general business purpose. The loan and the interest thereon is secured by a second legal charge over the Group's leasehold land and building with an aggregate carrying amount of approximately HK\$16,286,000 (31 December 2009: HK\$16,310,000). The amount due is interest free unless the lender has given not less than seven workings days notice and repayable on demand. As at 30 June 2010, the balance was HK\$8,000,000 (31 December 2009: HK\$8,000,000).

The Group borrowed a loan of HK\$1,000,000 pursuant to the loan agreement dated 30 June 2010 from a third party for general business purpose. The loan and the interest thereon is secured by a third legal charge over the Group's leasehold land and building with an aggregate carrying amount of approximately HK\$16,286,000, jointed and personnel guarantee to be executed by the director, Mr. Chan Chun Choi. The amount due is repayable on 30 September 2010 unless the lender has given not less than seven workings days notice to demand for repayment of any outstanding amount. The amount due is interest free except for overdue sum at the interest rate of 12% per annum until full repayment. As at 30 June 2010, the balance was HK\$1,000,000.

## **Directors' Interests in Contracts**

None of the Directors had a significant beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the Period (Last Period and the year ended 31 December 2009: none).

## Directors' and Chief Executives' Interests in Share Capital of the Company

At the end date of the Period, the interests of the Directors and chief executives of the Company in the shares of the Company, underlying shares in respect of equity derivatives and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to both the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the "Model Code") and Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have under such provisions of the SFO), were as follows:

(a) *The Company:*

<b>Name of Director</b>	<b>Number of shares held (other interest)</b>
Chan Chun Choi ("Mr. Chan")	43,337,758

Of the above shares:

- (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. Mr. Chan holds all the issued share of EVEI; and
- (ii) 36,500,000 shares are held by Winsley Investment Limited ("Winsley").

(b) *Associated Corporations:*

<b>Names of associated corporation</b>	<b>Name of Director</b>	<b>Number of shares held</b>	<b>Class of shares</b>	<b>Type of interest</b>
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 Kwong Hung Hing Enterprises Company 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.

## **Directors' Service Contracts**

All Directors (except for the independent non-executive directors) had entered service contracts with the Company for an initial term of 2 years. Every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.

## **Corporate Governance**

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

Of the four existing independent non-executive Directors ("INEDs"), Ms. Leung Wai Kei and Mr. Ip Ka Keung (appointed on 18 January 2010) possess 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.

### *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 Period and have confirmations from all Directors that they had fully complied with the required standard set out in the Model Code.

### *Audit Committee*

The Group's 2010 unaudited interim financial statements had not been reviewed by the auditors of the Company but had been duly reviewed by the Audit Committee with management. The members of the Audit Committee unanimously recommended for approval by the Board.

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2010 unaudited interim financial statements of the Group, 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.



## Employees

Same as its last year-end date, the Group had a total of 6 employees, of whom all were based in Hong Kong. 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 Period amounted to HK\$625,000 (Last Period: HK\$445,000). On irregular but necessary basis, adequate on-job training had been provided to staff in need.

The Group did not operate any pension or retirement schemes for its Directors or employees until the implementation of the MPF in December 2000.

## Purchase, Sale or Redemption of the Company's Listed Securities

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the Period (Last Period and the year ended 31 December 2009: nil).

## Ultimate Holding Company and Substantial Shareholders

The Directors consider the ultimate holding company of the Company at 30 June 2010 to be Winsley.

At the end of the reporting period and as at the date of this report, 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*

<b>Name</b>	<b>Number of issued Shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Au Yu Siu	11,804,000	7.63 per cent

On behalf of the Board  
**Chan Chun Choi**  
*Chairman and Managing Director*

Hong Kong, 25 August 2010

*As at the date hereof, the Board comprises Mr. Chan Chun Choi and Ms. Lu Su Hua, both of whom are executive directors; Mr. Leung Wai Tat, Henry, Ms. Leung Wai Kei, Mr. Ip Ka Keung and Dr. Lam King Hang who are independent non-executive directors.*