

# REPORT OF THE DIRECTORS

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The Directors submit herewith their annual report together with the audited financial statements for the year ended 31st March, 2006.

## PRINCIPAL PLACE OF BUSINESS

New Island Printing Holdings Limited (“the Company”) is a company incorporated and domiciled in Bermuda and has its registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and principal place of business at New Island Printing Centre, 38 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New Territories.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are the printing and manufacture of high quality multi-colour packaging products, carton boxes, books, brochures and other paper products.

The analysis of the geographical segments of the operations of the Company and its subsidiaries during the year is set out in note 12 to the financial statements.

## FINANCIAL STATEMENTS

The loss and cash flows of the Group for the year ended 31st March, 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 71.

## TRANSFER TO RESERVES

Loss attributable to shareholders of HK\$23,113,000 (2005: profit attributable to shareholders, before dividends, of HK\$3,972,000) has been transferred to reserves. Other movements in reserves are set out in note 24 to the financial statements.

The Directors do not recommend the payment of a dividend in respect of the year ended 31st March, 2006 (2005: interim dividend of HK1.0 cent per share).

## CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$152,000 (2005: HK\$767,000).

## SUBSIDIARIES

Particulars of the Company’s subsidiaries as at 31st March, 2006 are set out in note 14 to the financial statements.

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## **FIVE YEAR SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 72.

## **MAJOR SUPPLIERS AND CUSTOMERS**

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the financial year is as follows:

	%
Sales	
Five largest customers in aggregate	41
The largest customer	19
Purchases	
Five largest suppliers in aggregate	19
The largest supplier	5

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors, owns more than 5 per cent. of the Company's share capital) had any interests (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) in these major customers and suppliers.

## **FIXED ASSETS**

Movements in fixed assets during the year are set out in note 13 to the financial statements.

## **SHARE CAPITAL**

Details of share capital of the Company are set out in note 23 to the financial statements. There were no movements during the year.

## **BANK LOANS, OVERDRAFTS, OBLIGATIONS UNDER FINANCE LEASES AND BILLS PAYABLE**

Particulars of bank loans, overdrafts, obligations under finance leases and bills payable of the Group as at 31st March, 2006 are set out in notes 18, 19 and 21 to the financial statements.

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## DIRECTORS

The Directors during the financial year and up to the date of this report were:

Madam So Chau Yim Ping, BBS, JP (*Chairman*)

Mrs. Cheong So Ka Wai, Patsy (re-designated from Non-Executive Director to Executive Director on 19th May, 2006)

Mrs. Fung So Ka Wah, Karen (re-designated from Non-Executive Director to Executive Director on 19th May, 2006)

Mr. So Wah Sum, Conrad

Mr. Hui Yin Fat, O.B.E., JP\*

Mr. Ting Woo Shou, Kenneth, SBS, JP\*\*

Mr. Wong Wang Fat, Andrew,  
O.B.E. (Hon), JP\*

Mr. She Chiu Shun, Ernest\*

Mr. Ho Hing Lim, Peter (resigned on 19th May, 2006)

\* *Independent Non-Executive Directors*

\*\* *Non-Executive Directors*

In accordance with the bye-laws of the Company, Madam So Chau Yim Ping, BBS, JP, Mrs. Cheong So Ka Wai, Patsy, Mr. Hui Yin Fat, O.B.E., JP and Mr. Ting Woo Shou, Kenneth, SBS, JP retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-Executive Directors to be independent.

## DIRECTORS' SERVICE CONTRACTS

Madam So Chau Yim Ping, BBS, JP and Mr. So Wah Sum, Conrad have entered into service agreements as Executive Directors with the Company which may be terminated by either party giving to the other six months written notice. Mrs. Cheong So Ka Wai, Patsy and Mrs. Fung So Ka Wah, Karen were appointed as Non-Executive Directors of the Company on 23rd May, 2005 and were re-designated from Non-Executive Directors to Executive Directors on 19th May, 2006 for a period of two years. Mrs. Cheong So Ka Wai, Patsy was appointed as acting chief executive officer on 19th May, 2006. Mr. Ting Woo Shou, Kenneth, SBS, JP was appointed as a Non-Executive Director of the Company for a period of two years from 15th July, 2005. Mr. Hui Yin Fat, O.B.E., JP, Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP and Mr. She Chiu Shun, Ernest were appointed as Independent Non-Executive Directors of the Company for a period of two years from 15th July, 2005.

No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than normal statutory obligations.

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## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (“Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors of the Company, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

## DIRECTORS’ AND CHIEF EXECUTIVE’S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors and chief executive of the Company who held office at 31st March, 2006 had the following interests in the shares of the Company, subsidiaries and other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) at that date as recorded in the register of Directors’ and chief executive’s interests and short positions required to be kept under section 352 of the SFO:

### (a) Interests in issued shares of the Company

Name of Directors	Ordinary shares of HK\$0.1 each		Total number of shares held	% of total issued shares
	Personal interests (Note 1)	Corporate interests (Note 2)		
Madam So Chau Yim Ping, BBS, JP	19,800,000	132,000,000	151,800,000	68.22%
Mrs. Cheong So Ka Wai, Patsy	3,300,000	—	3,300,000	1.48%
Mrs. Fung So Ka Wah, Karen	3,300,000	—	3,300,000	1.48%
Mr. So Wah Sum, Conrad	3,300,000	—	3,300,000	1.48%
Mr. Ting Woo Shou, Kenneth, SBS, JP	105,000	—	105,000	0.05%

No family interests in shares are held by any of the Directors.

Notes:

- (1) All these shares are held by the respective Directors personally as beneficial owners.
- (2) Ka Chau Enterprises (B.V.I.) Limited (“Ka Chau”) beneficially owned 132,000,000 shares as at 31st March, 2006. Madam So Chau Yim Ping, BBS, JP has a 60 per cent. interest in Ka Chau, and each of Mrs. Cheong So Ka Wai, Patsy and Mrs. Fung So Ka Wah, Karen has a 20 per cent. interest in Ka Chau. Accordingly, Madam So Chau Yim Ping, BBS, JP is deemed to be interested in the 132,000,000 shares owned by Ka Chau.

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## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

### (b) Interests in non-voting deferred shares of subsidiaries

Name of Directors	Non-voting deferred shares of HK\$100 each in New Island Printing Company Limited	Non-voting deferred shares of HK\$100 each in Sonic Manufacturing Company Limited
Madam So Chau Yim Ping, BBS, JP	6,700	500
Mrs. Cheong So Ka Wai, Patsy	1,000	500
Mrs. Fung So Ka Wah, Karen	1,000	—
Mr. So Wah Sum, Conrad	1,000	—
Madam So Chau Yim Ping, BBS, JP and Mrs. Cheong So Ka Wai, Patsy	150	—
	9,850	1,000

*Note: All the above non-voting deferred shares are held by the respective Directors personally as beneficial owners.*

As at 31st March, 2006, apart from the foregoing, none of the Directors and chief executive of the Company or any of their spouses or children under the age of 18 has interests or short positions in the shares, underlying shares or debentures of the Company or subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

### SUBSTANTIAL SHAREHOLDERS

Save for those shares referred to in the Directors' interests in shares above, no person or corporation had any interest in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### CONNECTED TRANSACTIONS

During the year, the Group has entered into the following transactions as described below with persons who are "connected persons" for the purpose of the Listing Rules.

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## **CONNECTED TRANSACTIONS** *(continued)*

The Group, in the ordinary course of business, sold packaging products to Kader Industrial Company Limited (“Kader”) and Qualidux Industrial Company Limited (“Qualidux”) from time to time on an arm’s length basis and on normal commercial terms. Mr. Ting Woo Shou, Kenneth, SBS, JP, a Non-Executive Director of the Company, is the managing director and a controlling shareholder of Kader. Mr. Ting is also a director of Qualidux and certain members of his family have substantial interests in Qualidux. Sales for the year ended 31st March, 2006 to Kader and Qualidux amounted to HK\$9,280,000 (2005: HK\$13,587,000).

These transactions have been reviewed by the Independent Non-Executive Directors (namely, Mr. Hui Yin Fat, O.B.E., JP, Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP and Mr. She Chiu Shun, Ernest) of the Company, who are satisfied that the above transactions were entered into:

- (i) in the ordinary and usual course of business;
- (ii) either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than terms available to independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has issued a press announcement in respect of the above continuing connected transactions on 18th July, 2005.

The Directors have requested the auditors of the Company to perform certain agreed upon procedures on the continuing connected transactions and have received a letter from the auditors stating their findings that the continuing connected transactions:

- (i) have received the approval of the Company’s Board of Directors;
- (ii) were in accordance with the pricing policies of the Company;
- (iii) have been entered into in accordance with the relevant agreements governing the continuing connected transactions; and
- (iv) have not exceeded the annual Cap Amount as set out in the relevant agreements governing the continuing connected transactions, being HK\$10,000,000 for each of the connected parties.

## **DIRECTORS’ INTERESTS IN SIGNIFICANT CONTRACTS**

Apart from the above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

## **ARRANGEMENT TO PURCHASE SHARES**

At no time during the year ended 31st March, 2006 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company, or their spouses or children under the age of 18, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's bye-laws, although there is no restriction against such rights under Bermuda Law.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

## **RETIREMENT SCHEMES**

Particulars of retirement schemes of the Group are set out in note 28 to the financial statements.

## **STAFF AND REMUNERATION POLICY**

As at 31st March, 2006, the Group had a total staff of 3,129 (2005: 3,341) of which 3,048 (2005: 3,246) were employed in the People's Republic of China for the Group's manufacturing and distribution businesses.

The Group provides employee benefits such as staff insurance, retirement schemes and discretionary bonus and also provides in-house training programmes and external training sponsorship. The Group aims to design a remuneration policy that attracts and retains employees needed to run the Group successfully and to motivate employees to pursue appropriate growth strategies whilst taking into account the performance of the individuals. The remuneration of the Directors are reviewed by the Remuneration Committee. Their remuneration should reflect, inter alia, the performance and responsibilities of the Directors. No Director, or any of his associates, and executive is involved in deciding his own remuneration.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

## **AUDITORS**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**Li Sau Yau, Philip**

*Secretary*

Hong Kong, 21st July, 2006