NEW ISLAND PRINTING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 377)

新 洲 印 刷 集 團 有 限 公 司

（於百慕達註冊成立之有限公司）

（股份代號：377）

2006/2007 INTERIM REPORT

二零零六／二零零七年度中期業績報告

NEW ISLAND PRINTING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 377)

INTERIM REPORT 2006/2007

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Madam So Chau Yim Ping, BBS, JP *(Chairman)*
Mrs. Cheong So Ka Wai, Patsy
(Acting Chief Executive Officer)
Mrs. Fung So Ka Wah, Karen
Mr. So Wah Sum, Conrad

NON-EXECUTIVE DIRECTOR

Mr. Ting Woo Shou, Kenneth, SBS, JP

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hui Yin Fat, O.B.E., JP
Mr. She Chiu Shun, Ernest
Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP

COMPANY SECRETARY

Mr. Li Sau Yan, Philip

QUALIFIED ACCOUNTANT

Mr. Li Sau Yan, Philip

AUDIT COMMITTEE

Mr. Hui Yin Fat, O.B.E., JP
Mr. She Chiu Shun, Ernest
Mr. Ting Woo Shou, Kenneth, SBS, JP
Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP

REMUNERATION COMMITTEE

Madam So Chau Yim Ping, BBS, JP
Mrs. Cheong So Ka Wai, Patsy
Mr. Hui Yin Fat, O.B.E., JP
Mr. She Chiu Shun, Ernest
Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP

SOLICITORS

Woo, Kwan, Lee & Lo

AUDITORS

KPMG

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Wing Hang Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE

New Island Printing Centre
38 Wang Lee Street
Yuen Long Industrial Estate
New Territories
Hong Kong

HONG KONG SHARE REGISTRARS

Union Registrars Limited
Room 1803,
Fook Lee Commercial Centre,
Town Place,
33 Lockhart Road,
Wanchai,
Hong Kong

INTERIM RESULTS

The board of directors ("the Directors") of New Island Printing Holdings Limited ("the Company") announces the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30th September, 2006 as follows:-

CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2006 — unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30th September,	
		2006	2005
	Note	***$'000***	*$'000*
Turnover	*2*	**277,638**	286,368
Cost of sales		**(219,318)**	(228,690)
		58,320	57,678
Other revenue		**2,723**	1,690
Other net income/(loss)		**2,337**	(132)
Selling and distribution costs		**(14,868)**	(16,350)
Administrative expenses		**(27,942)**	(25,455)
Profit from operations		**20,570**	17,431
Finance costs	*3*	**(9,547)**	(6,875)
Profit before taxation	*3*	**11,023**	10,556
Income tax	*4*	**(2,658)**	(1,433)
Profit attributable to shareholders		**8,365**	9,123
Earnings per share	*5*	**3.76 cents**	4.10 cents

The notes on pages 7 to 14 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET
At 30th September, 2006 — unaudited
(Expressed in Hong Kong dollars)

	Note	**At 30th September, 2006**		At 31st March, 2006	
		$'000	***$'000***	*$'000*	*$'000*
NON-CURRENT ASSETS					
Fixed assets					
— Property, plant and equipment			**383,919**		409,338
— Interest in leasehold land held for own use under operating leases			**26,727**		30,696
			410,646		440,034
CURRENT ASSETS					
Inventories		**77,348**		78,786	
Trade debtors, prepayments and deposits	*6*	**156,686**		85,575	
Current taxation recoverable		**3,765**		3,924	
Pledged bank deposits	*7*	**10,784**		9,615	
Cash and cash equivalents		**26,316**		20,361	
		274,899		198,261	
Non-current assets classified as held for sale	*8*	**20,843**		—	
		295,742		198,261	
CURRENT LIABILITIES					
Bank loans and overdrafts					
— secured	*9*	**136,124**		120,664	
— unsecured	*9*	**98,115**		133,630	
Obligations under finance leases	*10*	**6,019**		—	
Trade creditors and accrued charges	*11*	**124,402**		64,257	
Bills payable	*12*	**15,462**		49,516	
Current taxation payable		**2,560**		1,219	
		382,682		369,286	
NET CURRENT LIABILITIES			**(86,940)**		(171,025)
TOTAL ASSETS LESS CURRENT LIABILITIES			**323,706**		269,009

CONSOLIDATED BALANCE SHEET

At 30th September, 2006 — unaudited *(Continued)*

(Expressed in Hong Kong dollars)

		At 30th September, 2006		At 31st March, 2006	
	Note	***$'000***	***$'000***	*$'000*	*$'000*
NON-CURRENT LIABILITIES					
Bank loans					
— secured	*9*	**19,750**		—	
— unsecured	*9*	**9,861**		6,000	
Obligations under finance leases	*10*	**18,533**		—	
Deferred taxation		**17,360**		19,169	
			(65,504)		(25,169)
NET ASSETS			**258,202**		243,840
CAPITAL AND RESERVES					
Share capital	*13*		**22,253**		22,253
Reserves	*14*		**235,949**		221,587
TOTAL EQUITY			**258,202**		243,840

The notes on pages 7 to 14 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th September, 2006 — Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30th September,	
		2006	2005
	Note	***$'000***	*$'000*
Shareholders' equity at 1st April		**243,840**	261,348
Exchange differences arising on translation of the financial statements of subsidiaries outside Hong Kong	*14*	**5,997**	4,075
Income recognised directly in equity		**5,997**	4,075
Net profit for the period	*14*	**8,365**	9,123
Total recognised income and expense for the period		**14,362**	13,198
Shareholders' equity at 30th September		**258,202**	274,546

The notes on pages 7 to 14 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30th September, 2006 — Unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30th September,	
	2006	2005
	$'000	*$'000*
Cash (used in)/generated from operations	**(9,316)**	39,588
Tax paid	**(2,988)**	(2,817)
Net cash (used in)/generated from operating activities	**(12,304)**	36,771
Net cash generated from/(used in) investing activities	**1,359**	(67,794)
Net cash generated from financing activities	**38,996**	11,991
Net increase/(decrease) in cash and cash equivalents	**28,051**	(19,032)
Cash and cash equivalents at 1st April	**(32,821)**	(6,344)
Effect of foreign exchange rates changes	**375**	639
Cash and cash equivalents at 30th September	**(4,395)**	(24,737)
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**37,100**	35,450
Bank overdrafts	**(30,711)**	(50,572)
	6,389	(15,122)
Pledged bank deposits	**(10,784)**	(9,615)
	(4,395)	(24,737)

The notes on pages 7 to 14 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
(Expressed in Hong Kong dollars)

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim financial report should be read in conjunction with the annual financial statements for the year ended 31st March, 2006. It was authorised for issue by the Directors on 19th December, 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial report is unaudited but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports", issued by the HKICPA. KPMG's independent review report to the Directors is included on page 15.

The financial information relating to the financial year ended 31st March, 2006 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st March, 2006 are available from the Company's registered office. The auditors have included a paragraph on fundamental uncertainty and expressed an unqualified opinion on those financial statements in their report dated 21st July, 2006. The fundamental uncertainty relates to the ability of the Group to operate as a going concern in view of the breach of financial covenants of bank facilities and the excess of the Group's current liabilities over its current assets at 31st March, 2006.

The interim financial report has been prepared on a going concern basis notwithstanding the net current liabilities of $86,940,000 at 30th September, 2006. The ability of the Group to operate as a going concern is dependent on the continuing availability of the facilities provided by the banks. The Directors are of the opinion that the banks will continue to grant adequate facilities to the Group. Furthermore, the Directors consider that the Group will be able to generate adequate cash flows from its operations based on the cash flow forecast for the year ending 30th September, 2007 prepared by the Group's management. Accordingly, the interim financial report has been prepared on a going concern basis.

2. TURNOVER

The principal activities of the Group are printing and manufacture of high quality multi-colour packaging products, carton boxes, books, brochures and other paper products.

Turnover represents the invoiced value of goods sold, net of sales tax, returns and discounts.

All the Group's turnover and operating result are generated from the printing and manufacture of high quality multi-colour packaging products, carton boxes, books, brochures and other paper products. Further, the Group's business participates in only one geographical location classified by the location of assets, i.e. the People's Republic of China ("PRC"). Accordingly, no segmental analysis is provided.

3. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30th September,	
	2006	2005
	\$'000	*\$'000*
Finance charges on obligations under finance leases	**376**	—
Interest payable on bank loans and overdrafts	**9,171**	7,118
Less: interest capitalised into properties under development	**—**	(243)
	9,547	6,875
Cost of inventories	**219,318**	228,690
Amortisation of land lease premium	**479**	412
Depreciation	**19,702**	18,115
(Gain)/loss on disposal of fixed assets	**(1,960)**	57

4. INCOME TAX

	Six months ended 30th September,	
	2006	2005
	\$'000	*\$'000*
Current tax		
PRC income tax	**4,468**	851
Deferred tax		
Origination and reversal of temporary differences	**(1,810)**	582
	2,658	1,433

Income tax for subsidiaries outside Hong Kong is calculated using the estimated annual effective rates of taxation that would be applicable to the relevant areas in which the subsidiaries operate.

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of $8,365,000 (2005: $9,123,000) and on the number of 222,529,000 shares (2005: 222,529,000 shares) in issue during the period.

6. TRADE DEBTORS, PREPAYMENTS AND DEPOSITS

Included in trade debtors, prepayments and deposits are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis:

	At 30th September, 2006	At 31st March, 2006
	$'000	*$'000*
Current	**90,996**	46,733
One to three months overdue	**47,995**	22,373
More than three months overdue	**11,417**	9,185
	150,408	78,291

Debts are due within 30 to 90 days from the date of billing.

7. PLEDGED BANK DEPOSITS

At 30th September, 2006, bank deposits totalling RMB11,000,000 (equivalent to approximately $10,784,000) (31st March, 2006: RMB10,000,000 (equivalent to approximately $9,615,000)) were pledged as security against banking facilities extended to the Group.

8. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 15th September, 2006, a subsidiary of the Company entered into an agreement with a third party for the disposal of a property held by the subsidiary at a cash consideration of RMB23,000,000 (equivalent to $22,549,000). The property has a net book value of $20,843,000 at 30th September, 2006. The transaction, which is expected to be completed within one year, constitutes a disclosable transaction of the Company pursuant to the Listing Rules. Further details in relation to the transaction are set out in the Company's circular dated 6th October, 2006.

At 30th September, 2006, the purchaser has paid a deposit of RMB7,400,000 (equivalent to $7,255,000) which is included under trade creditors and accrued charges in the consolidated balance sheet.

9. BANK LOANS AND OVERDRAFTS

At 30th September, 2006, bank loans and overdrafts were repayable as follows:

	At 30th September, 2006	At 31st March, 2006
	$'000	*$'000*
Within one year or on demand	**234,239**	254,294
After one year but within two years	**13,067**	6,000
After two years but within five years	**16,544**	—
	29,611	6,000
	263,850	260,294

At 30th September, 2006, bank loans and overdrafts were secured as follows:

	At 30th September, 2006	At 31st March, 2006
	$'000	*$'000*
Bank overdrafts		
- secured	**6,278**	12,072
- unsecured	**24,433**	41,110
	30,711	53,182
Bank loans		
- secured	**149,596**	108,592
- unsecured	**83,543**	98,520
	233,139	207,112
	263,850	260,294

Certain banking facilities and loans granted to the Group are secured by mortgages over the Group's interest in leasehold land under operating leases, buildings and machinery, trade debtors and bank deposits pledged with an aggregate carrying value of $241,332,000 at 30th September, 2006 (31st March, 2006: $185,943,000). Such banking facilities, amounting to $219,101,000 (31st March, 2006: $189,746,000) were utilised to the extent of $156,359,000 (31st March, 2006: $163,946,000) at 30th September, 2006. Included in secured bank loans at 30th September, 2006 are advances from banks of $45,776,000 (31st March, 2006: $Nil) in relation to the factoring of trade debtors of the Group with recourse, and for which settlements for the factored trade debtors have not yet been received at 30th September, 2006.

9. BANK LOANS AND OVERDRAFTS *(Continued)*

At 31st March, 2006, the Group breached the financial covenants of several banking facilities. Such banking facilities, amounting to $207,075,000 were utilised to the extent of $178,741,000 at 31st March, 2006. Included in the amount utilised at 31st March, 2006 was $31,275,000 which, in accordance with the terms of the banking facilities, was scheduled to be repaid after one year from the balance sheet date, but was classified as current liabilities in the consolidated balance sheet as the Group did not have an unconditional right at the balance sheet date to defer settlement for at least the next twelve months as a result of the breach of the covenants. Subsequent to 31st March, 2006, the Group received waivers from compliance with these covenants. In addition, part of the bank loans of $31,275,000 classified as current liabilities at 31st March, 2006 are now due for repayment within one year from 30th September, 2006. As a result, the amount of $31,275,000 is classified as current and non-current liabilities at 30th September, 2006 based on the scheduled repayment dates.

The financial covenants are tested on an annual basis at the end of the Group's accounting year. Based on the financial forecast for the six months ending 31st March, 2007 prepared by the management, the Group does not expect any material changes to the classification of bank loans at 31st March, 2007.

10. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases are payable as follows:

	At 30th September, 2006			At 31st March, 2006		
	Present value of the minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	Present value of the minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	$'000	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*
Within one year	**6,019**	**1,250**	**7,269**	—	—	—
After one year but within two years	**6,384**	**922**	**7,306**	—	—	—
After two years but within five years	**12,149**	**667**	**12,816**	—	—	—
	18,533	**1,589**	**20,122**	—	—	—
	24,552	**2,839**	**27,391**	—	—	—

11. TRADE CREDITORS AND ACCRUED CHARGES

Included in trade creditors and accrued charges are trade creditors with the following ageing analysis:

	At 30th September, 2006 *$'000*	At 31st March, 2006 *$'000*
Current	**43,865**	26,839
One to three months overdue	**27,732**	11,667
More than three months overdue	**8,451**	471
	80,048	38,977

12. BILLS PAYABLE

Ageing analysis of bills payable is as follows:

	At 30th September, 2006 *$'000*	At 31st March, 2006 *$'000*
Due within one month	**5,702**	12,921
Due after one month but within two months	**3,937**	7,160
Due after two months but within three months	**5,823**	29,435
	15,462	49,516

13. SHARE CAPITAL

	No. of shares *'000*	**Amount** *$'000*
Issued and fully paid shares of $0.1 each:		
At 1st April, 2006 and 30th September, 2006	222,529	22,253

14. RESERVES

	Share premium	Exchange reserve	Statutory surplus reserve	Other reserves	Retained profits	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1st April, 2006	37,741	641	14,487	4,731	163,987	221,587
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	—	5,997	—	—	—	5,997
Profit for the period	—	—	—	—	8,365	8,365
At 30th September, 2006	37,741	6,638	14,487	4,731	172,352	235,949
At 1st April, 2005	37,741	(4,964)	12,787	4,587	188,944	239,095
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	—	4,075	—	—	—	4,075
Profit for the period	—	—	—	—	9,123	9,123
At 30th September, 2005	37,741	(889)	12,787	4,587	198,067	252,293

The exchange reserve has been set up and will be dealt with in accordance with the accounting policy adopted for foreign currency translation.

According to the prevailing PRC laws and regulations, a wholly-owned foreign enterprise is required to transfer a certain percentage of its profit after taxation to a statutory surplus reserve until the surplus reserve balance reaches 50% of the registered capital of the enterprise. The transfer to the reserve has to be made before distribution of dividends to shareholders. The statutory surplus reserve can be used to make good previous years' losses, and is not distributable to shareholders.

Other reserves were set up by the Group's PRC subsidiaries in accordance with their articles of association. The amounts to be transferred to these reserves are determined by the respective Board of Directors. They can be used to covert into paid-up capital, and are not distributable to shareholders.

15. CONTINGENT LIABILITIES

The Company has given guarantees to banks and leasing companies to secure facilities of $410 million (31st March, 2006: $382 million) granted to subsidiaries, of which $257 million (31st March, 2006: $268 million) were utilised at 30th September, 2006.

16. COMMITMENTS

Capital commitments outstanding not provided for in the interim financial report:

	At 30th September, 2006	At 31st March, 2006
	$'000	*$'000*
Contracted for	**9,488**	2,088

17. MATERIAL RELATED PARTY TRANSACTIONS

During the period, the Group sold packaging products to companies which are controlled by a non-executive director amounting to $7,659,000 (2005: $5,337,000), under normal commercial terms.

Apart from the above, the Group has not entered into any other material related party transactions during the period.

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF NEW ISLAND PRINTING HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 2 to 14.

Respective responsibilities of Directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Fundamental uncertainty

In forming our review conclusion, we have considered the adequacy of the disclosures made in note 1 to the interim financial report concerning the ability of the Group to operate as a going concern. As at 30th September, 2006, the Group's net current liabilities amounted to HK$86,940,000.

Notwithstanding the above, the interim financial report has been prepared on a going concern basis, the validity of which depends on the assumptions made by the Directors that the Group will be able to generate adequate cash flows from its operations and obtain the necessary facilities from the banks to enable the Group to operate as a going concern.

The interim financial report does not include any adjustments that would result from the Group's failure to generate adequate cash flows from its operations and obtain the necessary facilities from the banks.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2006.

KPMG
Certified Public Accountants

Hong Kong, 19th December, 2006

BUSINESS REVIEW AND OUTLOOK

The Group reported a turnover of approximately HK$277.6 million for the six months ended 30th September, 2006 (the "Review Period"), as compared to approximately HK$286.4 million for the corresponding period in 2005/2006 (the "Corresponding Period"). Profit before taxation and profit attributable to shareholders for the Review Period amounted to approximately HK$11.0 million and approximately HK$8.4 million, as compared to approximately HK$10.6 million and approximately HK$9.1 million for the Corresponding Period.

During the Review Period, there was a slight drop of approximately 3% in turnover when compared to the Corresponding Period as the Group had targeted on more profitable business. As a result, and notwithstanding the further substantial increase in minimum wages in Guangdong Province, gross profit margin improved from approximately 20% from the Corresponding Period to over 21% during the Review Period. The improvement in gross profit margin also reflected enhanced production efficiencies following a reorganization of the plant layout in the Group's Dongguan operations. Accordingly, despite the drop in turnover, gross profit increased marginally over the Corresponding Period to approximately HK$58.3 million during the Review Period.

Notwithstanding the increase in freight charges, there was a decrease of approximately of 9% in selling and distribution costs during the Review Period when compared to the Corresponding Period due largely to a lower level of overseas sales. This decrease was, however, more than offset by an increase of approximately 10% in administrative expenses during the Review Period when compared to the Corresponding Period which arose mainly from an increase in staff costs. Meanwhile, as part of the reorganization of the plant layout in the Group's Dongguan operations as mentioned above, the Group had disposed of certain obsolete machinery; and together with the disposals of other non-core assets, there was a total contribution to profit of nearly HK$2.0 million from such disposals. Accordingly, profit from operations increased by approximately 18% over the Corresponding Period to approximately HK$20.6 million during the Review Period.

Given the rising interest rates, finance costs during the Review Period increased by approximately 39% over the Corresponding Period. Coupled with the increase in income tax of over 85% after the expiry of certain tax relieves for the Group's operations in the PRC, profit attributable to shareholders fell from approximately HK$9.1 million in the Corresponding Period to approximately HK$8.4 million during the Review Period.

In view of the disappointing results recorded by the Group for the year ended 31st March, 2006 and the consequent deterioration in the Group's financial position, the Group had tightened controls on operational and financial management and had taken steps to address the problems that had adversely affected the performance of the Group. In this connection, the Group had been dedicating substantial efforts on the development of business with a relatively steady flow of orders so as to minimize the negative seasonal effects. The Group had also redistributed its resources by relocating certain machinery from its Dongguan operations to its Shanghai operations where sales had been relatively stable and demand had proven to have outgrown production capacity during the low season. Furthermore, in addition to the disposals of the obsolete machinery and other non-core assets as discussed above, the Group had agreed to dispose of certain property assets (the "Property Assets") in Dongguan for a total cash consideration of Rmb23 million (equivalent to approximately HK$22.5 million) (the "Disposal"). Details of the Disposal, which is expected to be completed before the end of this financial year and is estimated to produce a profit before taxation, subject to audit, of approximately HK$1.7 million, are set out in the circular to shareholders dated 6th October, 2006. As the Property Assets are surplus to the requirements of the Group's Dongguan operations, the Disposal is consistent with the measures taken by the Group to redeploy its resources with a view to enhancing production efficiencies and restoring the financial health of the Group.

FINANCIAL AND CAPITAL RESOURCES

During the Review Period, the Group had spent a total of approximately HK$8 million on fixed assets investment. These investing activities and the daily operating activities of the Group were funded by the cash flow generated from the Group's operations and from banking facilities.

As at 30th September, 2006, the total borrowings of the Group, which were either denominated in Hong Kong dollars or in Chinese Renminbi, amounted to the equivalent of approximately HK$304 million (31st March, 2006: HK$310 million). Of this amount, approximately HK$156 million (31st March, 2006: HK$164 million) was secured by mortgages over the Group's interest in leasehold land under operating leases, buildings and machinery, trade debtors and bank deposits pledged with an aggregate net book value of approximately HK$241 million (31st March, 2006: HK$186 million). The gearing ratio (defined as total interest-bearing borrowings divided by total assets) of the Group as at 30th September, 2006 was approximately 43% (31st March, 2006: 49%).

During the Review Period, the net current liabilities of the Group had been reduced from approximately HK$171 million* as at 31st March, 2006 to approximately HK$87 million as at 30th September, 2006. This could be attributed to the measures taken by the Group, including the arrangements of new additional long term banking facilities, the disposal of the obsolete machinery and other non-core assets and the pending disposal of the Property Assets as discussed in the Section headed "BUSINESS REVIEW AND OUTLOOK", in order to boost the short term liquidity position of the Group. Subsequent to the end of the Review Period, the Group had successfully arranged further banking facilities totalling HK$35.6 million. Again as discussed in the Section headed "BUSINESS REVIEW AND OUTLOOK", the Group is in the process of disposing the Property Assets and, upon completion expected to be before the end of this financial year, the Disposal will, together with the deposit already received, generate total cash proceeds of Rmb23 million (equivalent to approximately HK$22.5 million). Accordingly, in view of the foregoing and taking into account the continued support from the banks, the available banking facilities and the cash flow to be generated from the Group's operations, the Directors are of the opinion that the Group will have sufficient resources to meet its ongoing obligations and commitments.

* *after the reclassification of certain bank loans totalling approximately HK$31 million from non-current liabilities to current liabilities as a consequence of the Group's breach of covenants relating to such loans which had been waived subsequently*

STAFF

As at 30th September, 2006, the Group had a total staff of 3,663 (31st March, 2006: 3,129) of which 3,578 (31st March, 2006: 3,048) were employed in the PRC 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.

INTERIM DIVIDEND

The Directors resolved not to pay an interim dividend for the six months ended 30th September, 2006 (2005: Nil).

CORPORATE GOVERNANCE

The Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30th September, 2006.

The audit committee of the Company, comprising three independent non-executive directors and a non-executive director of the Company, has reviewed together with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the unaudited interim results for the six months ended 30th September, 2006.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, they all confirmed that they have complied with the Model Code throughout the six months ended 30th September, 2006.

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 30th September, 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

	Ordinary shares of HK$0.1 each			
Name of directors	**Personal interests** *(Note 1)*	**Corporate interests** *(Note 2)*	**Total number of shares held**	**% of total issued shares at 30th September, 2006**
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 30th September, 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.*

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

	New Island Printing Company Limited		Sonic Manufacturing Company Limited	
Name of directors	Non-voting deferred shares of HK$100 each	% of total non-voting deferred shares as at 30th September, 2006	Non-voting deferred shares of HK$100 each	% of total non-voting deferred shares as at 30th September, 2006
Madam So Chau Yim Ping, BBS, JP	6,700	67%	500	50%
Mrs. Cheong So Ka Wai, Patsy	1,000	10%	500	50%
Mrs. Fung So Ka Wah, Karen	1,000	10%	—	—
Mr. So Wah Sum, Conrad	1,000	10%	—	—
Madam So Chau Yim Ping, BBS, JP and Mrs. Cheong So Ka Wai, Patsy	150	1.5%	—	—
	9,850	98.5%	1,000	100%

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

As at 30th September, 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 of substantial shareholders required to be kept by the Company pursuant to Section 336 of the SFO.

ARRANGEMENT TO PURCHASE SHARES

At no time during the six months ended 30th September, 2006 was the Company or any of its subsidiaries a party to any arrangements 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30th September, 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

COMPOSITION OF BOARD OF DIRECTORS

As at the date of this report, the executive directors of the Company are Madam So Chau Yim Ping, BBS, JP, Mrs. Cheong So Ka Wai, Patsy, Mrs. Fung So Ka Wah, Karen and Mr. So Wah Sum, Conrad; the non-executive director of the Company is Mr. Ting Woo Shou, Kenneth, SBS, JP and the independent non-executive directors of the Company are Mr. Hui Yin Fat, O.B.E., JP, Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP, and Mr. She Chiu Shun, Ernest.

By Order of the Board
LI Sau Yan, Philip
Secretary

Hong Kong, 19th December, 2006