Notes to the Proforma Financial Information

1. CORPORATE INFORMATION

(a) The Company

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 November 2003 under the Companies Law of the Cayman Islands.

During the period from 27 November 2003 (being the date of incorporation) to 31 December 2003, the Company has not carried out any business transactions save for the incurring of expenses related to its incorporation and the Group Reorganisation as defined in note 1(b) below.

(b) Group reorganisation

Pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Shares on the Main Board of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group on 10 March 2004. Details of the Company's subsidiaries comprising the Group as from 10 March 2004 are set out in note 26 to the proforma financial information.

The Group Reorganisation was accomplished by acquiring the entire share capital of Victory BVI, which is, at the date of this report, the intermediate holding company of the subsidiaries set out in note 26 to the proforma financial information, in consideration of and in exchange for 10,000 shares to the then shareholders of Victory BVI. Further details of the Group Reorganisation are set out in the Prospectus.

The Shares were listed on the Main Board of the Stock Exchange on 26 March 2004.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The proforma financial information has been prepared in accordance with the accounting policies set out below. These accounting policies adopted by the Group in preparing the proforma financial information, which conform with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation

The proforma financial information has been prepared under the historical cost convention.

All significant inter-group transactions and balances within the Group are eliminated on combination.

(c) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has been passed to the customers.

(ii) Revenue from the provision of services is recognised when the services are rendered.

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iv) Grants are recognised in the proforma combined balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the proforma combined income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the proforma combined income statement as revenue on a systematic basis over the useful life of the asset.

(d) Research and development costs

Research and development costs are expensed as incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Finance leases

Leases that transfer substantially all the risks and rewards of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the proforma combined income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases but are depreciated over their estimated useful lives.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the proforma combined income statement on a straight line basis over the lease terms.

(g) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. Profits and losses resulting from this translation policy are dealt with in the proforma combined income statement.

The balance sheets of subsidiaries and associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Retirement benefit costs

The Group's contributions to retirement scheme are expensed as incurred.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(i) Taxation

The charge for taxation is based on the result for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the proforma financial information and the corresponding tax basis used in the computation of taxable profit. In principle, deferred taxation liabilities are recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Taxation *(continued)*

Deferred taxation is calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled. Deferred taxation is charged or credited to the proforma combined income statement, except when it relates to items credited or charged directly to equity, in which case the deferred taxation is also dealt with in equity.

Deferred taxation assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(j) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally expensed as incurred. In situations where it can clearly demonstrate that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of that asset.

Depreciation is provided on a straight line basis to write off the cost of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	20 years
Leasehold improvements	2 – 20 years
Plant and machinery	5 – 10 years
Office equipment	5 years
Motor vehicles	5 years

The useful lives of assets and the depreciation method are reviewed periodically.

The gain or loss on disposal or retirement of a fixed asset recognised in the proforma combined income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Subsidiaries

A subsidiary is a company controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities.

(l) Associated company

An associated company is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group's share of post-acquisition results and reserves of an associated company are included in the proforma combined income statement and statement of changes in equity respectively. The Group's investment in an associated company is stated in the proforma combined balance sheet at the Group's share of net assets under the equity method of accounting.

Unrealised profits and losses resulting from transactions between the Group and its associated company are eliminated to the extent of the Group's investment in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the proforma combined income statement.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the proforma combined income statement.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment no longer exists or has decreased. The reversal is recorded in the proforma combined income statement.

(o) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) Event after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the proforma financial information. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(r) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the proforma combined cash flow statement, bank overdrafts which are repayable on demand and form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents.

(s) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and exclude amounts due from related parties. Segment liabilities comprise operating liabilities and exclude items such as taxation, amounts due to related parties and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisition through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

3. TURNOVER AND REVENUE

The Group is principally engaged in printing of cigarette packages and manufacturing of laminated papers. The Group's turnover and revenue are as follows:

	2003	2002
	HK$'000	HK$'000
Turnover		
Cigarette packages	100,890	48,878
Laminated papers	131,137	141,884
	232,027	190,762
Other revenue		
Interest income	59	45
Commission income	715	734
Compensation received	276	307
Grant received *(Note)*	1,084	–
Sundry income	983	775
	3,117	1,861
Total revenue	235,144	192,623

Note: In 2003, the Group successfully applied for a grant from the Bureau of Economic and Trade of Shenzhen Municipality of the PRC. The purpose of the grant is to encourage innovation to commercial enterprises whose technology improvement projects meet certain criteria. The grant received, being reimbursement of bank loan interest specifically for financing of these technology improvement projects, was recognised as revenue whilst the related costs were expensed in the proforma combined income statement.

4. PROFIT FROM OPERATIONS

Profit from operations is stated after charging/(crediting) the following:

	2003 HK$'000	2002 HK$'000
Auditors' remuneration	**600**	152
Cost of inventories sold	**148,233**	123,461
Depreciation		
Owned fixed assets	**3,843**	2,523
Leased fixed assets	**3,910**	1,864
	7,753	4,387
Loss on disposals of fixed assets	**216**	42
Operating lease rentals in respect of land and buildings	**2,541**	2,372
Less: Amount included in cost of inventories sold	**(1,584)**	(1,370)
	957	1,002
Staff costs including directors' emoluments		
Salaries and other costs	**13,071**	9,103
Retirement benefits scheme contributions	**566**	412
Less: Staff costs included in research and development costs	**(174)**	–
Less: Direct labour costs included in cost of inventories sold	**(3,779)**	(2,572)
	9,684	6,943
Research and development costs	**5,031**	3,795
Less: Amount included in cost of inventories sold	**(4,145)**	(3,795)
	886	–
Reduction in provision for doubtful debts	**(141)**	–
Bad debts written off	**116**	–

5. FINANCE COSTS

	2003 HK$'000	2002 HK$'000
Interest on bank loans and overdrafts	**7,109**	5,709
Finance lease charges	**1,667**	703
	8,776	6,412

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of the directors' emoluments for the year are as follows:

	2003 HK$'000	2002 HK$'000
Fees	**–**	–
Other emoluments:		
Basic salaries, other allowances and benefits in kind	**2,371**	2,056
Discretionary bonus	**–**	–
Retirement benefits scheme contributions	**77**	66
	2,448	2,122

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

Emolument breakdown of each of the executive Directors for year 2003 is set out below:

	Directors' fees	Basic salaries, other allowances and benefits in kind	Discretionary bonus	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Li Wei Bo	–	1,045	–	43	1,088
Mr. Lee Cheuk Yin, Dannis	–	807	–	12	819
Mr. Cheung Chun Ming	–	349	–	16	365
Ms. Zhu Wei Li	–	170	–	6	176
	–	2,371	–	77	2,448

No emoluments were paid to any independent non-executive Directors during the year.

The five highest paid individuals in the Group included three (2002: three) Directors for the year. The information relating to the directors' emoluments is disclosed above. The emoluments and designated band of the remaining highest paid, non-director individuals during the year are set out below:

	2003	2002
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**654**	534
Discretionary bonus	**–**	–
Retirement benefits scheme contributions	**24**	20
	678	554

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

	2003 Number of employees	2002 Number of employees
Nil to HK$1,000,000	**2**	2

During the year, no emoluments were paid by the Group to the Directors or any of the highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No Directors waived any emoluments during the year.

7. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the proforma combined income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with employees when contributed into the MPF Scheme.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on the applicable basis and rates with the relevant government regulations.

The only obligation of the Group with respect of the retirement benefits schemes is to make the required contributions under the respective schemes.

The total costs charged to the proforma combined income statement of approximately HK$566,000 (2002: approximately HK$412,000) represent contributions payable to the retirement benefits schemes in Hong Kong and the PRC by the Group at rates specified in the rules of the relevant schemes. At 31 December 2003, no contributions due in respect of the current year had not been paid over the relevant schemes (2002: Nil).

8. TAXATION

	2003 HK$'000	2002 HK$'000
The taxation charge comprises:		
Share of taxation attributable to an associated company	**6,569**	5,573
PRC enterprise income tax	**4,291**	3,896
	10,860	9,469

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong.

Pursuant to relevant laws and regulations in the PRC, Victory Shenzhen is entitled to full exemption from PRC enterprise income tax for the first two years and 50% reduction for the following three years commencing from the first profitable year of operation after fully set off against the accumulated losses brought forward.

The first profit-making year of Victory Shenzhen was 2000. The PRC enterprise income tax is calculated at the applicable rate of 7.5% (2002: 7.5%) of the estimated assessable profit for the year.

8. TAXATION *(continued)*

The taxation charge for PRC enterprise income tax can be reconciled to the profit before taxation and share of results of an associated company as reported in the proforma combined income statement as follows:

	Hong Kong		The PRC		Total	
	2003	2002	**2003**	2002	**2003**	2002
Applicable tax rate	**17.5%**	16%	**7.5%**	7.5%	**N/A**	N/A

	2003 **HK$'000**	2002 HK$'000	**2003** **HK$'000**	2002 HK$'000	**2003** **HK$'000**	2002 HK$'000
(Loss)/profit before share of results of an associated company	**(10,624)**	(12,193)	**57,266**	48,747	**46,642**	36,554
Share of results of an associated company	**–**	–	**54,470**	40,261	**54,470**	40,261
	(10,624)	(12,193)	**111,736**	89,008	**101,112**	76,815
Tax at the applicable rate	**–**	–	**8,380**	6,669	**8,380**	6,669
Tax effect of expenses that are not deductible in determining taxable profit	**–**	–	**29**	247	**29**	247
Effect of different tax rates of associated company operating outside Shenzhen (which is subject to the applicable tax rate of 12%)	**–**	–	**2,451**	2,553	**2,451**	2,553
Taxation charge per proforma combined income statement	**–**	–	**10,860**	9,469	**10,860**	9,469

There was no material unprovided deferred taxation. The Group has unused tax losses of approximately HK$25.7 million at 31 December 2003 (2002: approximately HK$17.0 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

9. DIVIDENDS

No dividends have been paid or declared by the Company since the date of its incorporation. The following dividends were paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation:

	2003	2002
	HK$'000	HK$'000
Victory HK		
Interim dividend paid for 2002	–	43,936
Final dividend paid for 2002	**46,130**	–
	46,130	43,936

In March 2004, a final dividend of HK$42 million was declared and paid by Victory BVI to its then shareholders in respect of the year ended 31 December 2003 (note 27(d)).

10. EARNINGS PER SHARE

(a) Basic earnings per share is calculated based on the proforma combined profit attributable to shareholders for the year of approximately HK$90,252,000 (2002: approximately HK$67,346,000) and on the assumption that 320,000,000 Shares were deemed to have been issued, comprising 10,000 Shares in issue as at the date of the Prospectus and 319,990,000 Shares to be issued pursuant to the capitalisation issue, details of which are set out in the Prospectus.

(b) Proforma earnings per share is calculated based on the proforma combined profit attributable to shareholders for the year of approximately HK$90,252,000 (2002: approximately HK$67,346,000) and on the assumption that 400,000,000 Shares were deemed to have been issued, comprising 10,000 Shares in issue as at the date of the Prospectus, 319,990,000 Shares to be issued pursuant to the capitalisation issue and 80,000,000 Shares to be issued upon the Listing, details of which are set out in the Prospectus.

(c) No diluted earnings per share figures have been presented as the Company did not have any dilutive potential shares during the year (2002: Nil).

11. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material related party transactions:

		2003 HK$'000	2002 HK$'000
Sales of laminated papers to Nanjing Sanlong	*(i)*	**107,803**	136,868
Sales of machinery parts to Nanjing Sanlong	*(ii)*	**90**	3,046
Purchases of cigarette packages from Nanjing Sanlong	*(iii)*	**1,061**	–
Subcontracting charges paid to Nanjing Sanlong	*(iv)*	**332**	–
Rental paid to a director	*(v)*	**133**	191
Commission paid to Shenzhen Well Lap Industries Development Co., Ltd. ("Shenzhen Well Lap")	*(vi)*	**–**	452

Notes:

(i) The sales to Nanjing Sanlong were made on the similar market terms and conditions of the products purchased by Nanjing Sanlong from independent third parties.

(ii) The sales to Nanjing Sanlong were made on a cost reimbursement basis.

(iii) The purchases from Nanjing Sanlong were made on the similar terms and conditions as the Group purchased its products from independent third parties.

(iv) Subcontracting charges paid to Nanjing Sanlong were charged at prices and terms comparable with those charged to and contracted with independent third parties.

(v) The rental expenses paid to Mr. Li Wei Bo was charged for the period from 1 July 2001 to 30 June 2003 for office premises and staff quarters leased from Mr. Li.

(vi) Commission paid to Shenzhen Well Lap was charged at 1%-1.5% of the total purchases through Shenzhen Well Lap.

11. RELATED PARTY TRANSACTIONS *(continued)*

At the balance sheet date, the following balances with related parties included in:

		2003 HK$'000	2002 HK$'000
(i)	Trade and other receivables:		
	Nanjing Sanlong	**17,272**	–
(ii)	Trade and other payables:		
	Nanjing Sanlong	**182**	537

Note: The above amounts are of trade nature, unsecured, interest free and repayable within 30 days.

At 31 December 2003, Victory HK has executed corporate guarantee to a bank to secure general banking facilities granted to Victory Go which was beneficially owned by Mr. Li Wei Bo (note 27(e)).

The banking facilities of the Group were secured by certain bank deposits and properties owned by Mr. Li Wei Bo, together with continuing personal guarantees executed by Mr. Li Wei Bo and his wife (note 18). Furthermore, the Group's obligations under finance leases were secured by personal guarantees executed by Mr. Li Wei Bo, his wife and Mr. Lee Cheuk Yin, Dannis (note 27(f)).

The Directors have confirmed that all the related party transactions were conducted in the ordinary course of business, and except for the sales, purchases and subcontracting transactions between Nanjing Sanlong and Victory Shenzhen, all other related party transactions discontinued after the listing of Shares on the Stock Exchange.

12. FIXED ASSETS

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2003	2,463	382	70,588	6,517	7,714	87,664
Additions	–	–	14,330	912	22	15,264
Disposals	–	–	(1,603)	(7)	(135)	(1,745)
At 31 December 2003	**2,463**	**382**	**83,315**	**7,422**	**7,601**	**101,183**
Accumulated depreciation						
At 1 January 2003	854	47	3,801	1,530	3,780	10,012
Charge for the year	111	105	5,569	999	969	7,753
Disposals	–	–	(313)	(3)	(135)	(451)
At 31 December 2003	**965**	**152**	**9,057**	**2,526**	**4,614**	**17,314**
Net book value						
At 31 December 2003	**1,498**	**230**	**74,258**	**4,896**	**2,987**	**83,869**
At 31 December 2002	1,609	335	66,787	4,987	3,934	77,652

The Group's leasehold land and buildings are situated in the PRC and held under long term leases (unexpired period over 50 years).

The Group's leasehold land and buildings, included above at cost, were valued at HK$1,100,000 as at 31 January 2004 in the Prospectus.

At 31 December 2003, the carrying amount of the Group's fixed assets included an amount of approximately HK$41,165,000 (2002: HK$49,123,000) in respect of assets held under finance leases.

13. INVESTMENT IN AN ASSOCIATED COMPANY

	2003	2002
	HK$'000	HK$'000
Share of net assets	**68,719**	52,907

Details of the associated company at 31 December 2003 are as follows:

Name	**Place of incorporation and operation**	**Registered capital**	**Attributable equity interest held by the Company Indirect**	**Principal activities**
Nanjing Sanlong	The PRC	US$2,100,000	48%	Printing of cigarette packages

The assets and liabilities of Nanjing Sanlong as at 31 December 2003 together with the turnover and profit attributable to shareholders of Nanjing Sanlong for the year ended 31 December 2003 are as follows:

	2003	2002
	HK$'000	HK$'000
Non-current assets	**100,525**	42,377
Current assets	**164,560**	106,185
Current liabilities	**(97,153)**	(46,003)
Non-current liabilities	**(16,626)**	(9,266)
Turnover	**302,721**	278,170
Profit attributable to shareholders	**105,218**	85,573

14. INVENTORIES

	2003 HK$'000	2002 HK$'000
Raw materials	**32,925**	20,668
Work in progress	**8,926**	2,284
Finished goods	**7,249**	16,483
	49,100	39,435

All inventories are stated at cost.

15. TRADE AND OTHER RECEIVABLES

The general credit terms of the Group to its trade customers range from 1 to 3 months. The aging analysis of trade receivables is as follows:

	2003 HK$'000	2002 HK$'000
Trade receivables		
Current to 30 days	**48,904**	3,665
31 to 90 days	**16,120**	10,801
Over 90 days	**24,035**	9,520
	89,059	23,986
Other receivables, gross	**6,792**	9,907
Less: Provision for doubtful debts	**(800)**	(2,527)
Other receivables, net	**5,992**	7,380
	95,051	31,366

16. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group (note 18).

Included in the pledged bank deposits and bank and cash balances of the Group is an amount of approximately HK$7,102,000 as at 31 December 2003 (2002: approximately HK$5,865,000) denominated in Renminbi ("RMB"). RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

17. TRADE AND OTHER PAYABLES

The aging analysis of trade payables, based on the date of receipt of the respective goods and services, is as follows:

	2003	2002
	HK$'000	HK$'000
Trade payables		
Current to 30 days	**14,725**	4,541
31 to 90 days	**5,449**	7,930
Over 90 days	**2,569**	2,644
	22,743	15,115
Other payables	**11,048**	1,050
Accrued charges	**2,999**	2,131
Receipts in advance	**–**	510
Bills payables (note 18)	**20,609**	14,165
	57,399	32,971

18. SHORT TERM BORROWINGS

	2003 HK$'000	2002 HK$'000
Bank overdrafts – secured	**4,507**	1,861
Short term bank loans – secured	**112,472**	70,153
	116,979	72,014

The bank loans, overdrafts and other banking facilities of the Group are mainly secured by:

(i) charge over certain bank deposits of the Group (note 16);

(ii) charge over certain properties and bank deposits of Mr. Li Wei Bo (note 11);

(iii) corporate guarantees of certain subsidiaries of the Company; and

(iv) personal guarantees of Mr. Li Wei Bo and his wife (note 11).

19. OBLIGATIONS UNDER FINANCE LEASES

	Minimum payments 2003 HK$'000	Present value of payments 2003 HK$'000	Minimum payments 2002 HK$'000	Present value of payments 2002 HK$'000
Amounts payable:				
Within one year	**12,359**	**11,326**	12,795	11,399
In the second year	**9,618**	**8,937**	12,359	11,218
In the third to fifth years	**6,051**	**5,931**	15,401	14,705
Total minimum finance lease payments	**28,028**	**26,194**	40,555	37,322
Future finance charges	**(1,834)**		(3,233)	
Total net finance lease payables	**26,194**		37,322	
Current portion	**(11,326)**		(11,399)	
Non-current portion	**14,868**		25,923	

20. SHARE CAPITAL

	Note	Number of shares	Amount
			HK$
Authorised:			
On incorporation and at 31 December 2003, ordinary shares of HK$0.01 each	*(a)*	38,000,000	380,000
Increase in authorised capital, 10 March 2004	*(b)*	962,000,000	9,620,000
At 26 March 2004, the listing date		1,000,000,000	10,000,000
Issued and fully paid:			
Shares issued on 1 December 2003 and at 31 December 2003	*(a)*	10,000	–
Shares transferred upon Group Reorganisation, 10 March 2004	*(c)*	–	100
Capitalisation issue, 10 March 2004	*(d)*	319,990,000	3,199,900
New issue and placing of shares, 26 March 2004	*(e)*	80,000,000	800,000
At 26 March 2004, the listing date		400,000,000	4,000,000

Notes:

(a) The Company was incorporated on 27 November 2003 with an authorised share capital of HK$380,000 divided into 38,000,000 Shares of HK$0.01 each, of which 10,000 Shares of HK$0.01 were allotted and issued nil paid on 1 December 2003.

(b) On 10 March 2004, the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of an additional 962,000,000 new Shares of HK$0.01 each ranking pari passu with the then existing Shares in all respects.

20. SHARE CAPITAL *(continued)*

Notes:

(c) Pursuant to the Group Reorganisation mentioned in note 1(b) on 10 March 2004, the then shareholders of Victory BVI transferred an aggregate of 10,000 shares of HK$0.1 each, representing the entire issued share capital of Victory BVI, to the Company in consideration of and in exchange for which the Company credited as fully paid at par 10,000 Shares allotted and issued nil paid to each of the then shareholders on 1 December 2003. The Company became the holding company of the Group with effect from 10 March 2004. The difference between the nominal value of Shares issued and the fair value of Victory BVI and its subsidiaries was credited to the share premium account.

(d) Pursuant to a written resolution of all shareholders passed on 10 March 2004, the Directors were authorised to capitalise the sum of HK$3,199,900 standing to the credit of the share premium account of the Company and 319,990,000 Shares were allotted and issued to shareholders whose names appear on the register of members of the Company as at the close of business on 10 March 2004 in proportion to their then respective shareholdings in the Company.

(e) Pursuant to the listing of the Shares on 26 March 2004, 80,000,000 Shares were issued for cash of HK$2.35 per Share. The excess of the issued price over the par value of the Shares issued has been credited to the share premium account of the Company.

(f) All Shares both issued and unissued rank pari passu in all respects at 26 March 2004.

Share option scheme

A share option scheme was adopted subsequent to 31 December 2003. Details of the Share Option Scheme are set out in the Directors' Report and the Prospectus.

21. MAJOR NON-CASH TRANSACTIONS

The Group entered into finance leases in respect of fixed assets with total capital values at the inception of the leases of HK$Nil (2002: approximately HK$20,193,000) for the year ended 31 December 2003.

22. COMMITMENTS

The Group leases certain of its office and factory premises under operating lease arrangements. The original lease terms for the office and factory premises range from 1 year to 3 years.

At 31 December 2003, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2003	2002
	HK$'000	HK$'000
Within one year	**201**	630
In the second to fifth years	**–**	138
	201	768

At 31 December 2003, the Group has capital commitment regarding acquisition of plant and machinery as follows:

	2003	2002
	HK$'000	HK$'000
Contracted but not provided for	**6,687**	–

Save as disclosed above, the Group did not have any other significant capital and financial commitments as at 31 December 2003 and 2002.

23. CONTINGENT LIABILITIES

At 31 December 2003, the Group has executed corporate guarantee to a bank to secure general banking facilities granted to Victory Go. Pursuant to Section 161B of the Hong Kong Companies Ordinance, the maximum liability in respect of the guarantee was approximately HK$10 million, out of which approximately HK$8 million has been utilised by Victory Go as at 31 December 2003. There was no loss incurred by the Group in fulfilling its obligations under the corporate guarantee. The underlying bank had agreed to release and terminate the corporate guarantee on 26 March 2004 (note 27(e)).

Save as disclosed above, the Group did not have any other significant contingent liabilities as at 31 December 2003 and 2002.

24. DISTRIBUTABLE RESERVES

At 31 December 2003, the Company has not carried out any business transactions since incorporation save for the incurring of expenses related to its incorporation and the Group Reorganisation. Accordingly, there were no reserves available for distribution to the shareholders of the Company at that date.

25. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

25. SEGMENT INFORMATION *(continued)*

(a) Business segments

The Group is principally engaged in manufacturing of laminated papers and printing of cigarette packages.

	Manufacturing of laminated papers		Printing of cigarette packages		Corporate and unallocated		Eliminations		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
REVENUE										
External revenue	**131,137**	141,884	**100,890**	48,878	**–**	–	**–**	–	**232,027**	190,762
Inter-segment revenue*	**35,004**	16,097	**–**	–	**–**	–	**(35,004)**	(16,097)	**–**	–
Total revenue	**166,141**	157,981	**100,890**	48,878	**–**	–	**(35,004)**	(16,097)	**232,027**	190,762
RESULT										
Segment result	**39,751**	42,750	**29,181**	7,909	**–**	–	**–**	–	**68,932**	50,659
Unallocated corporate expenses									**(16,631)**	(9,554)
Other revenue									**3,058**	1,816
Profit from operations									**55,359**	42,921
Interest expenses									**(7,109)**	(5,709)
Finance lease charges									**(1,667)**	(703)
Interest income									**59**	45
Share of net profits of an associated company									**47,901**	34,688
Taxation									**(4,291)**	(3,896)
Profit for the year									**90,252**	67,346
ASSETS										
Segment assets	**79,718**	50,349	**138,803**	103,348	**6,678**	8,759	**–**	–	**225,199**	162,456
Investment in an associated company									**68,719**	52,907
Unallocated corporate assets									**49,160**	32,128
Combined total assets									**343,078**	247,491
LIABILITIES										
Segment liabilities	**33,207**	4,551	**9,945**	4,570	**200**	20,669	**–**	–	**43,352**	29,790
Unallocated corporate liabilities									**159,999**	121,976
Combined total liabilities									**203,351**	151,766
OTHER INFORMATION										
Capital expenditure	**643**	5,253	**14,464**	26,411	**157**	1,766	**–**	–	**15,264**	33,430
Depreciation and amortisation	**904**	343	**5,421**	2,946	**1,428**	1,098	**–**	–	**7,753**	4,387
Non-cash expenses other than depreciation and amortisation	**–**	–	**216**	42	**(25)**	–	**–**	–	**191**	42

* *Inter-segment revenue is charged at cost.*

25. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The Group's operations are located in the PRC throughout the year. No analysis by geographical segments is provided.

26. SUBSIDIARIES

Immediately following the completion of the Group Reorganisation on 10 March 2004, the Company had the following subsidiaries:

All of these are controlled subsidiaries as defined under note 2(k) and have been included in the proforma financial information of the Group for the year ended 31 December 2003 in accordance with the "Basis of presentation of the proforma financial information" set out on page 40.

Name	Place of incorporation and operation	Issued and fully paid-up share/ registered capital	Attributable equity interest held by the Company Direct	Attributable equity interest held by the Company Indirect	Principal activities
Victory BVI	The British Virgin Islands	Ordinary HK$1,000	100%	–	Investment holding
Victory HK	Hong Kong	Ordinary HK$6,060,100	–	100%	Investment holding and trading of paper products
Victory Shenzhen	The PRC	Registered capital US$1,800,000	–	100% *(Note)*	Printing of cigarette packages and manufacturing of laminated papers

Note: Victory Shenzhen is a wholly foreign-owned enterprise established in the PRC with an operating period of 50 years commencing from 23 February 1993.

27. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2003, the following events took place:

(a) Subsequent to 31 December 2003, there were movements in share capital, details of which are set out in note 20 to the proforma financial information.

(b) On 10 March 2004, the Company completed the Group Reorganisation in preparation for the listing of the Shares on the Main Board. As a result of the Group Reorganisation, the Company became the holding company of the Group. Further details of the Group Reorganisation are set out in the Prospectus.

(c) A share option scheme was established on 10 March 2004, further details of which are set out in the Directors' Report and the Prospectus. The Share Option Scheme became effective upon the listing of the Shares on the Main Board on 26 March 2004. As at the date of this report, no option has been granted or agreed to be granted under the Share Option Scheme.

(d) In March 2004, a final dividend of HK$42 million was declared and paid by Victory BVI to its then shareholders in respect of the year ended 31 December 2003 (note 9).

(e) On 26 March 2004, a bank had agreed to release and terminate the corporate guarantee granted by Victory HK to Victory Go (notes 11 and 23).

(f) On 26 March 2004, certain banks and finance lease creditors had agreed to release the personal guarantees granted by Mr. Li Wei Bo, his wife and Mr. Lee Cheuk Yin, Dannis as well as the charge over certain properties and bank deposits of Mr. Li Wei Bo and replaced by a corporate guarantee provided by the Company (note 11). The terms of the banking facilities remain unchanged.