NOTES
TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

1. CORPORATE INFORMATION

Vision Grande Group Holdings Limited (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. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business is Office 1, 15th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (together the "Group") in preparation for the listing of the Company's 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 was engaged in printing of cigarette packages and manufacturing of laminated paper.

2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the financial statements include applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Group Reorganisation in 2004 had been accounted for as a reorganisation of businesses under common control under the merger accounting methodology. Accordingly, the consolidated financial statements for the year ended 31 December 2004 were prepared 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 were accounted for under the purchase method of accounting.

The financial statements have been prepared under the historical cost convention.

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

(a) Basis of preparation *(continued)*

Adoption of new and revised HKFRSs

In 2005, the Group adopted all the new and revised HKFRSs, which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005.

The adoption of the following new and revised HKFRSs has resulted in changes to the Group's accounting policies and the presentation of the financial statements in the following areas:

HKAS 1 Presentation of Financial Statements

Minority interests and other disclosures

HKAS 1 affects the presentation of minority interests and other disclosures.

HKFRS 3 Business Combinations

Goodwill

HKFRS 3 Business Combinations is effective for business combinations for which the agreement date is on or after 1 January 2005. The option of limited retrospective application of HKFRS 3 has not been taken up, thus avoiding the need to restate past business combinations.

After initial recognition, HKFRS 3 requires goodwill arising on acquisitions to be carried at cost less any accumulated impairment losses. Under HKAS 36 Impairment of Assets, impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. HKFRS 3 prohibits the amortisation of goodwill.

In previous years, in accordance with the predecessor standard, Statement of Standard Accounting Practice 30 Business Combination (SSAP 30), goodwill arising on acquisitions was recognised as an asset and amortised on a straight line basis over its estimated useful life. The Group has discontinued amortising such goodwill from 1 January 2005 onwards and the accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31 December 2005 onwards, goodwill is tested for impairment in accordance with HKAS 36.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

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

(a) Basis of preparation *(continued)*

HKAS 17 Leases

Leasehold land payments

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land payments from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment. The change has had no significant impact on amounts reported for 2004 or prior periods.

The adoption of HKAS 17 resulted in:

	2005	2004
	HK$'000	HK$'000
Increase in leasehold land payments	**936**	998
Decrease in fixed assets	**(936)**	(998)
	–	–

The adoption of the new and revised HKFRSs has no impact on the basic and diluted earnings per share.

The Group has not applied the new standards or interpretations that have been issued but are not yet effective. The application of these standards or interpretations will not have material impact on the financial statements of the Group.

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December.

(i) 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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

(b) Basis of consolidation *(continued)*

(ii) Associate

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

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's interests in associates include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of the post-acquisition results and movements in reserves of an associate are recognised in the consolidated income statement and reserves respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except for unrealised losses where the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(c) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

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

(c) Foreign currency translation *(continued)*

(c) Translation on consolidation

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(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.

(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 effective interest rates applicable.

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

(e) Government grants

Government grants are recognised at their fair value 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 included in non-current liabilities as deferred government grants and are recognised in the consolidated income statement as revenue on a systematic basis over the useful life of the related asset.

(f) 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 intangible assets 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. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product 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. Other development costs are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(g) 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 benefit schemes which are defined contribution plans are expensed as incurred.

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

(h) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affect neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and 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.

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

(i) Property, plant and equipment

Property, plant and equipment 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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is provided on a straight line basis to allocate the cost to their residual values over their estimated useful lives, as follows:

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

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in the consolidated income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(j) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in interest in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

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

(k) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The cost 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.

(m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents include 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, with original maturities of three months or less. 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)*

(o) Trade and other payables

Trade and other payables are stated at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) 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 property, plant and equipment 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.

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

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

(s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 the time value of money is material, provision are stated at the present value of the expenditures expected to settle the obligation.

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. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans for the benefit of employees of the Group or of any entity that is a related party of the Group.

(v) 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 returns that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

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

(v) Segment reporting *(continued)*

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 the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings. 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. Inter-segmenet pricing is based similar terms as those available to other external parties.

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Foreign exchange risk

The Group carries out its business mainly in the PRC and most of the transactions are denominated in Renminbi ("RMB"). The Group is exposed to foreign exchange risk arising from RMB exposures, with respect to Hong Kong dollars. Since the exchange rates between RMB and Hong Kong dollars remain relatively stable, the Group had neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures. The Directors consider the Group's foreign exchange risk to be minimal.

3. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

Credit risk

As at 31 December 2005, the three largest trade receivables represent approximately 44% (31 December 2004: 74%) of the total trade receivables. The Group was exposed to the concentration of credit risk. The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and other receivables.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to trade and other receivables, deposits paid and bank and cash balances is the carrying amount of those assets as stated in the consolidated balance sheet.

Liquidity risk

The Group manages its liquidity risk by ensuring the availability of funding through an adequate amount of committed credit facilities from financial institutions.

Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short term interest-bearing borrowings. At 31 December 2005, 78% of the Group's borrowings were at fixed rates which expose the Group to fair value interest rate risk. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. The Directors are of the opinion that the aforesaid risks are not material to the Group.

(b) Fair value estimation

The Group's financial assets mainly include pledged bank deposits, bank and cash balances, trade and other receivables, amount due from an associate and deposits paid. The Group's financial liabilities mainly include trade and other payables, bills payables, short term interest-bearing borrowings, obligations under finance leases and deposit received. The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(k). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations are prepared on the estimates and assumption of the management (Notes 17 and 19). Management believes that any reasonably foreseeable change in the assumptions and estimates would not cause the aggregate carrying amount of goodwill to exceed the aggregate recoverable amount.

5. TURNOVER AND REVENUE

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

	2005 HK$'000	2004 HK$'000
Turnover		
Cigarette packages	132,302	97,668
Laminated paper	251,211	234,702
	383,513	332,370
Other income		
Interest income	434	280
Commission income	1,586	–
Compensation received	54	–
Exchange gain, net	552	–
Government grants received (Note)	–	1,009
Sundry income	4,519	658
	7,145	1,947
Total revenue	390,658	334,317

5. TURNOVER AND REVENUE *(continued)*

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 PRC. The purpose of the grant is to encourage innovation of commercial enterprises whose technology improvement projects have met certain criteria. The grant received, as the reimbursement of bank loan interest specifically for financing these technology improvement projects, was recognised as revenue whilst the related costs were expensed in the consolidated income statement.

6. PROFIT FROM OPERATIONS

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

	2005 HK$'000	2004 HK$'000 (Restated)
Auditors' remuneration	1,600	1,000
Amortisation of goodwill (included in other operating expenses)	–	15
Cost of inventories sold (Note a)	221,842	200,900
Depreciation		
Owned property, plant and equipment	16,364	6,115
Leased property, plant and equipment	2,525	4,536
	18,889	10,651
Gain on disposal of property, plant and equipment	(414)	(19)
Exchange gain, net (included in other revenue)	(522)	–
Impairment loss on property, plant and equipment (included in other operating expenses)	–	970
Operating lease rentals in respect of land and buildings	5,266	4,058
Staff costs including directors' emoluments		
Salaries and other costs	23,588	19,452
Retirement benefit scheme contributions	835	721
	24,423	20,173
Research and development costs (Note b)	2,396	5,139

Notes:

(a) Cost of inventories sold includes operating lease rentals, staff costs, depreciation and research and development costs of approximately HK$3,923,000, HK$11,788,000, HK$15,478,000 and HK$2,042,000 (2004: HK$2,556,000 and HK$7,461,000, HK$6,195,000 and HK$4,565,000) respectively which are included in the respective amounts disclosed separately above for the year.

(b) Research and development costs include staff costs of approximately HK$592,000 (2004: HK$1,344,000) which is included in the amount disclosed separately above for the year.

7. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on bank loans and overdrafts	10,028	8,297
Finance lease charges	1,603	977
	11,631	9,274

8. 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:

	2005	2004
	HK$'000	HK$'000
Fees		
Executive directors	121	2,569
Non-executive directors	132	66
Independent non-executive directors	396	132
Other emoluments		
Executive directors		
Basic salaries, allowances and benefits in kind	3,353	644
Discretionary bonus	–	–
Retirement benefit scheme contributions	114	108
	4,116	3,519

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

The emoluments of every Director for the years ended 31 December 2005 and 2004 are set out below:

	Fees	Salaries and other benefit	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Name of Director				
Mr. Li Wei Bo	–	1,714	80	1,794
Mr. Lee Cheuk Yin, Dannis	–	1,150	12	1,162
Mr. Cheung Chun Ming	–	450	22	472
Mr. Chan Chew Keak, Billy (Note a)	121	–	–	121
Ms. Zhu Wei Li (Note b)	–	39	–	39
Mr. Sik Siu Kwan	132	–	–	132
Mr. Ng Pui Cheung, Joseph	132	–	–	132
Mr. Ng Kwai Sang	132	–	–	132
Mr. Chung Kwok Mo, John	132	–	–	132
Total for 2005	649	3,353	114	4,116
Mr. Li Wei Bo	1,200	317	70	1,587
Mr. Lee Cheuk Yin, Dannis	862	195	12	1,069
Mr. Cheung Chu Ming	337	75	21	433
Ms. Zhu Wei Li	170	57	5	232
Mr. Sik Siu Kwan	66	–	–	66
Mr. Ng Pui Cheung, Joseph	–	–	–	–
Mr. Ng Kwai Sang	66	–	–	66
Mr. Chung Kwok Mo, John	66	–	–	66
Total for 2004	2,767	644	108	3,519

Notes: (a) Appointed on 24 January 2005.
(b) Resigned on 24 January 2005.

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

The five highest paid individuals in the Group during the year include three (2004: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: two) individuals during the year are set out below:

	2005	2004
	HK$'000	HK$'000
Basic salaries, allowances and benefits in kind	**542**	590
Discretionary bonus	**–**	–
Retirement benefit scheme contributions	**13**	23
	555	613

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
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.

9. 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 state-managed retirement benefit schemes 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 to the state-managed retirement benefit schemes is to make the required contributions.

10. TAXATION

	2005 HK$'000	2004 HK$'000
PRC enterprise income tax		
– current	**7,710**	7,715
– refund of tax for previous year	**(5,575)**	–
	2,135	7,715

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

Pursuant to relevant income tax laws of the PRC, the subsidiaries of the Company are subject to income tax rates of 15% to 30%, mainly depending on the places of incorporation/establishment.

According to relevant tax laws and regulations, the subsidiaries of the Company, Victory Honest Industries (Shenzhen) Co., Ltd. ("Victory Shenzhen"), Mattie Hologram Technology (Huizhou) Co., Ltd. ("Mattie Hologram") and Xian Great Sky Laser Hologram Co., Ltd. ("Xian Hologram") are entitled to a full exemption from the PRC enterprise income tax for the first two years and 50% reduction for the following three years commencing from the profitable year of operation after fully set off against the accumulated losses brought forward.

Victory Shenzhen has been accredited as a 先進技術企業 by 深圳市貿易工業局. Pursuant to relevant tax laws and regulations in the PRC, Victory Shenzhen is entitled to a prolonged 50% reduction of the enterprise income tax (effective income tax rate of 7.5%) for three years commenced from year 2005.

10. TAXATION *(continued)*

The taxation charge can be reconciled to the profit before taxation as reported in the consolidated income statement as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Profit before taxation	**186,974**	118,601
Tax at applicable tax rate of 15%	**28,046**	17,790
Tax effect of share of results of associates	**(11,373)**	(5,751)
Tax effect of income that is not taxable in determining taxable profit	**(3,131)**	(189)
Tax effect of expenses that are not deductible in determining taxable profit	**618**	2,358
Tax effect of unrecognised temporary differences	**(73)**	–
Tax effect of utilisation of tax losses not previously recognised	**–**	(23)
Tax effect of unused tax loss not recognised	**1,200**	1,452
Tax effect of tax concession and tax refund	**(16,029)**	(7,715)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**2,877**	(207)
Taxation charge	**2,135**	7,715

There was no material unprovided deferred taxation liability. The Group has unused tax losses of approximately HK$39 million (2004: HK$34 million) at 31 December 2005 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.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company included a loss of approximately HK$7,226,000 (2004: profit of HK$14,443,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The dividends paid during the year ended 2005 were HK$87,960,000, being HK$0.08325 per share for year 2004 and HK$0.1 per share for 2005. The dividends paid during the year ended 2004 were HK$62,000,000 including HK$20,000,000 (HK$0.05 per share) paid by the Company for 2004 and HK$42,000,000 paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation for 2003. A final dividend of HK$0.085 per share in respect of 2005, amounting to dividends of HK$60,679,000 are to be proposed at the Annual General Meeting on 26 May 2006. The proposed final dividends are not recognised as liabilities at 31 December 2005.

	2005 **HK$'000**	2004 HK$'000 (Restated)
Interim dividend paid of HK$0.072 (2004: HK$0.05) per ordinary share	**34,560**	20,000
Special dividend paid of HK$0.028 (2004: HK$Nil) per ordinary share	**13,440**	–
	48,000	20,000
Proposed special dividend of HK$Nil (2004: HK$0.03125) per ordinary share	**–**	15,000
Proposed final dividend of HK$0.085 (2004: HK$0.052) per ordinary share	**60,679**	24,960
	60,679	39,960
	108,679	59,960

13. EARNINGS PER SHARE

(a) Basic earnings per share is calculated based on the profit attributable to the equity holders of the Company for the year of approximately HK$181,353,000 (2004: HK$110,815,000) and the weighted average number of approximately 476,493,000 ordinary shares in issue during the year (2004: 381,589,000 shares in issue after the Group Reorganisation as if those shares had been outstanding from 1 January 2004.)

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potentially dilutive ordinary shares. There were no potential dilutive ordinary shares as at 31 December 2005.

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	
	2005	2004
	'000	'000
Weighted average number of shares in issue used in the basic earnings per share calculation	**476,493**	381,589
Effect of dilutive potential shares in respect of new shares and share options (Notes 27(f) and (g))	**–**	1,628
Weighted average number of shares used in the diluted earnings per share calculation	**476,493**	383,217

14. RELATED PARTY TRANSACTIONS

Apart from those disclosed elsewhere in the financial statements, the Group had the following material related party transactions which were carried out in the ordinary course of business during the year:

	Note	2005 HK$'000	2004 HK$'000
Sales of laminated paper to associates			
Nanjing Sanlong Packaging Co., Ltd. ("Nanjing Sanlong")	(i)	**126,502**	198,851
Kunming World Grand Colour Printing Co., Ltd. ("Kunming World Grand") (Note 19(b))	(i)	**43,075**	–
Subcontracting charges paid to Nanjing Sanlong	(ii)	**–**	776
Subcontracting income received from Nanjing Sanlong	(ii)	**–**	113

Notes:

(i) The sales to associates were made under normal commercial terms and conditions that would also be available to unrelated third parties.

(ii) Subcontracting charges paid to and received from Nanjing Sanlong were charged at prices and terms comparable with those contracted with unrelated third parties.

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

	2005 HK$'000	2004 HK$'000
(i) Trade and other receivables:		
Nanjing Sanlong	**13,680**	82,471
Kunming World Grand	**17,457**	–
(ii) Trade and other payables:		
Nanjing Sanlong	**10,982**	257

Note: The above amounts are of trade nature, unsecured, interest free and repayable within 90 days.

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	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	690	382	83,315	7,422	7,601	99,410
Additions	–	4,460	60,637	925	4,891	70,913
Acquisition of a subsidiary (Note 29)	–	–	1,628	42	167	1,837
Disposals	–	–	–	–	(590)	(590)
At 31 December 2004 and 1 January 2005	690	4,842	145,580	8,389	12,069	171,570
Additions	–	916	69,359	4,480	3,985	78,740
Transfer	–	–	(11)	137	(126)	–
Disposals	–	–	(8,929)	(135)	(621)	(9,685)
Exchange differences	13	90	2,291	156	165	2,715
At 31 December 2005	703	5,848	208,290	13,027	15,472	243,340
Accumulated depreciation and impairment losses						
At 1 January 2004	270	152	9,057	2,526	4,614	16,619
Charge for the year	31	295	8,066	1,128	1,131	10,651
Impairment losses	–	–	–	–	970	970
Acquisition of a subsidiary (Note 29)	–	–	222	17	10	249
Disposals	–	–	–	–	(372)	(372)
At 31 December 2004 and 1 January 2005	301	447	17,345	3,671	6,353	28,117
Charge for the year	32	710	14,575	1,643	1,929	18,889
Transfer	–	–	(16)	43	(27)	–
Disposals	–	–	(475)	(48)	(161)	(684)
Exchange differences	6	7	331	67	62	473
At 31 December 2005	339	1,164	31,760	5,376	8,156	46,795
Net book value						
At 31 December 2005	364	4,684	176,530	7,651	7,316	196,545
At 31 December 2004 (restated)	389	4,395	128,235	4,718	5,716	143,453

The Group's buildings are situated in the PRC.

At 31 December 2005, the carrying amounts of the Group's property, plant and equipment included approximately HK$52,691,000 (2004: HK$37,120,000) in respect of assets held under finance leases (Note 26).

16. LEASEHOLD LAND PAYMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
At 1 January	**998**	1,078
Amortisation of prepaid operating lease payment	**(82)**	(80)
Exchange differences	**20**	–
At 31 December	**936**	998
Current portion	**(82)**	(82)
Non-current portion	**854**	916

The Group's interests in leasehold land represent prepaid operating lease payments. The land is situated outside Hong Kong and held on leases over 50 years.

17. GOODWILL

	Group
	HK$'000
Cost	
Additions (note 29), and at 31 December 2004 and 1 January 2005	1,096
Adjustment for HKFRS 3	(15)
At 31 December 2005	1,081
Accumulated amortisation and impairment losses	
Charged for the year, and at 31 December 2004 and 1 January 2005	15
Adjustment for HKFRS 3	(15)
At 31 December 2005	–
Net book value	
At 31 December 2005	1,081
At 31 December 2004	1,081

Goodwill represents the excess of the cost of acquisition of a subsidiary over the fair values of the Group's share of identifiable net assets acquired. The goodwill was allocated to the subsidiary as a cash-generating unit for impairment testing.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. The key assumption for the value in use calculations is the budgeted gross margin, at a discount rate of 15.1% and growth rate of 3%, which is based on the units past performance and management's expectations for the market development. The directors are of the opinion that there is no impairment of goodwill as at 31 December 2005 and 2004.

18. INVESTMENTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted investment, at cost	1	1
Due from subsidiaries	261,288	246,037
	261,289	246,038

The amounts due from subsidiaries are unsecured, interest-free and will not be repayable within the next twelve months.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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	Indirect	Principal activities
Victory Honest Group Limited ("Victory BVI")	British Virgin Island ("BVI")	Ordinary HK$1,000	100%	–	Investment holding
Mega Vision Enterprises Limited ("Mega Vision")	BVI	Ordinary US$1	–	100%	Investment holding
Victory Honest (Holdings) Limited	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 a)	PRC	Registered capital US$15,000,000	–	100%	Printing of cigarette packages and manufacturing of laminated paper

18. INVESTMENTS IN SUBSIDIARIES *(continued)*

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
Mattie Hologram (note b)	PRC	Registered capital EUR2,000,000	–	100%	Manufacturing of laser films
Xian Hologram (note c)	PRC	Registered capital RMB7,140,000	–	51%	Manufacturing of laser films

Notes:

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

(b) Mattie Hologram is a wholly foreign-owned enterprise with an operating period of 50 years commencing from 21 June 2004.

(c) Xian Hologram is a sino-foreign equity joint venture enterprise with an operating period of 10 years commencing from 12 April 2000.

19. INTEREST IN ASSOCIATES

The year-end balance comprises the following:

		Group	
		2005	2004
	Note	HK$'000	HK$'000
Share of net assets other than goodwill		80,047	53,890
Goodwill on acquisition	(c)	180,117	–
		260,164	53,890
Amount due from an associate	(d)	14,227	–
		274,391	53,890

(a) As at 31 December 2005, the Group had interests in the associates, both of which are unlisted, as follows:

Name	Place of incorporation/ operation	Particulars of registered capital/issued shares held	Percentage of interest held	Principal activities
Nanjing Sanlong	PRC	US$2,100,000	48%	Printing of cigarette packages
World Grand	Hong Kong/ PRC	HK$4,200,000	35%	Investment holding and trading

(b) During the year, the Group acquired 35% equity interests in World Grand, at a consideration, before costs directly attributable to the acquisition, of HK$183,750,000. World Grand is an investment holding company and beneficially owned 90% equity interests in Kunming World Grand, a foreign wholly-owned enterprise, established in the PRC. Kunming World Grand is principally engaged in printing of cigarette packages.

(c) Goodwill represents the excess of the cost of acquisition of World Grand over the fair values of the Group's share of identifiable net assets acquired. The goodwill was allocated to World Grand and its subsidiary ("World Grand Group") as a cash-generating unit for impairment testing.

The recoverable amount of World Grand Group is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumption for the value in use calculations is the budgeted gross margin at a discount rate of 15.1% and growth rate of 3%, which is based on World Grand Group's past performance and management's expectations for the market development. Since the recoverable amount of World Grand Group is higher than its carrying amount, the directors consider that no impairment of goodwill should be recognised.

19. INTEREST IN ASSOCIATES *(continued)*

(d) The amount due from an associate is interest free, unsecured and have no fixed terms of repayment.

(e) Summary financial information on associates is set out below:

	Assets	Liabilities	Equity	Revenues	Profit
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2005					
100 per cent	**598,743**	**(306,406)**	**292,337**	**652,612**	**192,713**
Group's effective interest	**252,510**	**(141,766)**	**110,744**	**260,386**	**76,018**
2004					
100 per cent	343,578	(220,652)	122,926	332,078	79,879
Group's effective interest	164,918	(105,913)	59,005	159,397	38,342

20. DEPOSIT FOR ACQUISITION OF AN ASSOCIATE

The amount of HK$91,875,000 represented the deposit and money paid for the acquisition of 35% equity interests in World Grand.

21. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**28,767**	31,407
Work in progress	**8,719**	8,895
Finished goods	**10,146**	9,894
	47,632	50,196

22. TRADE AND OTHER RECEIVABLES

Trade and other receivables of the Group included trade receivables and bills receivables of approximately HK$205,355,000 and HK$20,782,000 (2004: HK$181,354,000 and HK$23,567,000) 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	
	2005	2004
	HK$'000	HK$'000
Trade receivables		
Current to 30 days	**115,495**	82,172
31 to 90 days	**58,398**	65,147
Over 90 days	**31,462**	34,035
	205,355	181,354

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

23. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group (Note 30).

Included in the pledged bank deposits and bank and cash balances of the Group is an amount of approximately HK$43,943,000 (2004: HK$12,006,000) as at 31 December 2005 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.

24. TRADE AND OTHER PAYABLES

Trade and other payables of the Group included trade payables of approximately HK$49,004,000 (2004: HK$50,249,000). The aging analysis of trade payables is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Trade payables		
Current to 30 days	**36,475**	20,463
31 to 90 days	**6,335**	26,819
Over 90 days	**6,194**	2,967
	49,004	50,249

The directors consider that the carrying amount of trade and other payables approximates their fair value.

25. SHORT TERM INTEREST-BEARING BORROWINGS

	Group	
	2005	2004
	HK$'000	HK$'000
Bank loans – secured (Note 30)	**112,066**	145,113

The bank loans carried interests ranging from 5.595% to 8.25% (2004: 5.04% to 7.501%) per annum. The directors consider that the carrying amount of short term interest-bearing borrowings approximates their fair value.

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments 2005 HK$'000	**Present value of payments 2005 HK$'000**	Minimum lease payments 2004 HK$'000	Present value of payments 2004 HK$'000
Amounts payable:				
Within one year	**16,862**	**14,465**	8,696	7,903
In the second year	**16,861**	**15,670**	8,313	7,830
In the third to fifth years	**14,116**	**13,110**	8,313	8,140
Total minimum lease payments	**47,839**	**43,245**	25,322	23,873
Future finance charges	**(4,594)**		(1,449)	
Total net finance lease payables	**43,245**		23,873	
Current portion	**(14,465)**		(7,903)	
Non-current portion	**28,780**		15,970	

For the year ended 31 December 2005, the average effective borrowing rate was 6.155% (2004: 5.759%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are effectively secured as the rights to the leased assets (Note 15) revert to the lessor in the event of default. All finance lease obligations are denominated in Hong Kong dollars.

The directors consider that the carrying amount of the obligations under finance leases approximates their fair value.

27. SHARE CAPITAL

	Note	Company Number of Shares	Amount HK$
Authorised:			
Ordinary shares of HK$0.01 each			
At 1 January 2004	(a)	38,000,000	380,000
Increase in authorised share capital	(b)	962,000,000	9,620,000
At 31 December 2004 and 2005		1,000,000,000	10,000,000
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
At 1 January 2004	(a)	10,000	–
Shares issued 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 and at 1 January 2005		400,000,000	4,000,000
Issue of new shares	(f)	80,000,000	800,000
At 31 December 2005		480,000,000	4,800,000

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 each 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 additional 962,000,000 new shares of HK$0.01 each ranking pari passu with the existing shares in all respects.

(c) Pursuant to the Group Reorganisation mentioned in Note 1, 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. The difference between the nominal value of shares issued and the nominal value of the shares of Victory BVI acquired 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 of HK$0.01 each 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.

27. SHARE CAPITAL *(continued)*

(e) 80,000,000 shares of HK$0.01 each were issued for cash at an issued price of HK2.35 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange on 26 March 2004. 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) Pursuant to a share subscription and option agreement dated 9 December 2004 (the "Subscription Agreement"), the subscriber, AMB Packaging Pte Limited, subscribed for 80,000,000 new shares of HK$0.01 each at a subscription price of HK$2.5 per share on 24 January 2005. 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.

(g) Pursuant to the Subscription Agreement, option to subscribe for 96,000,000 shares was granted to the subscriber, at an exercise price of HK$2.5 per share, subject to the completion of the Subscription and adjustment due to change in the capital structure of the Company. 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 option was exercised during the year ended 31 December 2005.

28. 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 associates. The Share Option Scheme became effective for a period of ten 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 option.

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 of the Company dated 16 March 2004.

No share options under the Share Option Scheme were granted during the years ended 31 December 2005 and 2004.

29. NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT

(a) Acquisition of a subsidiary

On 11 November 2004, the Group acquired 51% of Xian Hologram, a company engaged in manufacturing of laser films in the PRC as follow:

	2005 HK$'000	2004 HK$'000
Net assets acquired:		
Property, plant and equipment	–	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 interest	–	(3,014)
Goodwill on acquisition (note 17)	–	1,096
Cash consideration	–	4,234

The goodwill is attributable to the profitability of the acquired business.

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

	2005 HK$'000	2004 HK$'000
Cash consideration	–	(4,234)
Bank and cash balances acquired	–	4,314
	–	80

The subsidiary acquired made no significant contribution to the Group's cash flow, turnover or profit attributable to the equity holders of the Company for the period from 11 November 2004 to 31 December 2004 and the year ended 31 December 2004 if the acquisition had occurred on 1 January 2004.

There were no acquisitions in the year ended 31 December 2005.

(b) Major non-cash transaction

During the year, the Group entered into a finance lease in respect of plant and machinery with a total capital value at the inception of the leases of HK$28,979,000 (2004: HK$23,500,000).

30. BANKING FACILITIES

As at 31 December 2005, banking facilities of the Group are mainly secured by:

(a) charge over certain bank deposits of the Group (Note 23); and

(b) corporate guarantees of the Company.

31. COMMITMENTS

As at 31 December 2005, the Group had the following commitments:

(a) Operating lease commitments

The Group leases certain of its office and factory premises under operating lease arrangements and entered into a license agreement for the use of holograms. The original lease terms for the office and factory premises range from one year to six years and the term of the licence agreement is two years.

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**3,291**	1,873
In the second to fifth years	**3,270**	1,948
	6,561	3,821

(b) Capital commitments

	2005	2004
	HK$'000	HK$'000
Contracted but not provided for:		
Acquisition of plant and machinery	**11,342**	23,545
Unpaid capital contribution for the investment in an associate (Note 20)	**–**	91,875

Save as disclosed above, the Group and the Company did not have any other significant capital and operating lease commitments as at 31 December 2005 (2004: Nil).

32. CONTINGENT LIABILITIES

(a) Group

As at 31 December 2005, the Group did not have any significant contingent liabilities (2004: HK$Nil).

(b) Company

Corporate guarantees were given by the Company to banks to secure banking facilities granted to certain subsidiaries of the Company. As at 31 December 2005, the facilities amount utilised was HK$115,487,000 (2004: HK$145,113,000).

33. SEGMENT INFORMATION

(a) Primary reporting format – business segments

As at 31 December 2005, the Group is organised into two main business segments:

(1) Printing of cigarette packages; and

(2) Manufacturing of laminated paper.

	Printing of cigarette packages		Manufacturing of laminated paper		Corporate and unallocated		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE										
External revenue	132,302	97,668	251,211	234,702	–	–	–	–	383,513	332,370
Inter-segment revenue	–	–	14,547	45,714	–	–	(14,547)	(45,714)	–	–
Total revenue	132,302	97,668	265,758	280,416	–	–	(14,547)	(45,714)	383,513	332,370
RESULT										
Segment results	52,497	29,645	88,610	81,381	–	–	–	–	141,107	111,026
Unallocated corporate expenses									(25,665)	(23,440)
Interest income									434	280
Other revenue									6,711	1,667
Profit from operations									122,587	89,533
Finance costs									(11,631)	(9,274)
Share of profits of associated companies	76,018	38,342	–	–	–	–	–	–	76,018	38,342
Taxation									(2,135)	(7,715)
Profit for the year									184,839	110,886
ASSETS										
Segment assets	252,545	196,654	284,618	155,211	–	–	–	–	537,163	351,865
Interest in associated companies	260,164	53,890	–	–	–	–	–	–	260,164	53,890
Unallocated corporate assets									141,389	309,963
Consolidated total assets									938,716	715,718
LIABILITIES										
Segment liabilities	68,585	8,083	78,023	64,841	–	–	–	–	146,608	72,924
Unallocated corporate liabilities									137,542	282,494
Consolidated total liabilities									284,150	355,418
OTHER INFORMATION										
Capital expenditure	24,603	21,070	46,967	1,302	7,170	50,378	–	–	78,740	72,750
Depreciation and amortisation	9,345	6,603	6,928	1,675	2,698	2,468	–	–	18,971	10,746
Impairment loss on fixed assets	–	–	–	–	–	970	–	–	–	970
Other non-cash expenses/(income)	–	–	–	–	–	(19)	–	–	–	(19)

33. SEGMENT INFORMATION *(continued)*

(b) Secondary reporting format – geographical segments

The Group's business segments operate in the PRC and its revenue is attributable to its customers in the PRC. Accordingly, no analysis by geographical segments is presented.

34. POST BALANCE SHEET EVENTS

The Group has the following significant post balance sheet events:

(a) The Group acquired the entire issued share capital of Bellgate International Limited ("Bellgate"), a company incorporated in BVI, on 27 February 2006. Bellgate is a holding company of a group of companies engaged in printing of cigarette packages in the PRC.

The consideration for the acquisition was satisfied by the allotment and issue of 121,200,000 new shares of HK$0.01 each of the Company, at HK$4.2 per share, credited as fully paid. Details of the acquisition are set out in the joint announcement of the Company and Amcor Packaging (Asia) Pty Limited ("Amcor Packaging") dated 23 December 2005 ("Joint Announcement").

Since the acquisition was only completed on 27 February 2006, there is not sufficient time for management to prepare financial statements of Bellgate and its subsidiaries in accordance with HKFRSs for business combination purposes. According to the management accounts of Bellgate and its subsidiaries, as at 28 February 2006 prepared in accordance with the accounting standards of the PRC, the estimated net asset value of Bellgate as at 28 February 2006 is approximately HK$262 million. Based on the closing price of the Company's shares at 27 February 2006 of HK$6.45 per share, the goodwill arising on acquisition at the best estimataion of the directors is approximately HK$520 million. The estimated net asset value and goodwill are subject to adjustments for fair value measurement of the identifiable net assets acquired and for the adoption of HKFRSs.

(b) Amcor Fibre Packaging-Asia Pte Limited, an associate of Amcor Packaging, subscribed for 16,670,000 new shares of HK$0.01 each of the Company at a subscription price of HK$4.20 per share on 27 February 2006.

(c) AMB Package Pte Limited, an associate of Amcor Packaging, subscribed for 96,000,000 new shares of HK$0.01 each of the Company at a subscription price of HK$2.50 per share on 27 February 2006.

34. POST BALANCE SHEET EVENTS *(continued)*

(d) On 24 March 2006, the Company, Mega Vision (the "Purchaser") and, Joy Benefit Limited, Splendid China Limited and Oriental Honour Limited (together the "Vendors") entered into an agreement whereby the Purchaser has conditionally agreed to purchase approximately 68.5% equity interests in World Grand at a consideration of HK$928,100,000. The consideration will be satisfied by cash totalled HK$439,500,000 and allotment and issue of 69,800,000 new shares of HK$0.01 each of the Company. Details of the proposed acquisition is set out in the announcement of the Company on 24 March 2006.

(e) A final dividend of HK$0.085 per share in respect of 2005, amounting to dividends of HK$60,679,000 are to be proposed at the Annual General Meeting on 26 May 2006.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 26 April 2006.