VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code : 1139)
(the "Company")

SUMMARISED 2004 ANNUAL RESULTS

The Board of directors of the Company (the "Board") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 as follows:

	Note	2004 HK$'000	2003 HK$'000
Turnover	1	**2,240**	5,216
Cost of sales		**(1,700)**	(4,929)
Write-off of inventories		**(369)**	–
Write-down of inventories		**–**	(369)
Gross profit/(loss)		**171**	(82)
Other revenue	2	**5,365**	401
Selling and distribution costs		**(67)**	(65)
Administrative expenses		**(3,750)**	(3,479)
Other operating expenses		**(77)**	(398)
Profit/(Loss) from operating activities	3	**1,642**	(3,623)
Finance costs	4	**(1,633)**	(1,422)
Profit/(Loss) before taxation		**9**	(5,045)
Taxation	5	**–**	(27)
Net profit/(loss) from ordinary activities attributable to shareholders		**9**	(5,072)
Dividends	6	**–**	–
Earnings/(Loss) per share – Basic	7	**0.001 cents**	(1.776 cents)

Notes:

1. **TURNOVER**

Turnover 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:

	2004 HK$'000	2003 HK$'000
Sales of automotive products	**2,040**	5,166
Gross rental income	**200**	50
	2,240	5,216

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

(a) Business segments:

	2004 *HK$'000*	2003 *HK$'000*	Effect
Turnover			
Trading of automotive products	**2,040**	5,166	(60.5%)
Rental income	**200**	50	400.0%
	2,240	5,216	(57.1%)
Operating profit/(loss)			
Trading of automotive products	**1,462**	(3,666)	139.9%
Rental income	**181**	43	420.9%
	1,643	(3,623)	145.3%

(b) Geographical segments:

	2004 *HK$'000*	2003 *HK$'000*	Effect
Turnover			
Hong Kong	**200**	50	400.0%
China	**2,040**	5,166	(60.5%)
	2,240	5,216	(57.1%)
Operating profit/(loss)			
Hong Kong	**181**	43	420.9%
China	**1,462**	(3,666)	139.9%
	1,643	(3,623)	145.3%

2. OTHER REVENUE

	2004 ***HK$'000***	2003 *HK$'000*
Interest income	**1**	8
Commission income	**–**	94
Bad debts recovered	**312**	288
Gains on disposal of fixed assets	**15**	–
Written back of impairment loss on leasehold land and building	**4,960**	–
Others	**77**	11
	5,365	401

3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2004 ***HK$'000***	2003 *HK$'000*
Cost of inventories	**2,069**	5,298
Auditors' remuneration	**216**	216
Depreciation	**181**	182
Loss on disposal of investment properties	**–**	285
Bad debts provision/bad debts expense	**–**	109
Foreign exchange (gains)/losses, net	**(1)**	4
Staff costs (including directors' remuneration)	**1,942**	1,678
Mandatory Provident Fund contribution	**48**	54
Bad debts recovered	**(312)**	(288)
Commission income	**–**	(94)
Interest income	**(1)**	(8)
Net rental income	**(200)**	(50)
Gain on disposal of fixed assets	**(15)**	–
Written back of impairment loss on leasehold land and building	**(4,960)**	–

4. **FINANCE COSTS**

	2004	2003
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and trust receipt loans	**1,295**	1,032
Mortgage loan	**338**	390
	1,633	1,422

5. **TAXATION**

	2004	2003
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax for the year	**–**	27

Notes:

Hong Kong Profits Tax has been provided for at 17.5 per cent (2003: 17.5 per cent) on the estimated assessable profit for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

6. **DIVIDEND**

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

7. **EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings per share was based on the net profit attributable to shareholders for the year of HK$9,000 (net loss attributable to shareholders in 2003: HK$5,072,000) and the weighted average of 866,102,000 (2003: 285,535,000) ordinary shares in issue during the year.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Annual Results

Despite the dissatisfaction of business performance, the directors of the Company (the "Directors") are pleased to achieve an overturn of the Group's bottom-line result for the year under review. After five consecutive losing years since 1999, the Group hereby reported a net audited profit of HK$9,000 for the year ended 31 December 2004 (31 December 2003: net audited loss of HK$5,072,000).

Business Review

The audited net profit for 2004 was contributed primarily by the re-valuation of the Company's investment property as a result of the drastic increase in the market price. The turnover, however, slipped 57 per cent from that of last financial year although the gross profit margins were greatly improved. The overall running cost had been sustained at its minimal level through the strict cost control measures adopted years ago. Likewise, human resources had been maintained at the least possible status to produce maximum productivity. In brief, the cost structure of the Group has been successfully locked at the least possible efficient level.

The Board must admit that the Group's results were continuously hindered by the supply of new working capital throughout the year under review. For the past five years, it was the best we could do to operate in such a minimal funding support. The dealership of the automotive products demands an influx of enormous working fund, as it always does. The Group had experienced failures in various attempts of exploring new banking facilities but the Board is still determined to improve the funding position in the near future nonetheless.

Between 4 February 2004 and 20 April 2004, the Company undertook a scheme of fund raising and debt restructuring, the details of which were provided in the 2004 annual report which is about to be distributed to our shareholders.

Financial Summary

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 decreased to nil (31 December 2003: HK$87,000) while there had been no inventories (31 December 2003: HK$369,000) due to shortage of working fund.

As at 31 December 2004, the Group's net current liabilities and net liabilities amounted to HK$17,435,000 and HK$4,775,000 respectively (31 December 2003: HK$24,515,000 and HK$16,650,000 respectively). At the same day, the Group's cash and bank balances amounted to HK$2,777,000 (31 December 2003: HK$1,357,000). The total bank loans and overdrafts at 31 December 2004 were HK$14,559,000, a 9.8 per cent increase from such balances at 31 December 2003. No time deposits were pledged to back the banking facilities granted to the Group at 31 December 2004 (31 December 2003: HK$ nil).

In terms of liquidity, the current ratio at year-end date was 0.14 (31 December 2003: 0.08). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital, was 1.89 at 31 December 2004 (31 December 2003: 6.1).

Future Outlook

Together with lots of other unfavorable changes in the automotive industry, local distributors such as the Company have been forced to expand the marketing channels. Unfortunately, the required capital is exactly what the Group lacks of. Although the Group has achieved a high cost effective structure, steady sources of revenue through diversification of distribution channels must be materialized.

Undoubtedly China is the world's fastest growing auto market. If the Group continues to view the Mainland as its principal market for its automotive merchandise, direct distribution channel must be developed within the country, inside the core of the marketplace. Evidently, direct marketing channel in China requires a large-scale building of the operational infrastructure, including the acquisition of both capital and human resources. Large amount of funding is inevitably required, but developing such marketing channel is the immediate goal of the Group nonetheless. It is the right way to go and we have to do it so the Board is therefore determined to overturn the funding situation in the years to come. Other than existing negotiations and any local opportunities in Hong Kong, new banking facilities from foreign capital markets should also be attempted. Thorough strategic planning shall be formulated, possibilities shall be weighted, and actions shall be plotted accordingly. The Board is making its best effort to fix things right.

Employees

At 31 December 2004, the Group had a total of 8 employees (2003: 10 employees), of whom 5 were based in Hong Kong whereas 3 was local staff employed in the People's Republic of China (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$1,942,000 (2003: HK$1,678,000). On irregular but necessary basis, adequate on-job training had been provided to staff in need.

Contingent Liabilities

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

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Banking facilities guaranteed by the Company which were utilised by the subsidiaries	**–**	–	**15,326**	13,700

(b) Included in the bank borrowing was a mortgage loan with principal amount of HK$8,317,000 as at 31 December 2004. There was no repayment from the Group since November 2002. The accrued interest of HK$778,000 (2003: HK$440,000) was provided and included in the balance sheet as account payable. No further liabilities were provided for the late repayment as there is no information available to quantify the further liability arisen from the late repayment, any penalty charge and other liability if any thereof.

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 2004, the Directors are not aware of any significant change from the position as at 31 December 2003 and the information published in the report and accounts for the year ended 31 December 2003. 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 land and buildings and investment properties with an aggregate net book value of HK$12,700,000 (31 December 2003: HK$7,920,000) were pledged to secure bank loans and overdraft 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. eSolutions Holding Limited, the Group's former associate was dissolved with effect from 2 January 2004 pursuant to the Order of the Court of First Instance of the High Court.

Corporate Governance

The Company's 2004 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 2004 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 2004 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.

Other information

All the financial and other related information required by the Listing Rules in relation to the 2004 annual results of the Company will 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, 8 April 2005

As at the date 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.

Please also refer to the published version of this announcement in The Standard.