

## **NOTES TO THE INTERIM FINANCIAL REPORT**

### **1. Group reorganisation and basis of presentation**

#### *(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.

#### *(b) Group reorganisation*

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares (the "Shares") on the main board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group on 10 March 2004.

The Group Reorganisation was accomplished by the Company acquiring the entire issued share capital of Victory Honest Group Limited ("Victory BVI") 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 the shareholders of Victory BVI on 1 December 2003. Further details of the Group Reorganisation are set out in the Company's prospectus dated 16 March 2004 (the "Prospectus").

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

#### *(c) Basis of presentation*

The interim financial report has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

The interim financial report has been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with all applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of accounting periods ending before 1 July 2004 under the transitional arrangements.

The interim financial report of the Group has been prepared using the merger basis of accounting as if the current group structure had been in existence and remained unchanged throughout the period presented.

All significant intra-group transactions and balances have been eliminated on consolidation.

The accounting policies adopted are consistent with those followed in the Company's 2003 annual report.

## 2. Turnover and segmental information

Turnover represents revenue arising from printing of cigarette packages and manufacturing of laminated papers. An analysis of the Group's revenue and results for the periods by business segments is as follows:

	Manufacturing of laminated papers		Printing of cigarette packages		Corporate and unallocated		Eliminations		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>REVENUE</b>										
External revenue	78,506	60,325	44,160	36,973	-	-	-	-	122,666	97,298
Inter-segment revenue*	15,284	13,805	-	-	-	-	(15,284)	(13,805)	-	-
Total revenue	<u>93,790</u>	<u>74,130</u>	<u>44,160</u>	<u>36,973</u>	<u>-</u>	<u>-</u>	<u>(15,284)</u>	<u>(13,805)</u>	<u>122,666</u>	<u>97,298</u>
<b>RESULT</b>										
Segment result	<u>24,598</u>	<u>17,774</u>	<u>13,620</u>	<u>10,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,218</u>	<u>27,964</u>
Unallocated corporate expenses									(11,095)	(8,190)
Other revenue									3,109	1,356
Profit from operations									30,232	21,130
Interest expenses									(2,786)	(2,772)
Finance lease charges									(726)	(569)
Interest income									45	22
Share of net profits of an associated company									15,238	14,563
Taxation									(1,959)	(1,662)
Profit for the period									<u>40,044</u>	<u>30,712</u>

\* Inter-segment revenue is charged at cost.

No geographical analysis is presented as the Group's operations were located in the PRC throughout the period.

### 3. Profit from operations

Profit from operations is stated after charging the following:

	For the six months ended 30 June	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Cost of inventories sold	76,121	62,306
Depreciation	<u>3,498</u>	<u>2,872</u>

### 4. Finance costs

	For the six months ended 30 June	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Interest on bank loans and overdrafts	2,786	2,772
Finance lease charges	<u>726</u>	<u>569</u>
	<u>3,512</u>	<u>3,341</u>

### 5. Taxation

	For the six months ended 30 June	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
The taxation charge comprises:		
Share of taxation attributable to an associated company	2,078	1,986
PRC enterprise income tax	<u>1,959</u>	<u>1,662</u>
	<u>4,037</u>	<u>3,648</u>

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong. The PRC enterprise income tax is calculated at the applicable rate of 7.5% (2003: 7.5%) of the estimated assessable profit for the period.

There was no material unprovided deferred taxation. The Group has unused tax losses of approximately HK\$29.8 million at 30 June 2004 (31 December 2003: approximately HK\$25.7 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.

## 6. Dividends

No dividends have been paid or declared by the Company since the date of its incorporation, but an interim dividend of HK\$20 million has been declared to be payable to the shareholders of the Company. The following dividends were paid by subsidiaries of the Company to their then shareholders prior to the Group Reorganisation:

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Victory Honest (Holdings) Ltd		
Final dividend paid for 2002	-	46,130
Victory BVI		
Final dividend paid for 2003	<b>42,000</b>	-
	<b>42,000</b>	<b>46,130</b>

## 7. Earnings per share

Basic earnings per share were calculated based on the unaudited profit attributable to shareholders for the six months ended 30 June 2004 of approximately HK\$40,044,000 (30 June 2003: approximately HK\$30,712,000) and the weighted average of approximately 375,824,000 Shares (30 June 2003: 320,000,000 Shares) deemed to be in issue during the period assuming the 320,000,000 Shares issued pursuant to the Group Reorganisation described in Note 1(b) above had been outstanding throughout the six months ended 30 June 2004 and 2003.

No diluted earnings per share figures for the periods ended 30 June 2004 and 2003 have been presented as the Company did not have any dilutive potential shares during these periods.

## 8. Fixed assets

During the six months ended 30 June 2004, the Group acquired fixed assets of approximately HK\$8,352,000 comprising machinery and equipment.

## 9. Trade and other receivables

Trade and other receivables include trade receivables of approximately HK\$85,805,000 (31 December 2003: approximately HK\$89,059,000). 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:

	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>(unaudited)</b>	(audited)
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>50,653</b>	48,904
31 to 90 days	<b>14,889</b>	16,120
Over 90 days	<b>20,263</b>	24,035
	<b>85,805</b>	<b>89,059</b>

## 10. Trade and other payables

Trade and other payables include trade payables of approximately HK\$28,624,000 (31 December 2003: approximately HK\$22,743,000). The aging analysis of trade payables, based on the date of receipt of the respective goods and services, is as follows:

	<b>30 June 2004 (unaudited) HK\$'000</b>	31 December 2003 (audited) HK\$'000
Current to 30 days	<b>21,701</b>	14,725
31 to 90 days	<b>5,187</b>	5,449
Over 90 days	<b>1,736</b>	2,569
	<b><u>28,624</u></b>	<b><u>22,743</u></b>

## 11. Share capital

The following is a summary of movements in the authorised and issued share capital of the Company during the period:

	Note	Number of shares	Amount HK\$
<i>Authorised:</i>			
At 1 January 2004, ordinary shares of HK\$0.01 each	(a)	38,000,000	380,000
Increase in authorised share capital	(b)	<u>962,000,000</u>	<u>9,620,000</u>
At 30 June 2004		<b><u>1,000,000,000</u></b>	<b><u>10,000,000</u></b>
<i>Issued and fully paid:</i>			
At 1 January 2004, ordinary shares of HK\$0.01 each	(a)	10,000	–
Shares transferred upon Group Reorganisation	(c)	–	100
Capitalisation issue	(d)	319,990,000	3,199,900
New issue of Shares on public offer and placing	(e)	<u>80,000,000</u>	<u>800,000</u>
At 30 June 2004		<b><u>400,000,000</u></b>	<b><u>4,000,000</u></b>

### 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.

## 11. Share capital (Continued)

- (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 of the Company 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 of the Company 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, 80,000,000 Shares were issued for cash at 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 30 June 2004.

## 12. Related party transactions

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

	For the six months ended 30 June	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Sales of laminated papers to Nanjing Sanlong Packing Co., Ltd. ("Nanjing Sanlong"), an associated company	<u>61,456</u>	<u>45,543</u>

## 13. Capital commitment

	30 June 2004 (unaudited) HK\$'000	31 December 2003 (audited) HK\$'000
Capital commitment for acquisition of plant and machinery Contracted but not provided for	<u>-</u>	<u>6,687</u>

## 14. Contingent liabilities

At 30 June 2004, the Group did not have any significant contingent liabilities (31 December 2003: the Group has executed corporate guarantee to a bank to secure general banking facilities granted to Victory Go Group Company Limited).

## 15. Post balance sheet events

Subsequent to 30 June 2004, the following events took place:

1. The Group entered into a non-binding memorandum of understanding (“MOU”) for the acquisition of 35% equity interests in World Grand Holdings Limited, which is interested in 90% of the registered capital of Kunming World Grand Colour Printing Co., Ltd. (“Kunming World Grand”). Upon signing of the MOU, a sum of HK\$10 million had been paid as deposit and part payment of the consideration for the acquisition, details of which are set out in the announcement of the Company dated 9 July 2004.
2. The Board has declared the payment of an interim dividend of HK\$20 million in respect of the six months ended 30 June 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

The Group is pleased to announce its satisfactory results for the first half of 2004 (the “Period”), with turnover and profit attributable to shareholders both having attained historical high and sustained double-digits growth. With the successful listing of the Company’s Shares on the Main Board of the Stock Exchange on 26 March 2004, the Group has further enhanced its corporate image and reputation, solidifying its foundation for fast growing developments in the future.

Supported by our proven business operation and established market position successfully built in the past, and through the effective implementation of development plans and operating strategies, the Group’s two core businesses – cigarette package printing and laminated paper manufacturing – performed remarkably well during the Period. Significant growth was achieved in the first half of 2004 with turnover and profit both having reached new heights. Turnover increased by about 26.1% to approximately HK\$122,666,000 from approximately HK\$97,298,000 in the corresponding period of last year. Profit attributable to shareholders grew by about 30.4% to approximately HK\$40,044,000 from last year’s approximately HK\$30,712,000. Basic earnings per share were HK10.7 cents.

To reward shareholders for their support, the Board has declared the payment of interim dividend for the six months ended 30 June 2004 of HK5 cents per Share to shareholders whose names appeared on the register of shareholders of the Company on 7 October 2004.

### Business Review

#### *Cigarette Package Printing*

For the six months ended 30 June 2004, the cigarette package printing business operated by the Group’s subsidiary, Victory Honest Industries (Shenzhen) Co., Ltd. (“Victory Shenzhen”) recorded a turnover of approximately HK\$44,160,000, representing an increase of about 19.4% over that of approximately HK\$36,973,000 in the same period of last year, accounting for approximately 36.0% of the Group’s total turnover.