



VICTORY GROUP LIMITED

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

SUMMARISED 2005 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 2005

		2005	2004
	Note	HK\$'000	(Restated) HK\$'000
Turnover	2	4,488	2,240
Cost of sales		(4,121)	(1,700)
Write-off of inventories		–	(369)
		<hr/>	<hr/>
Gross profit		367	171
Other revenue	3	4,727	5,456
Selling and distribution costs		(49)	(67)
Administrative expenses		(3,827)	(3,739)
Other operating expenses		(1,043)	(77)
		<hr/>	<hr/>
Profit from operating activities	4	175	1,744
Finance costs	5	(1,350)	(1,633)
		<hr/>	<hr/>
(Loss)/profit before taxation		(1,175)	111
Taxation	6	–	–
		<hr/>	<hr/>
Net (loss)/profit from ordinary activities attributable to shareholders		(1,175)	111
		<hr/>	<hr/>
Dividends	7	–	–
		<hr/>	<hr/>
(Loss)/Earnings per share – Basic	8	(0.11 cents)	0.13 cents
		<hr/>	<hr/>

Consolidated Balance Sheet
As at 31 December 2005

	2005 <i>HK\$'000</i>	2004 (Restated) <i>HK\$'000</i>
Non-current assets		
Fixed assets	2,032	2,081
Land lease prepayment	14,096	10,002
	<u>16,128</u>	<u>12,083</u>
Current assets		
Land lease prepayment	344	238
Prepayments, deposits and other receivables	124	125
Trade receivables	50	–
Cash and bank balances	598	2,777
	<u>1,116</u>	<u>3,140</u>
Current liabilities		
Amount due to a related party	2,197	2,197
Other payables and accruals	3,748	3,506
Tax payable	–	25
Rental received in advance	–	50
Bank borrowings, secured	10,518	14,559
	<u>16,463</u>	<u>20,337</u>
Net current liabilities	<u>(15,347)</u>	<u>(17,197)</u>
Total assets less current liabilities	<u>781</u>	<u>(5,114)</u>
Non-current liabilities		
Bank borrowings, secured	–	–
Deferred taxation	–	–
Provision for long service payment	44	41
	<u>44</u>	<u>41</u>
NET ASSETS/(LIABILITIES)	<u><u>737</u></u>	<u><u>(5,155)</u></u>
CAPITAL AND RESERVES		
Share capital	12,900	10,750
Reserves	(12,163)	(15,905)
	<u>737</u>	<u>(5,155)</u>

Notes:

1. CHANGES IN ACCOUNTING POLICIES

In current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “New HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs did not result in significant changes to the Group’s accounting policies. The changes are detailed in note 3 to the financial statements in the annual report.

2. 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:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Sales of automotive products	4,288	2,040
Gross rental income	200	200
	<u>4,488</u>	<u>2,240</u>

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:**

	2005 HK\$'000	2004 (Restated) HK\$'000	Effect
Turnover			
Trading of automotive products	4,288	2,040	110.2%
Rental income	200	200	–
	<u>4,488</u>	<u>2,240</u>	100.4%
Operating profit			
Trading of automotive products	167	1,588	(89.5%)
Rental income	8	156	(94.9%)
	<u>175</u>	<u>1,744</u>	(90.0%)

(b) **Geographical segments:**

Turnover			
Hong Kong	3,528	200	1,664%
China	960	2,040	(52.9%)
	<u>4,488</u>	<u>2,240</u>	100.4%
Operating profit			
Hong Kong	138	156	(11.5%)
China	37	1,588	(97.7%)
	<u>175</u>	<u>1,744</u>	(90.0%)

3. **OTHER REVENUE**

	2005 HK\$'000	2004 (Restated) HK\$'000
Interest income	1	1
Bad debts recovered	288	312
Gains on disposal of fixed assets	–	15
Reversal of impairment loss on land lease prepayment	4,438	5,051
Others	–	77
	<u>4,727</u>	<u>5,456</u>

4. **PROFIT FROM OPERATING ACTIVITIES**

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

	2005 HK\$'000	2004 (Restated) HK\$'000
Cost of inventories	4,121	2,069
Auditors' remuneration	186	216
Amortisation of land lease prepayment	238	121
Depreciation	49	49
Loss on write-off of assets of a subsidiary	992	–
Bad debt provision	8	–
Foreign exchange losses/(gains), net	43	(1)
Staff costs (including directors' remuneration)		
salaries, allowances and other benefits	2,290	1,942
Mandatory Provident Fund contribution	48	48
Reversal of impairment loss on land lease prepayment	(4,438)	(5,051)
Bad debts recovered	(288)	(312)
Gain on disposal of fixed assets	–	(15)
Interest income	(1)	(1)
Net rental income	(200)	(200)

5. **FINANCE COSTS**

	2005 HK\$'000	2004 HK\$'000
Interest on bank overdrafts	971	1,295
Mortgage loan	379	338
	<u>1,350</u>	<u>1,633</u>

6. **TAXATION**

	2005 HK\$'000	2004 HK\$'000
Provision for Hong Kong profits tax for the year	–	–

Notes:

Hong Kong Profits Tax has been provided for at 17.5 per cent (2004: 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.

7. DIVIDEND

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

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share was based on the net loss attributable to shareholders for the year of HK\$1,175,000 (net profit attributable to shareholders in 2004: as restated: HK\$111,000) and the weighted average of 1,088,087,000 (2004: 86,610,000 ordinary shares after adjusting for the consolidation of shares on 20 December 2005) ordinary shares in issue during the year.

Diluted (loss)/earnings 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 directors of the Company (the “Directors”) had tried hard to achieve a significant two-fold increase in the turnover of the Group in 2005, the Group suffered another bad financial year from the shrinkage of other revenue and the inflation of operating costs. The target to keep the overturn of the Group’s bottom-line result for the year under review had missed. As a combined result of 13.36 percent decrease in other income and 26.68 percent jump in the overall running expenses, the Group hereby reported a net audited loss of HK\$1,175,000 for the year ended 31 December 2005 (31 December 2004: restated net audited gain of HK\$111,000).

Business Review

The audited net loss for 2005 was primarily caused by the drastic slip of the gross profit margins in the distribution business of automotive products in Hong Kong, quite contrary to the favorable conditions in last year. Under the new accounting standards adopted in 2005, the re-valuation of the Company’s investment property created little economical benefits to the Group’s 2005 accounts. The turnover was increased significantly due to two main reasons. First, the importing constraints in China, especially in late 2005, had been conditionally lessened. Second, the Company was able to procure more merchandise in the year. Apart from an once-and-for-all write off, the overall running cost had been sustained at its minimal level through the strict cost control measures adopted years ago. 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.

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 six 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.

To improve the cash flow of the Group, the Company managed to undertake a scheme of fund raising. On 20 September 2005, Winsley Investment Limited, a substantial shareholder of the Company (the “Vendor”), entered into a placing agreement and a top-up subscription agreement with the placing agent and the Company respectively. Pursuant to the placing agreement, the Vendor agreed to place, through the placing agent an aggregate of 215,000,000 ordinary shares of HK\$0.01 each (“Shares”), on a fully underwritten basis, to not fewer than six independent places at a price of HK\$0.035 per Share. Pursuant to the top-up subscription agreement, the Vendor conditionally agreed to subscribe for an aggregate of 215,000,000 new Shares at a price of HK\$0.035 per Share. The whole fundraising exercise completed on 6 October 2005 where the top-up subscription Shares were allotted and issued pursuant to the general mandate granted to the Directors at the Company’s annual general meeting held on 18 May 2005. The net proceeds from the top-up subscription amounting to approximately HK\$7.06 million were mainly used for the repayment of bank overdraft of HK\$5 million and as the general working capital of the Group.

As the market price of the shares of the Company approached the extremities of HK\$0.01 and at the request of the Stock Exchange and pursuant to Rule 13.64 of the Listing Rules, the Directors had to implement the share consolidation. The Directors also considered that the share consolidation would increase the attractiveness of the consolidated shares of the Company to certain investors and reduce certain listing expenses to the Company. Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 20 December 2005, every ten issued and unissued ordinary shares of HK\$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK\$0.10 each in the share capital of the Company.

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 increased to HK\$50,000 (31 December 2004: HK\$ nil) while there had been no inventories (31 December 2004: HK\$ nil) due to shortage of working fund.

As at 31 December 2005, the Group’s net current liabilities amounted to HK\$15,347,000 (31 December 2004: as restated: HK\$17,197,000) and net assets amounted to HK\$737,000 (31 December 2004: restated of net liabilities of HK\$5,155,000). At the same day, the Group’s cash and bank balances amounted to HK\$598,000 (31 December 2004: HK\$2,777,000). The total bank loans and overdrafts at 31 December 2005 were HK\$10,518,000, a 27.8 per cent decrease from such balances at 31 December 2004. No time deposits were pledged to back the banking facilities granted to the Group at 31 December 2005 (31 December 2004: HK\$ nil).

In terms of liquidity, the current ratio at year-end date was 0.07 (31 December 2004: as restated: 0.15). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital, was 1.28 at 31 December 2005 (31 December 2004: 1.89).

Future Outlook

It is apparent that lots of unfavorable trading barriers have been gradually removed in the automotive industry during 2005. However, local distributors such as the Company have been exposed to a more vigorous competition ever experienced in the market. To fight against the strong world-class competitors, the required capital is exactly what the Group lacks of. We know a high cost-effective structure is not sufficient to carry on our trading business, enhancing sources of revenue through change of market focus must be quickly materialized.

In the years to come, China is still the principal market for the Group's automotive trading business. From 2006 onward, the Group puts its market focus on the second-tier cities in China. The Group's limited funding will be placed on those small, middle-to-low range automobiles and their related parts and components, giving up on the sale of luxurious top-model merchandises which demand relatively much larger pool of funding. China's automotive market took off first in the wealthier coastal cities about six years ago but now the demand is rising inland, where lower incomes, coupled with rising fuel costs, have made low-range automobiles a popular choice. The Directors believe that the ability to gather working capital directs the Group's strategic planning and business developments. Evidently, direct marketing channel in China's second-tier cities requires relatively much smaller-scale building of the operational infrastructure, including the acquisition of both capital and human resources. In late March 2006, the European Union and the United States had turned to the World Trade Organization ("WTO") to urge China to lower restrictions on imports of auto parts. A request for a WTO dispute panel to rule on the issue had been lodged and a resolution is to be expected in early July this year. The Group's exports of auto parts to China will then be greatly benefited when the issue is resolved amicably.

Funding has long been the main obstacle in the way of overturning our business environment, but developing such trading channel in China's second-tier markets is inevitably the immediate goal of the Group. It is the right way to go and we have to do it so the Board is determined to improve the funding situation in the years ahead. Existing negotiations and any local opportunities in Hong Kong shall continue in addition to the attempts of new banking facilities from mainland capital markets. Staying in the frontier of survival, the Board is making its best effort to fix things right.

Employees

At 31 December 2005, the Group had a total of 8 employees (2004: 8 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\$2,338,000 (2004: HK\$1,990,000). 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	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Banking facilities guaranteed by the Company which were utilised by the subsidiaries	<u>-</u>	<u>-</u>	<u>11,675</u>	<u>15,326</u>

(b) Included in the bank borrowing was a mortgage loan with principal amount of HK\$8,317,000 as at 31 December 2005. There was no repayment from the Group since November 2002. The accrued interest of HK\$1,157,000 (2004: HK\$778,000) was provided and included in the balance sheet as other payable and accruals. 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 2005, the Directors are not aware of any significant change from the position as at 31 December 2004 and the information published in the report and accounts for the year ended 31 December 2004. 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\$16,472,000 (31 December 2004: as restated: HK\$12,320,000) 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.

Corporate Governance

The Company's 2005 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 2005 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 2005 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 2005 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 15 May 2006. Notice of Annual General Meeting will be published and despatched to the shareholders in due course.

Closure of Register of Members

The register of members of the Company will be closed from 10 May 2006 to 15 May 2006 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, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 9 May 2006.

Other information

All the financial and other related information required by the Listing Rules in relation to the 2005 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, 7 April 2006

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.