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, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

(b) Group reorganisation and listing on the Main Board

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 acquiring the entire share capital of Victory Honest Group Limited ("Victory BVI") 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 of the Company dated 16 March 2004 (the "Prospectus").

The Shares were listed on the Main Board of the Stock Exchange on 26 March 2004 (the "Listing").

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which includes all applicable Statements of Standard Accounting Practice and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation

The Group Reorganisation has been accounted for as a reorganisation of businesses under common control under the merger accounting methodology. Accordingly, the consolidated financial statements have been prepared on the basis of historical costs and as if the subsidiaries had been part of the Group throughout the periods presented, except for any acquisitions or disposals subsequent to the Group Reorganisation, which are accounted for under the acquisition basis of accounting.

HKICPA has issued a number of new and revised HKFRS and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intra-group transactions and balances are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

As explained in note 1(b), the Company became the holding company of the Group on 10 March 2004. The Group has been treated as a continuing entity and, accordingly, the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for the years ended 31 December 2003 and 2004. Accordingly, the results and cash flows of the Group for the year ended 31 December 2003 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2003 or since their respective dates of incorporation, where this is a shorter period.

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) 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) Government grants are recognised in the consolidated 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. Government grants that compensate the Group for expenses incurred are recognised as revenue in the consolidated income statement on a systematic basis in the same periods in which the expenses are incurred. Government grants that compensate the Group for the cost of an asset are recognised in the consolidated income statement as revenue on a systematic basis over the useful life of the asset.

(e) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) 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 consolidated 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.

(g) 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 consolidated income statement on a straight line basis over the lease terms.

(h) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the applicable 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 consolidated income statement.

On consolidation, 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 average rates. Exchange differences are dealt with as a movement in reserves.

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Foreign currency translation *(continued)*

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries expressed in foreign currencies which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(i) 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.

(j) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Taxation *(continued)*

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated company, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(k) Fixed assets

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 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 be clearly demonstrated 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 consolidated income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Subsidiaries

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

The Company's investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(m) Associated company

An associate company is an entity 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 the post-acquisition results and reserves of an associated company are included in the consolidated income statement and statement of changes in equity respectively. The Group's investment in an associated company is stated in the consolidated 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 consolidated income statement.

(n) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisitions is recognised in the consolidated balance sheet as an asset and amortised on the straight line basis over its estimated useful life of six years.

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Goodwill *(continued)*

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary.

(o) 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.

(p) 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 consolidated 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 consolidated income statement.

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) 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.

(r) 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.

(s) Events 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 financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

(t) 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 consolidated 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.

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is charged at cost.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financing expenses, minority interests and corporate revenue.

3. TURNOVER AND REVENUE

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

	2004 HK$'000	2003 HK$'000
Turnover		
Cigarette packages	**97,668**	100,890
Laminated papers	**234,702**	131,137
	332,370	232,027
Other revenue		
Interest income	**280**	59
Commission income	**–**	715
Compensation received	**–**	276
Government grants received *(note)*	**1,009**	1,084
Sundry income	**658**	983
	1,947	3,117
Total revenue	**334,317**	235,144

Note: The Group successfully applied for a grant from the Bureau of Trade and Industry of Shenzhen Municipality and the Bureau of Finance of Shenzhen Municipality of the People's Republic of China (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 consolidated income statement.

4. PROFIT FROM OPERATIONS

The Group's profit from operations is stated after charging/(crediting) the following:

	2004 HK$'000	2003 HK$'000
Auditors' remuneration	**1,000**	600
Amortisation of goodwill (included in other operating expenses)	**15**	–
Bad debts written off	**–**	116
Cost of inventories sold *(note 1)*	**200,900**	148,233
Depreciation		
Owned fixed assets	**6,195**	3,843
Leased fixed assets	**4,536**	3,910
	10,731	7,753
Gain on disposal of fixed assets	**(19)**	–
Impairment loss on fixed assets (included in other operating expenses)	**970**	–
Loss on disposals of fixed assets	**–**	216
Operating lease rentals in respect of land and buildings	**3,978**	2,541
Staff costs including directors' emoluments		
Salaries and other costs	**19,452**	13,071
Retirement benefit scheme contributions	**721**	566
	20,173	13,637
Reduction in provision for doubtful debts	**–**	(141)
Research and development costs *(note 2)*	**5,139**	5,031

Notes:

(1) Cost of inventories sold includes operating lease rentals, staff costs and research and development costs of approximately HK$2,556,000, HK$7,461,000 and HK$4,565,000 (2003: HK$1,584,000, HK$3,779,000 and HK$4,145,000) respectively which are included in the respective amounts disclosed separately above for the year.

(2) Research and development costs includes staff costs of approximately HK$1,344,000 (2003: HK$594,000) which is included in the amount disclosed separately above for the year.

5. FINANCE COSTS

	2004 HK$'000	2003 HK$'000
Interest on bank loan and overdrafts	**8,297**	7,109
Finance lease charges	**977**	1,667
	9,274	8,776

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	2004 HK$'000	2003 HK$'000
Fees		
Executive directors	**2,569**	–
Non-executive director	**66**	–
Independent non-executive directors	**132**	–
Other emoluments		
Executive directors		
Basic salaries, allowances and benefits in kind	**643**	2,371
Discretionary bonus	**–**	–
Retirement benefit scheme contributions	**109**	77
	3,519	2,448

The emoluments of the Directors fell within the following bands:

	Number of Directors 2004	2003
Nil to HK$1,000,000	**6**	3
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	–
	8	4

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

The five highest paid individuals in the Group during the year included three (2003: three) Directors, details of whose emoluments are set out above. The details of the emoluments of the remaining two (2003: two) non-director, highest paid individuals during the year are set out below:

	2004 HK$'000	2003 HK$'000
Basic salaries, allowances and benefits in kind	**590**	654
Discretionary bonus	**–**	–
Retirement benefit scheme contributions	**23**	24
	613	678

	Number of employees	
	2004	2003
Nil to HK$1,000,000	**2**	2

There was no arrangement under which a Director waived or agreed to waive any emoluments during the year. In addition, 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.

7. RETIREMENT BENEFIT 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 consolidated 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 benefit schemes is to make the required contributions under the respective schemes.

The total cost charged to the consolidated income statement of approximately HK$721,000 (2003: HK$566,000) represents contributions payable to the retirement benefit schemes in Hong Kong and the PRC by the Group for the year at rates specified in the rules of the relevant schemes. At 31 December 2004, contributions due in respect of the current reporting year had not been paid over the relevant schemes was approximately HK$30,000 (2003: Nil).

8. TAXATION

	2004	2003
	HK$'000	HK$'000
The taxation charge comprises:		
Share of taxation attributable to an associated company	**5,450**	6,569
PRC enterprise income tax	**7,715**	4,291
	13,165	10,860

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

8. TAXATION *(continued)*

Pursuant to relevant laws and regulations in the PRC, Victory Honest Industries (Shenzhen) Co., Ltd. ("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.

In 2004, Victory Shenzhen was in its fifth profit-making year and was therefore entitled to a 50% relief from PRC enterprise income tax. The applicable tax rate, after the 50% relief, was 7.5%.

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 consolidated income statement as follows:

	2004 HK$'000	2003 HK$'000
Profit before share of results of an associated company	80,259	46,642
Share of results of an associated company	43,792	54,470
	124,051	101,112
Tax at applicable tax rate of 15%	18,608	15,167
Tax effect of income that is not taxable in determining taxable profit	(189)	(114)
Tax effect of expenses that are not deductible in determining taxable profit	2,358	429
Tax effect of utilisation of tax losses not previously recognised	(23)	–
Tax effect of unused tax loss not recognised	1,452	1,527
Tax effect of tax concession	(7,715)	(4,291)
Effect of different tax rates of subsidiaries and associated company operating in other jurisdiction	(1,326)	(1,858)
Taxation charge per consolidated income statement	13,165	10,860

There was no material unprovided deferred taxation. The Group has unused tax losses of approximately HK$34 million (2003: HK$26 million) at 31 December 2004 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. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders of approximately HK$110,815,000 (2003: HK$90,252,000) included a profit of approximately HK$14,443,000 (2003: Nil) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

	2004 HK$'000	2003 HK$'000
The Company		
Interim dividend declared and paid of HK5 cents per share for 2004	20,000	–
Victory BVI		
Final dividend paid for 2003 *(note)*	42,000	–
Victory Honest (Holdings) Limited ("Victory HK")		
Final dividend paid for 2002 *(note)*	–	46,130
	62,000	46,130

Note: The dividends were paid by subsidiaries of the Company to its then shareholders prior to the Group Reorganisation.

In April 2005, a final dividend of HK$25 million and a special dividend of HK$15 million were proposed by the Company to its shareholders in respect of the year ended 31 December 2004 (note 31(c)). The proposed dividends are not recognised as liabilities at 31 December 2004 as they are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. EARNINGS PER SHARE

(a) Basic earnings per share is calculated based on the profit attributable to shareholders for the year of approximately HK$110,815,000 (2003: HK$90,252,000) and the weighted average number of approximately 381,589,000 Shares (2003: 320,000,000 Shares) outstanding after the Group Reorganisation as if those Shares had been outstanding from 1 January 2003.

(b) Diluted earnings per share is calculated based on the profit attributable to shareholders for the year of approximately HK$110,815,000 and the weighted average number of approximately 383,217,000 Shares outstanding after the Group Reorganisation as if those Shares had been outstanding from 1 January 2003, as further stated below. Diluted earnings per share for the year ended 31 December 2003 has not been presented as the Company did not have any dilutive potential shares for the year.

11. EARNINGS PER SHARE *(continued)*

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation to that used in the diluted earnings per share calculation is as follows:

	Number of Shares	
	2004	2003
	HK$'000	HK$'000
Weighted average number of shares used in the basic earnings per share calculation	**381,589**	320,000
Effect of dilutive potential shares in respect of new Shares and share options *(notes 24(g) and 24(h))*	**1,628**	N/A
Weighted average number of shares used in the diluted earnings per share calculation	**383,217**	N/A

12. RELATED PARTY TRANSACTIONS

Apart from those disclosed elsewhere in the financial statements, the Group had the following material related party transactions during the year:

		2004	2003
	Note	**HK$'000**	HK$'000
Sales of laminated papers to Nanjing Sanlong Packaging Co., Ltd. ("Nanjing Sanlong")	(i)	**198,851**	107,803
Subcontracting charges paid to Nanjing Sanlong	(ii)	**776**	332
Subcontracting income received from Nanjing Sanlong	(iii)	**113**	–
Sales of machinery parts to Nanjing Sanlong		**–**	90
Purchases of cigarette packages from Nanjing Sanlong		**–**	1,061
Rental paid to a director		**–**	133

12. RELATED PARTY TRANSACTIONS *(continued)*

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

(iii) Subcontracting income received from Nanjing Sanlong were received at prices and terms comparable with those contracted with independent third parties.

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

		2004	2003
		HK$'000	HK$'000
(i)	Trade and other receivables:		
	Nanjing Sanlong	**82,471**	17,272
(ii)	Trade and other payables:		
	Nanjing Sanlong	**257**	182

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

The Directors have confirmed that all the related party transactions were conducted in the ordinary course of business.

13. FIXED ASSETS

	Group					
	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Office equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost						
At 1 January 2004	2,463	382	83,315	7,422	7,601	101,183
Additions	–	4,460	60,637	925	4,891	70,913
Acquisition of a subsidiary *(note 26)*	–	–	1,628	42	167	1,837
Disposals	–	–	–	–	(590)	(590)
At 31 December 2004	2,463	4,842	145,580	8,389	12,069	173,343
Accumulated depreciation						
At 1 January 2004	965	152	9,057	2,526	4,614	17,314
Charge for the year	111	295	8,066	1,128	1,131	10,731
Acquisition of a subsidiary *(note 26)*	–	–	222	17	10	249
Disposals	–	–	–	–	(372)	(372)
At 31 December 2004	1,076	447	17,345	3,671	5,383	27,922
Impairment losses						
Charge for the year and at 31 December 2004	–	–	–	–	970	970
Net book value						
At 31 December 2004	1,387	4,395	128,235	4,718	5,716	144,451
At 31 December 2003	1,498	230	74,258	4,896	2,987	83,869

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

At 31 December 2004, the carrying amounts of the Group's fixed assets included approximately HK$37,120,000 (2003: HK$41,165,000) in respect of assets held under finance leases.

14. GOODWILL

	Group HK$'000
Cost	
Additions *(note 26)* and at 31 December 2004	1,096
Accumulated amortisation	
Charged for the year and at 31 December 2004	15
Net book value	
At 31 December 2004	1,081

The amount of the goodwill capitalised as an asset during the year are arising from the acquisition of interest in a subsidiary.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK$'000	2003 HK$'000
Unlisted investment, at cost	**1**	–
Due from subsidiaries	**246,037**	–
	246,038	–

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held by the Company Direct	Attributable equity interest held by the Company Indirect	Principal activities
Victory BVI	British Virgin Islands ("BVI")	Ordinary HK$1,000	100%	–	Investment holding
Mega Vision Enterprises Limited	BVI	Ordinary US$1	–	100%	Investment holding
Victory HK	Hong Kong	Ordinary HK$6,060,100	–	100%	Investment holding
Glory Express International Limited	Hong Kong	Ordinary HK$2	–	100%	Investment holding
Charm Profit Holdings Limited	Hong Kong	Ordinary HK$1	–	100%	Investment holding
*Victory Shenzhen *(note 1)*	PRC	Registered capital US$1,800,000	–	100%	Printing of cigarette packages and manufacturing of laminated papers
*萬迪全息科技(惠州)有限公司 ("萬迪全息") *(note 2)*	PRC	Registered capital EUR2,000,000	–	100%	Manufacturing of laser film
*西安大天激光圖像有限公司("西安大天") *(note 3)*	PRC	Registered capital RMB7,140,000	–	51%	Manufacturing of laser film

Notes:

(1) Victory Shenzhen is a wholly foreign-owned enterprise with an operating period of 50 years commencing from 23 February 1993.

(2) 萬迪全息 is a wholly foreign-owned enterprise with an operating period of 50 years commencing from 21 June 2004.

(3) 西安大天 is a sino-foreign equity joint venture enterprise with an operating period of 10 years commencing from 12 April 2000.

* Not audited by RSM Nelson Wheeler.

16. INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets	**53,890**	68,719

Particulars of the associated company are as follows:

Name	Place of incorporation and operation	Issued and fully paid-up registered capital	Attributable equity interest held by the Group	Principal activities
*Nanjing Sanlong	PRC	US$2,100,000	48%	Printing of cigarette packages

* Not audited by RSM Nelson Wheeler.

The assets and liabilities of Nanjing Sanlong as at 31 December 2004 together with the turnover and profit attributable to shareholders of Nanjing Sanlong for the year ended 31 December 2004 are as follows:

	2004	2003
	HK$'000	HK$'000
Non-current assets	**112,005**	100,525
Current assets	**231,574**	164,560
Current liabilities	**(200,981)**	(97,153)
Non-current liabilities	**(19,671)**	(16,626)
Turnover	**332,078**	302,721
Profit attributable to shareholders	**83,233**	105,218

17. DEPOSIT FOR ACQUISITION OF AN ASSOCIATED COMPANY

The amount of HK$91,875,000 represented the deposit and money paid for the acquisition of 35% equity interests in World Grand Holdings Limited ("World Grand") which is an investment holding company incorporated in Hong Kong. The major asset of World Grand is its 90% equity interests in a PRC joint venture which is principally engaged in printing of cigarette packages in Kunming, Yunnan Province. The acquisition was completed on 1 January 2005 for a total consideration of HK$183,750,000 (note 31(a)) when the share certificate was issued and the Group was registered in the register of member of World Grand, details of which are set out in the announcement of the Company dated 8 November 2004. The remaining consideration required from the Group to pay for the total investment in World Grand of HK$91,875,000 is disclosed as a capital commitment in note 28(b) to the financial statements.

18. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**31,407**	32,925
Work in progress	**8,895**	8,926
Finished goods	**9,894**	7,249
	50,196	49,100

All inventories are stated at cost.

19. TRADE AND OTHER RECEIVABLES

Trade and other receivables included trade receivables and bills receivables of approximately HK$181,354,000 and HK$23,567,000 (2003: HK$89,059,000 and Nil) respectively. The general credit terms of the Group to its trade customers range from one month to three months. The aging analysis of trade receivables is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Trade receivables		
Current to 30 days	**82,172**	48,904
31 to 90 days	**65,147**	16,120
Over 90 days	**34,035**	24,035
	181,354	89,059

Subsequent to the balance sheet date, trade receivables of approximately HK$105 million were settled by certain key customers.

20. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES – THE GROUP

The pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group *(note 27)*.

Included in the pledged bank deposits and bank and cash balances of the Group is an amount of approximately HK$12,006,000 (2003: HK$7,102,000) as at 31 December 2004 denominated in Renminbi ("RMB"). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

21. TRADE AND OTHER PAYABLES

Trade and other payables include trade payables of approximately HK$50,249,000 (2003: HK$22,743,000). The aging analysis of trade payables is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Trade payables		
Current to 30 days	**20,463**	14,725
31 to 90 days	**26,819**	5,449
Over 90 days	**2,967**	2,569
	50,249	22,743

22. SHORT TERM INTEREST-BEARING BORROWINGS

	Group	
	2004	2003
	HK$'000	HK$'000
Bank overdrafts – secured *(note 27)*	**–**	4,507
Bank loans – secured *(note 27)*	**145,113**	112,472
	145,113	116,979

23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum payments 2004 HK$'000	Present value of payments 2004 HK$'000	Minimum payments 2003 HK$'000	Present value of payments 2003 HK$'000
Amounts payable:				
Within one year	**8,696**	**7,903**	12,359	11,326
In the second year	**8,313**	**7,830**	9,618	8,937
In the third to fifth years	**8,313**	**8,140**	6,051	5,931
Total minimum finance lease payments	**25,322**	**23,873**	28,028	26,194
Future finance charges	**(1,449)**		(1,834)	
Total net finance lease payables	**23,873**		26,194	
Current portion	**(7,903)**		(11,326)	
Non-current portion	**15,970**		14,868	

24. SHARE CAPITAL

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

	Note	Company Number of Shares	Company Amount HK$
Authorised:			
At 1 January 2004			
Ordinary shares of HK$0.01 each	(a)	38,000,000	380,000
Increase in authorised share capital	(b)	962,000,000	9,620,000
At 31 December 2004		1,000,000,000	10,000,000
Issued and fully paid:			
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)	80,000,000	800,000
At 31 December 2004		400,000,000	4,000,000

24. SHARE CAPITAL *(continued)*

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.

(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 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 31 December 2004.

(g) Pursuant to a share subscription and option agreement dated 9 December 2004 (the "Subscription Agreement"), a subscriber, AMB Packaging Pte Limited, proposed to subscribe for 80,000,000 new Shares of HK$0.01 each at a subscription price of HK$2.5 each (the "Subscription"), subject to and upon the terms and conditions of the Subscription Agreement (note 11), details of which are set out in the joint announcement of the Company and the Subscriber dated 31 December 2004.

As at 31 December 2004, a deposit of HK$81,875,000 from AMB Packaging Pte Limited has been received by the Group for providing funds in respect of the acquisition of World Grand. The Subscription was completed on 24 January 2005 for a total cash consideration, before expenses, of HK$200,000,000 (note 31(b)). The remaining subscription proceed required from the Subscriber to pay for the Subscription of HK$118,125,000 has been received in January 2005.

24. SHARE CAPITAL *(continued)*

Notes: (continued)

(h) Pursuant to the Subscription Agreement, option to subscribe for 96,000,000 Shares was also granted to the Subscriber at an exercise price of HK$2.5 per Share, subject to the completion of the Subscription (note 24(g)) and adjustment due to change in the capital structure of the Company (note 11). HK$10 is payable as consideration for the offer of option granted. The option is exercisable for the period commencing from 24 January 2005 and ending on 31 December 2005. No share options were granted during the year ended 31 December 2004.

25. SHARE OPTION SCHEME – THE COMPANY

The Company operates a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Share Option Scheme include any employees, directors, substantial shareholders or any of their respective associates of the Company and/or any of its subsidiaries or associated company. The Share Option Scheme became effective for a period of 10 years commencing on 10 March 2004.

The subscription price for shares under the Share Option Scheme will be determined by the Directors, and will not be less than highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of the grant of an option, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet for the five consecutive business days immediately preceding the date of grant of an option; and (iii) the nominal value of a Share. HK$1 is payable as consideration on acceptance of the grant of an opinion.

The total number of the Shares which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10% to the Shares in issue. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes must not exceed 30% of the issued share capital of the Company from time to time. Further details of the Share Option Scheme are set out in the Prospectus.

No share options under the Share Option Scheme were granted during the year ended 31 December 2004.

26. NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT

Acquisition of a subsidiary

	HK$'000
Net assets acquired:	
Fixed assets	1,588
Inventories	1,378
Trade and other receivables	767
Prepayments and deposits	321
Bank and cash balances	4,314
Trade and other payables	(2,216)
	6,152
Minority interests	(3,014)
Goodwill on acquisition *(note 14)*	1,096
Cash consideration	4,234

An analysis of the net cash inflow in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(4,234)
Bank and cash balances acquired	4,314
	80

The subsidiary acquired during the year made no significant contribution to the Group's cash flow, turnover or profit attributable to the shareholders for the year ended 31 December 2004.

27. BANKING FACILITIES

As at 31 December 2004, banking facilities of the Group are mainly secured by:

(a) charge over certain bank deposits of the Group (note 20); and

(b) corporate guarantees of the Company.

28. COMMITMENTS

As at 31 December 2004, the Group had the following commitments:

(a) Operating lease 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 one year to six years.

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**1,873**	201
In the second to fifth years	**1,948**	–
	3,821	201

(b) Capital commitments

	Group	
	2004	2003
	HK$'000	HK$'000
Contracted but not provided for:		
Acquisition of plant and machinery	**23,545**	6,687
Unpaid capital contribution for the investment in an associated company *(note 17)*	**91,875**	–

Save as disclosed above, the Group and the Company did not have any other significant capital and financial commitments as at 31 December 2004 (2003: Nil).

29. CONTINGENT LIABILITIES

(a) Group

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

(b) Company

As at 31 December 2004, corporate guarantees were given by the Company to banks to secure banking facilities granted to certain subsidiaries of the Company (2003: Nil).

30. 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.

(a) Primary reporting format – business segments

	Printing of cigarette packages		Manufacturing of laminated papers		Corporate and unallocated		Eliminations		Consolidated	
	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000
REVENUE										
External revenue	97,668	100,890	234,702	131,137	–	–	–	–	332,370	232,027
Inter-segment revenue*	–	–	45,714	35,004	–	–	(45,714)	(35,004)	–	–
Total revenue	97,668	100,890	280,416	166,141	–	–	(45,714)	(35,004)	332,370	232,027
RESULT										
Segment result	29,645	29,181	81,381	39,751	–	–	–	–	111,026	68,932
Unallocated corporate expenses									(23,440)	(16,631)
Other revenue									1,667	3,058
Profit from operations									89,253	55,359
Interest expenses									(8,297)	(7,109)
Finance lease charges									(977)	(1,667)
Interest income									280	59
Share of net profits of an associated company									38,342	47,901
Taxation									(7,715)	(4,291)
Minority interests									(71)	–
Profit for the year									110,815	90,252
ASSETS										
Segment assets	196,654	138,803	155,211	79,718	–	–	–	–	351,865	218,521
Interest in an associated company									53,890	68,719
Unallocated corporate assets									309,963	55,838
Consolidated total assets									715,718	343,078
LIABILITIES										
Segment liabilities	8,083	9,945	64,841	33,207	–	–	–	–	72,924	43,152
Unallocated corporate liabilities									282,494	160,199
Consolidated total liabilities									355,418	203,351
Minority interests									3,085	–
OTHER INFORMATION										
Capital expenditure	21,070	14,464	1,302	643	50,378	157	–	–	72,750	15,264
Depreciation and amortisation	6,603	5,421	1,675	904	2,468	1,428	–	–	10,746	7,753
Non-cash expenses/(income) other than depreciation and amortisation	–	216	–	–	951	(25)	–	–	951	191

* Inter-segment revenue is charged at cost.

30. 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.

31. POST BALANCE SHEET EVENTS

The Group has the following post balance sheet events:

(a) On 1 January 2005, pursuant to the completion of the acquisition of World Grand, World Grand became a 35% owned associated company of the Group (note 17).

(b) On 17 January 2005, pursuant to a written resolution of the shareholders of the Company, 80,000,000 new Shares of HK$0.01 each were allotted and issued at HK$2.5 each for a total cash consideration, before expenses, of HK$200,000,000 (note 24(g)).

(c) In April 2005, a final dividend of HK$25 million and a special dividend of HK$15 million were proposed by the Company to its shareholders in respect of the year ended 31 December 2004 (note 10).

32. COMPARATIVE FIGURES

The comparative figures presented are based on the proforma financial information set out on pages 41 to 78 of the 2003 annual report of the Company.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 20 April 2005.