



VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1139)

(the “Company”)

2006 Annual Results

The Board of directors of the Company (the “Board”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) as follows:

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Revenue	1	8,024	4,488
Cost of sales		<u>(7,470)</u>	<u>(4,121)</u>
Gross profit		554	367
Other income	2	308	4,727
Selling and distribution costs		(33)	(49)
Administrative expenses		(4,504)	(3,827)
Other operating expenses		<u>(52)</u>	<u>(1,043)</u>
(Loss)/Profit from operating activities	3	(3,727)	175
Finance costs	4	<u>(2,341)</u>	<u>(1,350)</u>
Loss before taxation	5	(6,068)	(1,175)
Taxation		<u>—</u>	<u>—</u>
Net loss from ordinary activities attributable to shareholders		<u>(6,068)</u>	<u>(1,175)</u>
Dividends	6	<u>—</u>	<u>—</u>
Loss per share – Basic	7	<u>(4.28 cents)</u>	<u>(0.11 cents)</u>

Consolidated Balance Sheet
As at 31 December 2006

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

Disclaimer of Opinion

The auditors of the Company are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006 and of its loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, on account of the fundamental uncertainty relating to the appropriateness of the going concern basis.

Impact of New and Revised Hong Kong Financial Reporting Standards

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

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

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

Notes:

1. Revenue

Revenue represents the invoiced value of inventories sold, net of discounts and returns, and rental income. There had been no change in the Group's principal activities during the years presented, mainly the marketing and distribution of automotive products and property holding for rental income purposes. The results of each significant category of revenue recognised in turnover during the years are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Trading of automotive products	7,874	4,288
Gross rental income	150	200
	<u>8,024</u>	<u>4,488</u>

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

i) Business segments:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	<i>Effect</i>
Revenue			
Trading of automotive products	7,874	4,288	83.6%
Rental income	150	200	(25.0%)
	<u>8,024</u>	<u>4,488</u>	78.8%
Operating (loss)/profit			
Trading of automotive products	(3,657)	167	(+100%)
Rental income	(70)	8	(+100%)
	<u>(3,727)</u>	<u>175</u>	(+100%)

ii) Geographical segments:

Revenue			
Hong Kong	150	3,528	(95.7%)
China	7,874	960	720%
	<u>8,024</u>	<u>4,488</u>	99.8%
Operating (loss)/profit			
Hong Kong	(70)	138	(+100%)
China	(3,657)	37	(+100%)
	<u>(3,727)</u>	<u>175</u>	(+100%)

2. Other income

	2006 HK\$'000	2005 HK\$'000
Interest income	20	1
Bad debts recovered	288	288
Reversal of impairment loss on land lease prepayment	–	4,438
	<u>308</u>	<u>4,727</u>

3. (Loss)/Profit from operating activities

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

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

4. Finance costs

	2006 HK\$'000	2005 HK\$'000
Interest on bank overdrafts	176	971
Interest on bank loans	1,965	379
Interest on other loan	200	–
	<u>2,341</u>	<u>1,350</u>

5. Taxation

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Provision for Hong Kong profits tax for the year	<u>—</u>	<u>—</u>

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

6. Dividend

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

7. Loss per share

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Annual Results

The directors of the Company (the “Directors”) had tried hard to explore successfully a new funding support to improve the turnover of the Group in 2006, achieving a significant 79 percent growth as compared with last year. However, the Group still suffered another bad financial year from those obstacles as previous years, including the insufficiency of turnover as a result of the lack of operating funds. Worsen by the shrinkage of other revenue, the target to overturn the Group’s bottom-line result for the year under review had missed. As a combined effect of the decreases in the gross margin and the other revenue, the Group hereby reported a net audited loss of HK\$6,068,000 for the year ended 31 December 2006 (31 December 2005: HK\$1,175,000).

Business Review

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

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

During the year of review, the Group had achieved a turnover and the profit margin of approximately HK\$7.9 million and HK\$0.4 million respectively out of the distribution of LED auto products in the People’s Republic of China (the “PRC”).

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

Liquidity and Financial Resources

Throughout the years presented, the Group had no exposure to credit risk, inventory risk, fluctuation in exchange rates and any related hedges because our tight control of working capital management on the credit policies, inventory, funding and treasury planning was proven effective. At year-end date, the Group’s trade receivables and trade payables had increased to HK\$7,874,000 and HK\$3,387,000, respectively (31 December 2005: HK\$50,000 and HK\$ nil, respectively) while there had also been no inventories as last year-end date due to a limited working fund.

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

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

Future Outlook

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

Delayed Publication of the 2006 Annual Results

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

Suspension of Trading

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

Employees

At 31 December 2006, the Group had a total of 6 employees (2005: 8 employees), of whom 5 were based in Hong Kong whereas 1 was local staff employed in the PRC. The remuneration package for Hong Kong staff was strictly on a monthly-salary basis and that for the PRC employees was performance oriented. Year-end bonus was linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly. Total staff costs for the year amounted to HK\$1,785,000 (2005: HK\$2,338,000). On irregular but necessary basis, adequate on-job training had been provided to staff in need.

Contingent Liabilities

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

	Group		Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Banking facilities guaranteed by the Company which were utilised by the subsidiaries (Note a)	–	–	–	11,675
Banking facilities guaranteed by the Company which were utilised by a subsidiary (Note b)	–	–	11,173	–
	<u>–</u>	<u>–</u>	<u>11,173</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>11,173</u>	<u>11,675</u>

Notes:

- (a) It represented the guarantee in respect of the secured bank borrowings granted by a bank to a subsidiary of the Group. Pursuant to the terms of the banking facilities letter, upon default in repayments of the bank borrowings by the subsidiary, the Company is responsible for repaying the outstanding principals of the bank borrowings together with the accrued interest and penalty owed by the subsidiary to the bank and the bank is entitled to take over the legal title and possession of the pledged property of the Group. The guarantee was released during the current year upon full repayment of the bank borrowings by a subsidiary.
- (b) It represented the guarantee in respect of the secured other loan granted by a lender to a subsidiary of the Group. Pursuant to the terms of the guarantee, upon default in loan repayments by the subsidiary, the Company is responsible for repaying the outstanding loan principals together with the accrued interest and penalty owed by the subsidiary to the lender and the lender is entitled to take over the legal title and possession of the pledged property of the Group. Such guarantee was released in February 2007 upon the full repayment of the other loan.

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

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

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

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

Significant Issues

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

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

For the year ended 31 December 2006, the Directors are not aware of any significant change from the position as at 31 December 2005 and the information published in the report and accounts for the year ended 31 December 2005. The capital structure of the Company only consists of share capital, no other capital instrument was issued by the Company.

Pledge of Assets

At year-end date, the Group's leasehold buildings and land with an aggregate net book value of HK\$15,393,000 (31 December 2005: HK\$16,472,000) and a pledged bank deposit of HK\$3,588,000 were pledged to secure bank and other borrowings of the Group.

Purchase, Sale or Redemption of Shares in the Company

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the two years presented.

Acquisitions and disposals of subsidiaries and associates

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

Corporate Governance

The Company's 2006 audited financial statements had been reviewed by the audit committee of the Company (the "Audit Committee"), which comprises three independent non-executive Directors, before they were duly approved by the Board under the recommendation of the Audit Committee.

In the opinion of the Directors, the Company had complied with the Code of Best Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the 2006 annual report.

The Company had received, from each of the independent non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company had made specific enquiries of all Directors regarding any non-compliance with the Model Code during the year, and received confirmations from all Directors that they had fully complied with the required standard set out in the Model Code.

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2006 consolidated financial statements of the Company, the Directors, both collectively and individually, applied such degree of skill, care and diligence as may reasonably be expected of under the Rule 3.08 of the Listing Rules.

In addition to the above disclosures, the Company's 2006 annual report also contains the corporate governance report in compliance with all relevant recommendations laid down in the "Corporate Governance Report" as set out in Appendix 23 of the Listing Rules.

Annual General Meeting

It is proposed that the Annual General Meeting of the shareholders of the Company will be held on 5 October 2007. Notice of Annual General Meeting will be published and dispatched to the shareholders in due course.

Closure of Register of Members

The register of members of the Company will be closed from 2 October 2007 to 5 October 2007 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the meeting convened by the above notice, all transfers accompanied by the relevant share certificate and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Trico Tengis Limited, at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong not later than 4:30 p.m. on 28 September 2007.

Other information

Other than the Company's website, all the financial and other related information required by the Listing Rules in relation to the 2006 annual results of the Company will also be published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) at the earliest practicable opportunity.

On behalf of the Board

Chan Chun Choi

Chairman

Hong Kong, 5 September 2007

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