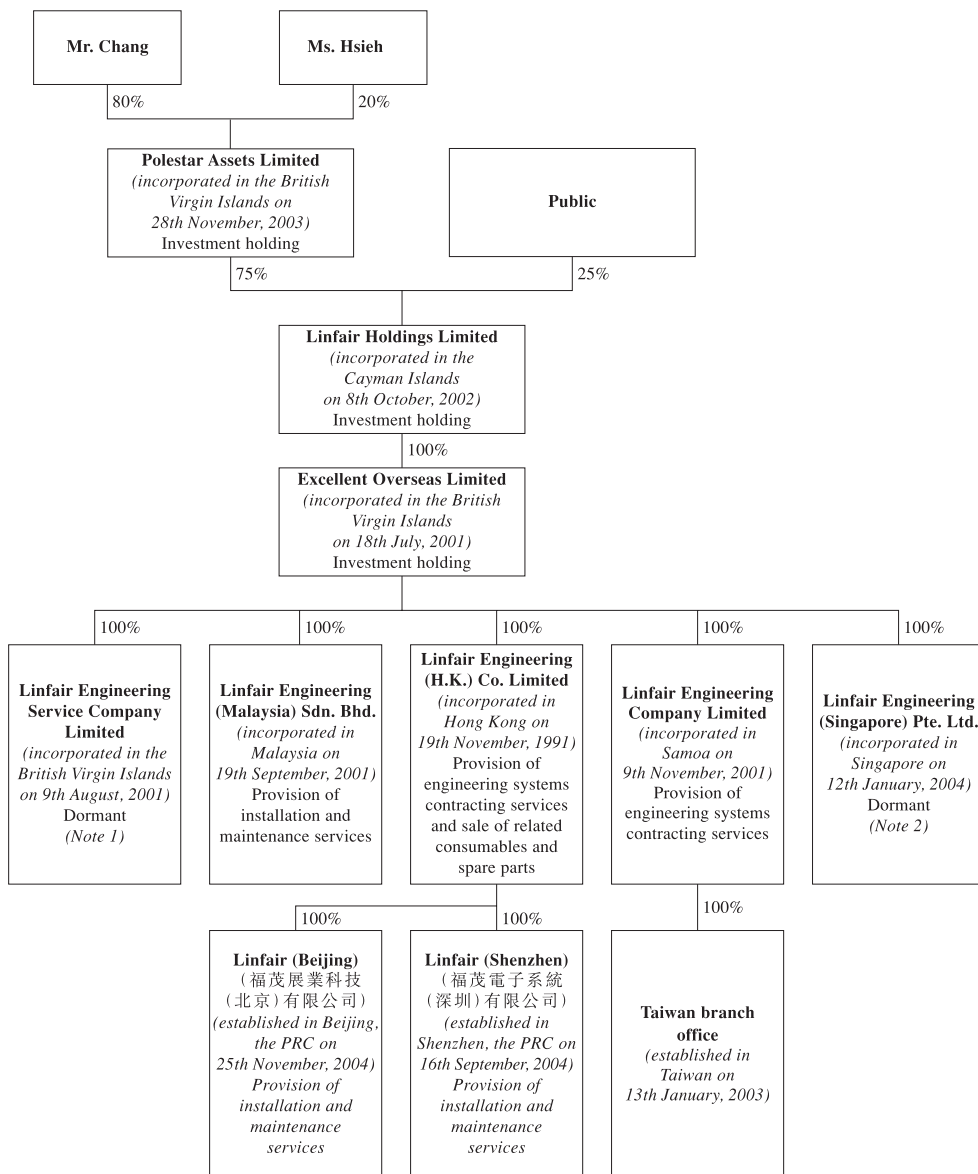


GROUP STRUCTURE

In preparation for the listing of the Shares on the Stock Exchange, the Group completed the Reorganisation on 18th May, 2005, as a result of which the Company became the holding company of the Group. The corporate structure, the places of incorporation and principal activities of the group companies and the shareholding structure of the Group immediately following the completion of the Share Offer and the Capitalisation Issue are set out below:



Notes:

- (1) The planned business of the company is the provision of installation and maintenance services.
- (2) The planned business of the company is the provision of installation and maintenance services together with the provision of engineering systems contracting services.

OVERVIEW

The Group is principally engaged in the provision of engineering systems contracting and supporting services for and sale of related spare parts and consumables to customers mainly in Hong Kong, the PRC and Southeast Asia including Malaysia and Singapore. Besides the above principal markets, the Group also conducts the abovementioned business in Taiwan, which turnover during the Track Record Period was mainly related to the Yamay Theme Park Project and optical disc manufacturing systems. The Group's engineering systems contracting services involve the customisation and integration of different systems including audio, visual and optoelectronics systems manufactured by its suppliers in a manner that can fulfill customers' requirements. The principal works performed by the Group under a typical engineering system contract include, among other things, system design, planning, equipment sourcing, supervision of installation and/or integration of equipment, facilities and system test runs.

The following are the major types of systems that the Group has provided by utilising its core skills and expertise in audio, visual and optoelectronics technologies:

- optical disc manufacturing systems;
- broadcasting and audio-visual systems;
- theme park show systems; and
- intelligent traffic management systems

During the Track Record Period, the Group's turnover was mainly derived from contracting services relating to optical disc manufacturing systems and the theme park show systems. The Group engages in engineering systems contracting services for system users in various industries including optical disc production and replication, audio-visual entertainment, vessel traffic and theme park. The Group believes such diversified engineering systems projects portfolio enables the Group to avoid the problem of fluctuation of business in the aforesaid industries. Nevertheless, the management believes that the majority of the users of the Group's system operate in the optical storage media industry.

As the Group aims to position itself as a top-tier engineering contracting services provider, it focuses on the provision of high end services such as system design, planning, equipment sourcing, supervision of installation or integration of equipment, facilities and system test runs. Tasks that are considered out of its professional scope or tasks requiring local licences, or special qualifications such as pre-installation of infrastructures or peripheral facilities like clean room and systems of electricity supply in respect of optical disc manufacturing systems are either sub-contracted or arranged by the customers themselves.

In support of the Group's after-sales services and business development in engineering systems contracting services, the Group also engages in the sale of spare parts and consumables to its customers.

During each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004, the Group's turnover derived from the abovementioned four major types of systems were approximately (i) HK\$178.0 million, HK\$272.6 million, HK\$511.1 million and HK\$369.1 million respectively for optical disc manufacturing system contracting services, (ii) HK\$10.9 million, HK\$6.9 million, nil and nil respectively for broadcasting and audio-visual system contracting services, (iii) HK\$93.0 million, HK\$17.0 million, nil and nil respectively for theme park show system contracting services and (iv) nil, HK\$3.1 million, nil and HK\$2.0 million respectively for intelligent traffic management system contracting services. The Group's turnover derived from sale of spare parts and consumables for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 was approximately HK\$49.4 million, HK\$60.6 million, HK\$129.1 million and HK\$78.4 million respectively.

COMPETITIVE STRENGTHS

The Directors believe that the principal strengths of the Group are:

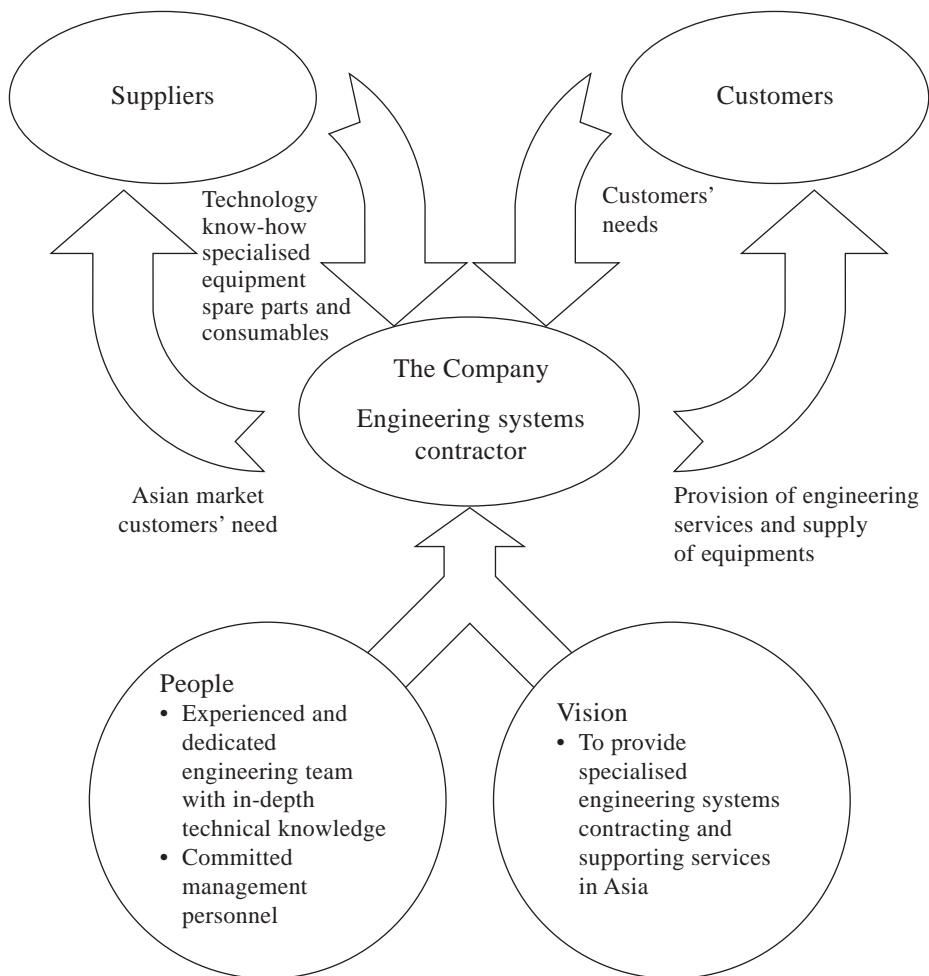
- its capability to provide tailor-made solutions for customers' specific needs;
- its continual relationship with its suppliers and customers;
- its ability to retain its experienced engineering team with in-depth technological knowledge;
- its ability to provide high quality products and services, and after-sales services;
- its ongoing research and on-the-job training provided to engineers to ensure customers benefit from current and emerging technologies; and
- the experience and mobility of the Group's engineering team in handling large-scale projects in Hong Kong, the PRC and Southeast Asia, including Malaysia and Singapore.

BUSINESS OPERATIONS

The Group provides project oriented services, particularly where multi-disciplinary skills are required to meet the needs of the customers, which include the following disciplines:

- (i) audio (acoustic/sound recording and storage, reproduction, transformation, transmission, receiving and processing);
- (ii) visual (visual signal/image recording and storage, reproduction, transformation, transmission, receiving and processing); and
- (iii) optoelectronics (interconversion between electricity and light).

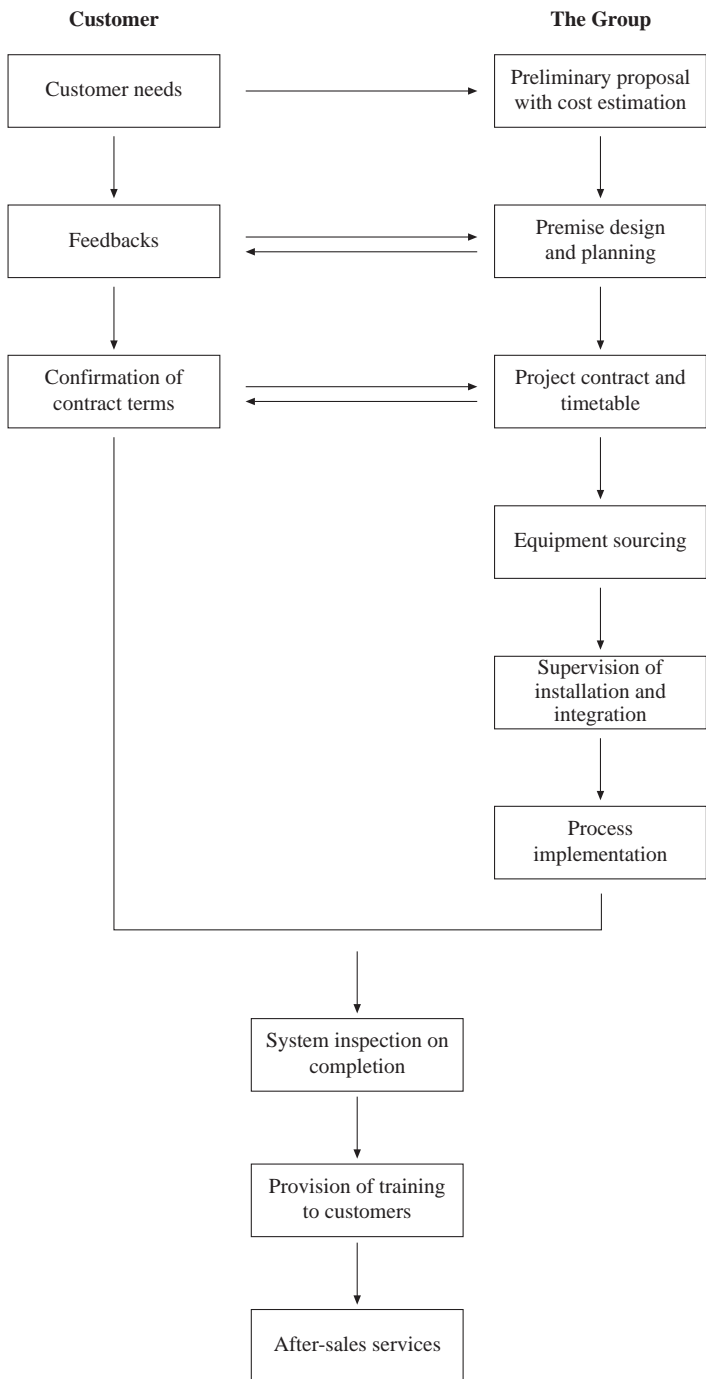
The diagram below illustrates the business operations in relation to the provision of engineering systems contracting and supporting services by the Group:



Through years of experience in design and implementation of engineering system involving audio and visual technologies and continual research and application of such technologies, the Group has gained extensive knowledge and skills in applying the audio and visual technologies which become the core expertise of the Group. The Group is able to apply the same core expertise and skills, and follow similar work flow and procedures (i.e. design, planning, sourcing, integration and implementation) in respect of each of the major types of projects carried out during the Track Record Period, namely optical disc manufacturing systems, broadcasting, audio-visual systems, theme park show systems and intelligent traffic management systems. The principal services performed by the Group in a typical engineering system project include, among other things, system design, planning, equipment sourcing, supervision of installation and/or integration of equipment and facilities and system test runs.

The Group had not encountered any major interruption by power failure and power shortages, hardware and software failure, fire and computer viruses and other events beyond its control during the Track Record Period.

The work flow of a typical engineering systems project performed by the Group is set out as follows:



Work flow

Set out below is a description of the work performed by the Group at each stage of the work flow for a typical engineering system project:

Preliminary proposal with cost estimation

The engineers of the Group first contact their potential customer for discussion on and evaluation of its needs. The engineers will discuss with the customer on their particular needs and requirements, overall concepts, goals and visions wanting to be realised. The Group's engineers will then give the customer preliminary proposal and cost estimation.

Premise design and planning

After receiving feedbacks from the customer, the second step is to design a solution for the customer. The Group will then provide the customer with a detailed proposal with specifications of the facilities, processes, platforms or systems, such as the production capacity, electricity, water and other supporting facilities, and the timetable of the project. If necessary, the Group will also assist the customer in selecting a suitable location at which the system is to be installed. During this stage, the engineers of the Group will discuss with the customer in detail its specific requirements for fine-tuning the designs and plans.

Confirmation of contract terms

Final specification will be given to the customer before finalisation of the terms of the contract with the customer.

Equipment sourcing and installation

After contracting with customer, the Group will contract with its overseas suppliers for the purchase of machinery or systems and arrange for the delivery of the necessary facilities or systems. Before installation, the engineers of the Group will examine the equipment and systems to ensure they are in good condition. The engineers of the Group are responsible for the supervision and/or coordination of the installation process to ensure the equipment and systems are properly installed and/or integrated.

Process implementation, project inspection on completion and training

Upon completion of the installation and/or integration of the equipment and systems, the Group will assist the customer to source the required raw materials, consumables and auxiliary materials. The engineers of the Group will also assist the customer to perform test runs of the equipment and systems to ensure that all of them operate properly. If applicable, products of the systems can be tested by high precision equipment so as to diagnose the performance of systems during test runs. The Group provides training to employees of customers on the whole manufacturing/operation process as well as repairs and maintenance of the systems.

After-sales services

The Directors recognise the long-term relationship with customers is the building block for the success of the Group and the Group is committed to provide high quality after-sales services to the customers such as provision of warranty which usually covers a period of twelve months from the completion of the project and other support services such as free consultancy and maintenance services (including optimising the operation process and/or system), and supply of spare parts and consumables to its customers.

Billing, deposits payment and revenue recognition

A typical optical disc manufacturing system project and broadcasting and audio-visual system project normally takes no more than 12 months to complete. Usually, deposits will be payable by a customer upon signing of the relevant contract, balance of the contract sum will be payable at different stages throughout a period of up to 12 months after delivery of equipment. Revenue will be recognised upon receipt of final acceptance confirmation from the customer after completion of the project. Broadcasting and audio-visual engineering system projects generally follow such billing arrangement and payment terms. Deposits and progress payments received from customers prior to the completion of the projects are recognised as “deposits received from customers”. Deposits and balances of contract sum paid to suppliers prior to the completion of the projects for purchase of equipment or parts for the relevant projects are recognised as “deposits paid to suppliers”. It is the Group’s policy to negotiate the payment terms with its suppliers to match those with its customers in order to minimise the amount of working capital of the Group being tied up for the purchases of equipment and/or systems from the suppliers. Upon the completion of the projects, deposits received from customers will be recognised as project revenue and the deposits paid to suppliers will also be recognised as cost of contract work. As a typical project of this nature normally takes approximately 3 months to 12 months to complete and the contract sum of optical disc manufacturing equipment is quite high, the Group maintains a quite high level of deposits received from customers and deposits paid to suppliers.

For theme park shows system and intelligent traffic management system projects, the length of a project varies, depending heavily on its complexity. Based on the past experience, the Group normally takes over 12 months to complete such projects. It took around 30 months and 29 months to complete a theme park shows system project and a VTS project in the past. For these projects, the aforesaid billing arrangement is generally followed. Balance of contract sum will be payable by stages throughout the project. The method of percentage of completion with reference to percentage of costs incurred is adopted in revenue recognition for such projects.

Optical disc manufacturing systems

The Group has over ten years experience in designing, integrating and installing optical disc manufacturing systems which was the principal source of revenue of the Group during the Track Record Period. The Group designs and implements production systems for the manufacture of optical storage products including both recordable optical discs (such as CD-R and DVD-R) and pre-recorded optical discs (such as CD-A, CD-ROM, VCD, DVD-V and DVD-ROM). The

provision of these engineering systems contracting services requires the Group's knowledge and expertise in the technologies of audio, visual and optoelectronics areas. The Group's target customers include optical discs manufacturers and entertainment program distributors in Hong Kong, the PRC, Malaysia and Singapore.

The Group follows the procedures of work flow described above for the optical disc manufacturing systems contracting services. In the design and planning stage of a typical optical disc manufacturing system contract, the Group's engineers are required to design the production system including the factory layout, production flow and utilities supplies such as water, electricity and air-conditioning etc. This involves evaluation of the needs of the customers in terms of, among other things, production capacity, efficiency, staff requirements and future plan for expansion and/or upgrade. Once the design is finalised, the Group will approach its suppliers to source the required equipment which principally include moulding machine, moulding interface, metallizer, lacquering coater, in-line optical inspection unit and spindle receiver and other auxiliary machinery. The Group is also responsible for sourcing the raw materials for use in the manufacturing of optical disc.

Prior to the installation of the manufacturing system, the Group usually carries out site surveys to ensure that the factory is in the required condition. Upon delivery of the equipment and machinery, the engineers of the Group will inspect and examine them to ensure that they are in good condition, then the installation of the system will commence and the engineers are responsible for the supervision and coordination of the assembly and integration process. After the manufacturing system is installed, the Group's engineers would assist the customers to conduct a test run to ensure the equipment and the machinery are properly operating and the manufacturing system fulfills the pre-determined standard which usually includes production cycle time and defect rate. In performing such testing, products of the system will be tested by high precision equipment to diagnose the system performance. The Group also provides training to the employees of the customers which normally cover training on operation and maintenance of the equipment and machinery.

The role of subcontractors engaged by the Group in this type of project mainly involve setting up "clean room" which is the required room condition for the manufacturing of optical discs.

For the three years ended 31st March, 2004 and the eight months ended 30th November, 2004, the turnover of the Group derived from the provision of optical disc manufacturing systems contracting services was approximately HK\$178.0 million, HK\$272.6 million, HK\$511.1 million and HK\$369.1 million, representing approximately 53.7%, 75.7%, 79.8% and 82.1% respectively of the Groups's total turnover, while the gross profit of such business for the same periods was approximately HK\$8.5 million, HK\$29.9 million, HK\$45.9 million and HK\$36.9 million respectively. The gross profit margin of such business for the same periods was approximately 4.8%, 11.0%, 9.0% and 10.0% respectively. The average pricing of the Group for a typical optical disc manufacturing equipment project is approximately US\$1 million (equivalent to approximately HK\$7.8 million).

Broadcasting and audio-visual systems

The Group has provided engineering systems contracting services for broadcasting and audio-visual systems since 1993. The Group has provided radio broadcasting systems using FM and digital transmission. Those radio broadcasting systems may include, among other things, transmitters, monitoring and remote control systems, modulation systems and combiners. The Group has also provided interior audio-visual systems and radio studio systems. For those projects, the Group is mainly responsible for the design of, among other things, system network, utilities and equipment room by capitalising the Group's expertise and professional knowledge in audio and visual technologies.

The systems are used by different types of customers including hotel, radio and television programmes producer and transmission operator. The Group's target customers include radio and television stations in Hong Kong, the PRC and Malaysia.

For the two years ended 31st March, 2003, the turnover of the Group derived from the provision of broadcasting and audio-visual systems contracting services was approximately HK\$10.9 million and HK\$6.9 million respectively, representing approximately 3.3% and 1.9% respectively of the Group's total turnover for the same periods, while the gross profit was approximately HK\$1.4 million and HK\$1.1 million respectively for the same periods. The gross profit margin was approximately 12.5% and 16.3% respectively during the same period. The Group did not record any turnover from broadcasting and audio-visual system contracting services for the year ended 31st March, 2004 and the eight months ended 30th November, 2004.

Theme park show systems

One of the largest engineering system projects that the Group is engaged in is construction of various stage sets including audio, visual, mechanical and lighting systems for show productions at Discovery World Theme Park, a theme park in Taiwan. After presentation of the proposal by the Group’s project manager in charge of the Yamay Theme Park Project who was experienced in theme park projects to the developer of theme park (the “Developer”), the contract was awarded to the Group. This project, commenced in August 2000, was the first engineering system project for theme park show systems of the Group. In this project, the Group was engaged in the design, planning, sourcing, supervision of installation and testing of the audio and visual systems, including the central show control and intercom systems, systems of special sound and lighting effects, such as three dimensional laser and synchronisation and sound isolation design, and the coordination of the conceptual design of the shows, stage sets, props and costume design, and scripts, lyrics and music provided by other subcontractors. At an aggregate consideration of US\$34.87 million (equivalent to approximately HK\$271.99 million), the Group agreed to design, integrate and install the following 6 show systems in the Yamay Theme Park Project with different timeframe:

Name of shows	Status as at the Latest Practicable Date
Amphitheatre show	completed
Children’s theatre show	completed
Teen theatre show	completed
Parade	completed
Night-time show	suspended
Holavision show (icon theatre)	suspended

As the size and scope of the Yamay Theme Park Project are relatively large and diverse, completion of which requires considerable amount of human resources to perform various different tasks in the project and it inevitably involves the engagement of subcontractors by the Group. Before finalisation of appointment of each of the sub-contractors, the Group was required to provide the Developer with full details of the proposed agreement with such sub-contractors including the proposed contract fees for the Developer’s approval. For any variation on the terms of work of the sub-contractors, approval of the Developer was required.

The Directors considered that Linfair (Taiwan) possesses the required comprehensive supporting resources such as human resources, import and local work licence, warehousing and working tools and equipments which were readily available. Linfair (HK) and Linfair (Taiwan) entered into a subcontracting agreement dated 1st September, 2000 (as supplemented by a supplemental agreement dated 6th June, 2001), pursuant to which Linfair (Taiwan) provided equipment supply and installation works in respect of audio, video, lighting, rigging and communications systems for the above shows at an aggregate consideration of NT\$397,000,000 (equivalent to approximately HK\$98.76 million), representing approximately 36.3% of the aggregate consideration of the project in the sum of approximately HK\$271.99 million. Such

consideration was considered determined on an arm's length basis due to the independent check and approval by the Developer. The conceptual design of the shows, stage sets, props and costume design, and scripts, lyrics and music were provided by other subcontractors.

The following sets out the different role between the Group and Linfair (Taiwan) in the project:

The role of the Group	The role of Linfair (Taiwan)
Project director/manager	Project tasks performer
Concept designer	Details designer based on concept
Overall technical feasibility studies	Local execution
Engineering system sketch	Detailed engineering system drawings
Negotiate and initiate job orders to subcontractors	Perform job orders as subcontractors
Quality control	Perform job orders
Coordinate all subcontractors	Work as subcontractor

As at 31st March, 2003, the aggregate revenue of the Group generated from the Yamay Theme Park Project in respect of the four completed shows systems was approximately HK\$110.0 million, representing approximately 40.4% of the aggregate contract sum, which has been settled in full by the Developer. Of this amount, approximately HK\$93.0 million and HK\$17.0 million respectively was recognised in each of the two years ended 31st March, 2003. The gross profit of the project for the year ended 31st March, 2002 was approximately HK\$3.5 million. In February 2003, the Group noted the intention of the Developer not to proceed with the two outstanding show systems under the project, namely Night-time show and Holavision show. Having considered the circumstances including the works already performed by the Group for these two show systems and the resale value of the equipment purchased by the Group for the remaining two shows, unbilled work in progress of approximately HK\$1.5 million was written off. The gross loss of approximately HK\$1.8 million for the year ended 31st March, 2003 was mainly attributable to such unbilled work in progress. The aforesaid equipment was subsequently sold to an independent third party for an amount of approximately HK\$3.2 million. During the eight months ended 30th November, 2004, the Yamay Theme Park Project was closed as it remained dormant for over one year. No further loss was recognised at its closure.

As at 31st March 2003, Linfair (Taiwan) completed approximately 95% of the subcontracting work in relation to the Yamay Theme Park Project agreed with the Group. The Group has settled the related subcontracting fee. For each of the two years ended 31st March

2003, the total amount paid by the Group to Linfair (Taiwan) pursuant to the subcontracting agreement was approximately HK\$61.4 million and HK\$2.0 million respectively, representing approximately 22.9% and 0.74% of the Group's total cost of contract works for the respective year.

No work has been done by the Group for the Yamay Theme Park Project during the year ended 31st March, 2004 as the Holavision show and Night-time show have been postponed. There was no written instruction received by the Group from the Developer regarding the postponement. As at the Latest Practicable Date, the Group has fulfilled all of its responsibilities under the agreement for the Yamay Theme Park Project in respect of the four completed show systems. In December 2004, the Group and Linfair (Taiwan) entered into an agreement to terminate their subcontracting agreement. If the Yamay Theme Park Project is reactivated in the future, the Group may, with the consent of the Developer, continue to perform its works but will not appoint Linfair (Taiwan) as a subcontractor for the two remaining shows.

In performing theme park projects in the future, the Group will continue to concentrate on the overall project management and its strength in engineering systems services through the provision of design, planning, sourcing, supervision and/or coordination of the installation and systems testing which is considered by the Group as higher value added services. Depending on the size, scope and the location of the project, the Group may engage subcontractor(s) in carrying out other works that require substantial amount of supporting resources such as labour. Although Linfair (Taiwan) provided considerable amount of subcontracting works for the Group in respect of the Yamay Theme Park Project, the Directors are of the view that the Group is able to carry on its business independently from Linfair (Taiwan) for the remaining two show systems should the Developer reactivates the Yamay Theme Park Project as the Group has gained the requisite skills and knowledge for acting as a project manager through the involvement in the Yamay Theme Park Project and the Group may engage other subcontractors to substitute Linfair (Taiwan) for such show systems. Furthermore, the Group has employed Mr. James Seiter, experienced in entertainment business, musical group production and theme attraction production, who will be capable to handle such project.

Intelligent traffic management systems

An intelligent traffic management system is a system used for monitoring the state of traffic.

In February 2002, the Group entered into two agreements with a French company which is the contractor for the installation of a VTS at the port of Dalian, the PRC. This represents the Group's new entry into the market of intelligent traffic management system. The Group's role in this project includes project management, database design in Chinese language operation environment and the design and development of ancillary/supporting software for integration with the system. This requires the application of technical knowledge in areas such as wave emission, echo reception theories, signal transformation, transmission and recording theories and technologies and computerised coverage of radar signals.

As the aforesaid agreements were entered into in February 2002 and minimal work was performed by the Group during the year ended 31st March, 2002, the Group did not generate any revenue from the above project for the year ended 31st March, 2002. The turnover of the Group derived from the above project for the year ended 31st March, 2003 was approximately HK\$3.2 million, representing approximately 61.5% of the total contract fee of approximately HK\$5.2 million. During the first half of 2003, severe acute respiratory syndrome immobilized many commercial activities in the PRC. The main contractor did not commence its equipment installation work until the second half of 2003. The Group could only resume its work for setting up the database and the supporting software after completion of such installation work in around late 2003. Accordingly, only minimal work of the project was performed during the year ended 31st March, 2004 and no turnover was recorded during that financial year. The project was completed in July 2004 and approximately HK\$2.0 million was subsequently recognised as turnover for the eight months ended 30th November, 2004.

MAJOR CONTRACTS

Contracts completed by the Group during the Track Record Period

During the Track Record Period, the Group had completed about 172 optical disc manufacturing system contracts, 1 broadcasting and audio-visual system contract and 1 intelligent traffic management system contract. In respect of the Yamay Theme Park Project, the Group had completed 4 out of the 6 show systems and the remaining 2 show systems were suspended by the theme park developer. Save for the Yamay Theme Park Project, there is no other uncompleted contracts during the Track Record Period.

Particulars of major contracts with contract sum of over HK\$13 million completed by the Group during the Track Record Period are set out below:

Contract date	Customer description	Project nature	Completion time	Contract value (HK\$'000)
25th August 2000	Private sector	Theme park show systems — shows and entertainment attractions	(Note 1)	271,986 (Note 1)
6th August, 2001	Private sector	Optical disc manufacturing system	March 2002	42,120
28th August, 2001	Private sector	Optical disc manufacturing system	February 2002	20,280
4th January, 2002	Private sector	Optical disc manufacturing system	March 2002	19,500
28th February, 2002	Private sector	Optical disc manufacturing system	May 2002	19,110
17th April, 2002	Private sector	Optical disc manufacturing system	October 2002	14,321
30th May, 2002	Private sector	Optical disc manufacturing system	February 2003	13,884
2nd September, 2002	Private sector	Optical disc manufacturing system	October 2002	14,430
2nd September, 2002	Private sector	Optical disc manufacturing system	January 2003	14,535
25th September, 2002	Private sector	Optical disc manufacturing system	June 2003	30,738 (Note 2)
30th October, 2002	Private sector	Optical disc manufacturing system	March 2003	15,600
28th December, 2002	Private sector	Optical disc manufacturing system	July 2003	20,155

BUSINESS

Contract date	Customer description	Project nature	Completion time	Contract value (HK\$'000)
13th January, 2003	Private sector	Optical disc manufacturing system	June 2003	23,710
				<i>(Note 3)</i>
18th March, 2003	Private sector	Optical disc manufacturing system	September 2004	15,296
24th March, 2003	Private sector	Optical disc manufacturing system	October 2003	14,074
1st April, 2003	Private sector	Optical disc manufacturing system	August 2003	27,882
(as supplemented by agreement dated 10th June, 2003)				
29th May, 2003	Private sector	Optical disc manufacturing system	September 2003	17,999
4th July, 2003	Private sector	Optical disc manufacturing system	March 2004	13,078
29th July, 2003	Private sector	Optical disc manufacturing system	March 2004	35,917
28th August, 2003	Private sector	Optical disc manufacturing system	March 2004	15,665
13th September, 2003	Private sector	Optical disc manufacturing system	January 2004	13,837
				<i>(Note 4)</i>
14th October, 2003	Private sector	Optical disc manufacturing system	July 2004	14,195
25th October, 2003	Private sector	Optical disc manufacturing system	April 2004	16,572
16th November, 2003	Private sector	Optical disc manufacturing system	July 2004	14,195
26th November, 2003	Private sector	Optical disc manufacturing system	March 2004	22,155
30th November, 2003	Private sector	Optical disc manufacturing system	February 2004	13,044
5th December, 2003	Private sector	Optical disc manufacturing system	October 2004	40,562
19th December, 2003	Private sector	Optical disc manufacturing system	August 2004	14,297
16th January, 2004	Private sector	Optical disc manufacturing system	May 2004	20,488
4th February, 2004	Private sector	Optical disc manufacturing system	May 2004	18,149
4th March, 2004	Private sector	Optical disc manufacturing system	June 2004	28,111
5th March, 2004	Private sector	Optical disc manufacturing system	September 2004	19,450
1st April, 2004	Private sector	Optical disc manufacturing system	June 2004	28,111
14th May, 2004	Private sector	Optical disc manufacturing system	September 2004	<u>20,866</u>
				<u><u>944,312</u></u>

Notes:

- (1) Pursuant to the agreement dated 25th August, 2000, the total contract sum for the six show systems was approximately US\$33 million (equivalent to approximately HK\$257.4 million) and was subsequently increased to US\$34.87 million (equivalent to approximately HK\$271.99 million). Four out of six show systems were completed by around February 2003 with a total revenue of approximately HK\$110 million being recognised by the Group for the two years ended 31st March, 2003.
- (2) The contract sum under the contract dated 25th September, 2002 was EURO3.55 million and was subsequently increased to EURO3.56 million (equivalent to approximately HK\$32.7 million) The amount was later reduced to approximately EURO3.345 million (equivalent to approximately HK\$30.7 million) by credit note dated 31st March, 2004.
- (3) The contract sum under the contract dated 13th January, 2003 was EURO2.68 million and was subsequently reduced to EURO2.58 million (equivalent to approximately HK\$23.7 million) by a credit note dated 28th July, 2003.

- (4) The contract sum under the contract dated 13th September, 2003 was EURO1.5 million and was subsequently reduced to EURO1.42 million (equivalent to approximately HK\$13.8 million) by a credit note dated 31st March, 2004.
- (5) The contract value of the contracts are denominated in foreign currencies and translated into Hong Kong dollars at the prevailing exchange rate as at the on which the relevant revenue was booked.

Contracts on hand as at 30th November, 2004

As at 30th November, 2004, the Group had about 10 contracts on hand in respect of optical disc manufacturing systems with contract sum exceeding HK\$13 million. As at 30th November, 2004, the Group did not have any contract on hand in respect of intelligent traffic management system project or broadcasting and audio-visual system project. The Group had executed a contract for the provision and installation of a rigging system and show floor for a world class theme park in Hong Kong which was expected to be opened in September this year with contract value less than HK\$13 million. Particulars of the aforesaid contracts on hand in respect of optical disc manufacturing systems as at 30th November, 2004 are set out below:

Contract date	Customer description	Project nature	Actual/expected* completion time	Contract value (HK\$'000) (Note)
18th June, 2003	Private sector	Optical disc manufacturing system	March 2005	81,674
8th September, 2003	Private sector	Optical disc manufacturing system	March 2005	38,769
18th November, 2003	Private sector	Optical disc manufacturing system	June 2005*	13,389
12th February, 2004	Private sector	Optical disc manufacturing system	December 2004	18,427
31st March, 2004	Private sector	Optical disc manufacturing system	April 2005	18,748
21st June, 2004	Private sector	Optical disc manufacturing system	December 2004	22,827
15th August, 2004	Private sector	Optical disc manufacturing system	December 2004	27,799
5th November, 2004	Private sector	Optical disc manufacturing system	February 2005	28,958
15th November, 2004	Private sector	Optical disc manufacturing system	February 2005	21,481
17th November, 2004	Private sector	Optical disc manufacturing system	March 2005	<u>26,267</u>
				<u><u>298,339</u></u>

* The expected completion time is estimated by the Directors based on progress of the projects and past experience. Accordingly, the actual completion time may deviate from the estimated one.

Note: The contract value of the contracts are denominated in foreign currencies and translated into Hong Kong dollars by exchange rates as stated under the section headed "Definitions".

Contracts signed after 30th November, 2004 and up to the Latest Practicable Date

Four contracts in respect of optical disc manufacturing system with contract sum exceeding HK\$13 million had been signed after 30th November, 2004 and up to the Latest Practicable Date. The Group has executed a contract after 30th November, 2004 for the provision of a tower information integration system for traffic management of a PRC airport with contract value less than HK\$13 million. No contract in respect of theme park project and broadcasting and audio-visual system project has been entered into by the Group after 30th November, 2004. Particulars of the aforesaid optical disc manufacturing systems contracts are set out below:

Contract date	Customer description	Project nature	Expected completion date*	Contract value (HK\$'000) (Note)
29th February, 2005	Private sector	Optical disc manufacturing system	September 2005*	14,355
3rd March, 2005	Private sector	Optical disc manufacturing system	July 2005*	19,305
28th April, 2005	Private sector	Optical disc manufacturing system	October 2005	25,596
5th May, 2005	Private sector	Optical disc manufacturing system	October 2005	19,197
				78,453

* *The expected completion time is estimated by the Directors based on progress of the projects and past experience. Accordingly, the actual completion time may deviate from the estimated one.*

Note: The contract value of the contracts are denominated in foreign currencies and translated into Hong Kong dollars by exchange rates as stated under the section headed "Definitions".

TECHNOLOGY KNOW-HOW ADVANCEMENT

Research on market trend and emerging technology

In order to meet the requirements of the customers, the Group by itself and jointly with its equipment suppliers in Sweden and Japan carried out research on the latest market trend and technology advancement in the areas in which the Group provides engineering system contracting services. Such research include studies on the characteristics and functions of the audio, visual and optoelectronics equipment that are available in the market. By constantly reviewing and evaluating new and emerging technology, the Group can be better equipped to satisfy the customers' needs by applying the latest technology and equipment.

Staff training

The Group provides on-the-job trainings to engineers in order to enhance their practical skills and knowledge. Also, the Group regularly sends engineers to attend training courses provided by equipment suppliers and technical seminars/conferences organised by equipment suppliers or research institutes. Through participation in these training courses, technical seminars and conferences, the engineers of the Group are able to keep updated with the latest market development and product knowledge.

Optical disc test laboratory

The Group plans to establish a laboratory in Hong Kong for the purpose of testing the characteristics of optical discs and enhancing knowledge on the same around the second quarter of 2005. This will help to enhance the Group's capability in its provision of after sales services to the customers. The laboratory will be equipped with precision testing equipment, atomic force microscope and other equipment installed in a climate controlled chamber. These equipment will be used for analysing and inspecting nano-metric scaled physical structures of optical disc products. Moreover, these equipment can also be used for the testing of flat panel display units. Flat panel display unit manufacturing system is one of the new businesses that the Group plans to develop. Such plan is described in more details in the section headed "Future plan and use of proceeds" below.

QUALITY CONTROL

The Group is committed to implement stringent quality assurance measures over the work flow of the project from planning, design, sourcing, installation, process implementation and project inspection on completion in order to establish its brand name and reputation, which the Group believes to be important for it to retain existing customers, to attract new customers and maintain its growth in the future. The quality control procedures implemented by the Group include the following:

1. each project comprises a team of at least two engineers;

2. all project proposals are reviewed by a senior project manager to ensure the feasibility of the system and fulfillment of the customer's requirements;
3. progress report is made by the designated engineers to the senior project manager during the system installation phase;
4. after installation, the designated engineers has to complete a checklist to ensure proper installation of equipment;
5. the project team is responsible for the quality testing of equipment and the pilot run of the system installed. Any defect in the system is fixed immediately;
6. a completion report by the project team with the customer's authorisation is submitted to the senior project manager for final approval; and
7. in the first two months of normal operation, the project team would make constant examination and inspection of the equipment installed in order to ensure smooth operation of the system and that the customer is satisfied with the Group's services.

The engineers of the Group, particularly the senior project manager, are responsible for the quality assurance of the Group's services provided and goods supplied. During the Track Record Period, the Group had not suffered any material loss or sales return from customers in relation to engineering systems installed or equipment supplied. There were however occasional minor complaints over equipment supplied which were all settled by repair, replacement or price concession without any significant adverse financial effect to the Group.

SALES AND MARKETING

The Group aims to position itself as a professional engineering systems contractor for customers mainly in Hong Kong, the PRC and Southeast Asia including Singapore and Malaysia. The Directors believe that, as a result of provision of quality equipment and services to customers in the past ten years, the Group has established a good business relationship with its existing customers. The Group's target customers consists of large and reputable companies in the private sector, government authorities and state-owned enterprises.

As at the Latest Practicable Date, the Group employed 18 sales and marketing personnel in Hong Kong, the PRC and Malaysia. Members of the sales and marketing team of the Group are responsible for maintaining contacts with customers in order to strengthen customer relationship, ascertaining customers' needs and introducing the Group's products and services when potential customers are identified. Moreover, the marketing staff and senior management of the Group also actively participate and attend trade fairs and seminars to keep track of market trends and maintain contacts with potential customers. The Group also maintains frequent contacts with customers to obtain their feedback on the quality of the products and services provided by the Group so as to ensure continual improvement. Major marketing activities held by the Group include the followings:

- participating in trade fairs and exhibitions such as China International Aviation & Aerospace Exhibition held in Zhuhai, the PRC in November 2002, Asian Amusement Expo 2002 held in Singapore in July 2002, Replication Expo' 2003 and 2004 in relation to replication and duplication equipment and technology for magnetic and optical media held in Shanghai and Guangzhou of the PRC respectively, Beijing International Radio, TV & Film Equipment Exhibition 2004 held in Beijing, PRC and ATC China in September 2004 held in Beijing in relation to air traffic control systems;
- holding presentations and conferences at trade fairs or exhibitions on optical disc manufacturing systems; and
- providing technical training to customers and inviting them to attend training courses conducted by equipment suppliers.

Customers

The five largest customers of the Group together accounted for approximately 67.2%, 44.3%, 43.1% and 44.3% of the Group's total turnover for the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 respectively. The largest customer of the Group for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 accounted for approximately 27.9%, 19.4%, 15.3% and 18.6% of the Group's total turnover for the respective year or period. None of the Directors, nor any Shareholder or their respective associates who is interested in 5% or more of the issued share capital of the Company (immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of the Shares which may be allotted and issued upon the exercise of the Pre-IPO Options and options which may be granted under the Share Option Scheme) has any interests in any of the five largest customers of the Group for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004.

Payment terms

For the year ended 31st March, 2002, 84.5% of the Group's sales was denominated in US\$ and none of which was denominated in EURO or JPY. Sales of the Group denominated in US\$, EURO and JPY accounted for approximately 66.7%, 12.1% and 2.9% respectively for the Group's

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total sales for the year ended 31st March, 2003, approximately 36.2%, 37.1% and 6.9% respectively for the Group's total sales for the year ended 31st March, 2004 and approximately 48.0%, 36.8% and 0.3% respectively for the Group's total sales for the eight months ended 30th November, 2004. The settlement and credit terms granted to customers are determined by reference to, among others, the credibility of the customers, the length of business relationship between the Group and the customers, the liquidity position of the Group, the amount of deposits paid by the customers compared to the costs of equipment and the size of the contracts.

The following table summarises the relevant credit terms applicable to (i) engineering systems projects and (ii) sale of spare parts and consumables:

(i) **Provision of engineering systems contracting services**

Activities	Type of customers	Credit terms
Industrial application systems (<i>Note 1</i>)	new customers	deposits ranging from 10% to 90%, balance by progress payments to be settled by telegraphic transfers or post dated cheques
	recurring customers	deposits ranging from 0% to 60%, balance by progress payments to be settled by telegraphic transfers or post dated cheques throughout a period up to 18 months depending on the customers' credit standing
Servicing application systems (<i>Note 2</i>)	new and recurring customers	deposits ranging from 0% to 35%, balance by letters of credit or telegraphic transfers and progress payments by reference to level of work done on a case by case basis

(ii) **Sale of spare parts and consumables**

Activities	Type of customers	Credit terms
Spare parts (<i>Note 3</i>)	new customers	cash on delivery
	recurring customers	cash on delivery or 30 days open credit
Consumables (<i>Note 4</i>)	new customers	cash on delivery
	recurring customers	cash on delivery or 30 to 60 days open credit

Notes:

1. Industrial application systems mainly include optical disc manufacturing systems which normally take no more than 12 months to complete. However, some customers have implementation plans of over a year for installation of a number of production lines in each phase of implementation plan. In such cases, the Group considers adoption of percentage of completion method for the settlement of the agreed contract fee appropriate.
2. Servicing application systems refer to engineering systems other than optical disc manufacturing systems.
3. Spare parts refer to spare parts for equipment or machinery supplied by major suppliers of the Group and are used in engineering systems installed by the Group.
4. Consumables refer to dyes which are the key chemical components forming the data record layer of recordable optical discs.

The management of the Group reviews trade receivables ageing reports on a monthly basis to assess recoverability of trade receivables. The Group will follow up with the customers to demand repayments in respect of those long outstanding balances. Provision for the trade receivables arising from engineering projects are made when their recoverability is in doubt or there is default of repayment by customers. As regards for sales of spare parts and consumables, it is the Group's policy to make full provision for amounts due over 240 days, except for amounts due from active customers and/or customers of engineering system contracts where recoverability is not in doubt and/or amounts for which payments have been made subsequent to year end date but before finalisation of annual audit. The long outstanding trade receivables mainly relate to final balance payment due from the Group's customers engaging in optical disc manufacturing which are settled by way of post dated cheques or long term letter of credit. Moreover, the Group is more willing to offer more flexible credit terms to recurrent customers, such as the balance of the contract sum being paid by way of instalments over a period up to 18 months. Since the Group has accumulated more recurrent customers over the years, there is in an overall increase in the settlement period. No general allowance is made as the Directors consider that it is common for project base business to have longer settlement period. On this basis, the Directors consider the existing policy in making provision for the bad and doubtful debts is appropriate and the level of provision made is adequate.

The trade receivables of the Group for the three years ended 31st March, 2004 and eight months ended 30th November, 2004 were approximately HK\$44.4 million, HK\$74.3 million, HK\$148.9 million and HK\$141.0 million respectively. The substantial increment in the balance for the year ended 31st March, 2004 was mainly attributable to the increase in the turnover generated from optical disc manufacturing systems contracts as well as sales of spare parts and consumables and more favourable credit terms granted by the Group to its recurrent customers in respect of optical disc manufacturing systems. For the three years ended 31st March, 2004 and the eight months ended 30th November, 2004, the specific allowance made in respect of trade receivables amounted to approximately HK\$4.5 million, HK\$6.1 million, HK\$14.1 million and HK\$21.8 million respectively.

Pricing

The Group does not offer any standard engineering system at fixed price. Every engineering system offered by the Group may consist of different components, depending on the needs of each customer. Contract sum of every project is therefore negotiated between the Group and the customer individually with reference to the costs involved.

SUBCONTRACTING, PURCHASES AND INVENTORIES

During the Track Record Period, the Group sourced all equipment and raw materials required for the projects directly from suppliers mainly located in Sweden, Japan, Hong Kong and Taiwan. Most of the Group's purchases relate to the Group's provision of engineering systems contracting services for broadcasting and audio-visual systems and optical disc manufacturing systems. The Directors consider that the Group has maintained a good relationship with its suppliers and has not experienced any significant difficulty in sourcing necessary equipment and raw materials. The Directors do not foresee any major difficulty in sourcing the necessary equipment and raw materials in the foreseeable future.

The Group engages subcontractors to perform works considered to be out of its professional scope such as climate control (for optical disc manufacturing system projects) and entertainment content production (for theme park show system projects). In circumstances where the Group carries out works outside Hong Kong, the Group may hire local subcontractors for labour law or licensing requirement purposes.

The five largest suppliers and subcontractors accounted for approximately 75.3%, 90.3%, 94.2% and 94.2% of the Group's purchases for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004. The largest supplier of the Group for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 accounted for approximately 23.6%, 44.8%, 42.7% and 47.3% of the Group's purchases for the respective year or period. Linfair (Taiwan), being a connected person of the Company (as defined under the Listing Rules), accounted for approximately 20.2%, 0.7%, nil and 0.1% of the Group's respective purchases during the same period. Save for Linfair (Taiwan), none of the Directors, nor any Shareholder or their respective associates who is interested in 5% or more of the issued share capital of the Company (immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of the Shares which may be allotted and issued upon the exercise of the Pre-IPO Options and options under the Share Option Scheme) has any interests in any of the five largest suppliers during each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004.

The Group normally settles its purchases of equipment and consumables by cheque or bank remittance, and subcontracting works by bank remittance. In respect of consumables and spare parts purchases, the average credit period is approximately 30 days to 60 days. For the purchases of machinery and equipment, the balances are payable in accordance with the contract term which is determined on a case by case basis and may be over one year to 18 months. For the year ended 31st March, 2002, approximately 95.2% of the Group's purchases and subcontracting fees were

settled in US\$. For the year ended 31st March, 2003, approximately 76.3%, 12.4% and 3.4% of the Group's purchases and subcontracting fees were settled in US\$, EURO and JPY respectively. For the year ended 31st March, 2004, approximately 34.9%, 37.1% and 23.2% of the same were settled in US\$, EURO and JPY respectively. For the eight months ended 30th November, 2004, approximately 32.2%, 39.4% and 18.2% of the same were settled in US\$, EURO and JPY respectively. The Group has not entered into any financial instruments for the purpose of hedging against foreign exchange risks involved in the Group's operation. To minimise the risks associated with foreign exchange exposure, the Group matches the timing of its trading receipts with its payments. The Group has also commenced to match its selling currencies with its purchasing currencies in early 2003.

Inventories for broadcasting and audio-visual systems include amplifier, speaker, transmitter and exciter. The management, based on its experience and judgment, considers as most of these equipment become obsolete and/or being replaced by new model after one to two years, it is the Group's policy to make 100% allowance on items aged over 18 months. Inventories for optical disc manufacturing systems include spare parts and components for the CD/DVD production lines which could be used in various models of equipment. The management, based on its experience and judgment, considers most of the inventories for optical disc manufacturing systems have useful life of over 3 years. Accordingly, it is the Group's policy to make allowance of 50% of costs for inventories aged over 3 years and allowance of 100% for inventories aged over 5 years.

WARRANTY

Save for the ten year warranty period given by the Group under the contract relating to the VTS project for the port of Dalian, the PRC, the Group usually provides warranty period to its customers in respect of the equipment and spare parts supplied under the engineering systems contracting projects of twelve months from the date of acceptance given by the customers or date of installation. The Group's suppliers in turn provide warranty for the quality and workmanship in respect of the equipment and spare parts they supplied to the Group which covers a period of twelve months from the date of delivery. The Group incurred warranty cost of approximately HK\$273,000 for the year ended 31st March, 2003. Save as aforesaid, no warranty cost was incurred during the Track Record Period. Due to the minimal amount involved and infrequent occurrence, no provision for warranty was made during the Track Record Period. No contingent liability in respect of provision of warranty is noted by the Directors.

COMPETITION

The Directors consider that the barrier of entry is high as new competitors have to possess in-depth knowledge in various technologies and thorough understanding of the operation of the audio, visual, and optoelectronics systems, particularly in the industry with rapid technology advancement. Save for Linfair (Taiwan), the Directors are not aware of any entity that operates a business model similar to that of the Group and competes directly with the Group's business. However, the Group does face competition in certain areas that the Group provides engineering systems contracting services. Competition arises mainly on product quality, pricing, services, market reputation and business network. The Directors consider that among all kinds of

engineering systems contracting services that the Group provides, market competition in the provision of optical disc manufacturing systems contracting services is the most intense. According to the experience of the Directors, customers from the optical disc manufacturing sector focus the most on the production cost per useable disc manufactured and the quality of after-sales services such as the training and maintenance services provided in the selection of their suppliers for the optical disc manufacturing systems.

The Directors believe that the competition within the areas in which the Group engages in is intense and the Group is competing with competitors who may have better or longer established reputation, greater resources (both human and financial), a wider range of services and products and a longer operating history than the Group. However, the Directors believe that the Group has various competitive advantages which enable it to compete with its competitors. One of these advantages is the Group's ability to carry out engineering systems contracting services for customers operating in a wide variety of industries including media and broadcasting industry, optical storage industry, entertainment industry and intelligent traffic management industry.

The Group maintains good relationship with the suppliers of the optical discs manufacturing equipment, being the principal business of the Group during the Track Record Period. M2 is one of the top five suppliers during the Track Record Period and the Group is a representative for the promotion and sales of M2's equipment for optical disc manufacturing in the PRC, Hong Kong, Taiwan and Southeast Asia. M2 provides the Group with technical support and the opportunities in participating in M2's researches and development of new optical storage media products. Moreover, the Group also secures authorised dealerships for equipment and consumables for optical discs manufacturing systems which secures constant supplies to customers.

In addition to maintaining good relationship with suppliers and securing authorised dealerships for equipment and consumables for optical disc manufacturing systems, the Group also strengthens its technical support team through continual training so as to enhance the technical knowledge of its engineers. In view of the increasing demand for the Group's engineering contracting services by PRC customers, two new PRC subsidiaries have been established in Beijing and Shenzhen to enable the Group to provide timely after-sales and support services to its customers in the PRC.

Towards the market competition, the Directors believe that provision of high quality support and after sales services is important. The Group will continuously strengthen this aspect in order to build up longer and closer relationship with its customers.

COMPETING INTERESTS — LINFAIR (TAIWAN)

Interests of the Controlling Shareholders in Linfair (Taiwan)

Linfair (Taiwan) is a company owned as to approximately 90.9% by Mr. Chang, Ms. Hsieh and their children, approximately 1.8% by Mr. Chang's parents and sister, approximately 1.8% and 2.2% by Mr. Kao Chih Cheng (a cousin of Ms. Hsieh and brother of Mr. Kao Chi Wai) and Mr. Lin Ko Wei respectively, both are members of the senior management of the Group, and the

balance of approximately 3.3% by two senior employees of Linfair (Taiwan) and two investors. All of the aforesaid members of the Group's senior management, senior employees and investors of Linfair (Taiwan) are, subject as aforesaid, independent third parties and are not connected persons of the Company (as defined under the Listing Rules). Linfair (Taiwan) is a limited liability company incorporated in Taiwan in 1961 and was established by Mr. Linfair Chang, the father of Mr. Chang. Since about 1996, Mr. Chang and his family acquired a majority interest in Linfair (Taiwan). The directors of Linfair (Taiwan) are Mr. Linfair Chang and Ms. Lam Yin Fan, who are the parents of Mr. Chang, and Mr. Kao Chi Wai, who is a cousin of Ms. Hsieh. Mr. Linfair Chang is responsible for the formulation of the overall business strategy of Linfair (Taiwan). Mr. Kao Chi Wai is also a manager of Linfair (Taiwan), responsible for sales and marketing and public relations. Mr. Chang's sister is the supervisor of Linfair (Taiwan), responsible for the overall monitoring of the business of Linfair (Taiwan).

The daily operation and management of Linfair (Taiwan), including business operation, finance, administration and human resources, are performed and managed by Mr. Chih-Hao Yang and Mr. Albert Sou, both are vice presidents of Linfair (Taiwan). They joined Linfair (Taiwan) in 1986 and 1979 respectively. Both Mr. Chih-Hao Yang and Mr. Albert Sou are employees of Linfair (Taiwan) who are not connected persons of the Company (as defined under the Listing Rules) and have no business or personal relationship with the Group and/or the family members of Mr. Chang or his parents. The Directors have confirmed that none of them has any management or operation function in Linfair (Taiwan) and there is no common directorship, management or employees between the Group and Linfair (Taiwan). Mr. Chang and Ms. Hsieh, being Directors, are required under their service contracts to work on full time basis for the Group and are not permitted to engage in the business of Linfair (Taiwan).

Competing business

Linfair (Taiwan) engages in, among others, the trading and installation of broadcasting, audio and visual entertainment systems, audio and/or visual system installation for auditorium and music recording studios, and installation of aluminium scaffold.

Although Linfair (Taiwan) engages in the provision of services similar to those of the Group, the Directors consider that the business of the Group can be distinguished from that of Linfair (Taiwan) by its geographical markets and services. The Group principally focuses on markets outside Taiwan and in particular, Hong Kong, the PRC, and Southeast Asia including Singapore and Malaysia, while Linfair (Taiwan), as confirmed by Linfair (Taiwan), is a localised company and principally focuses on the Taiwan market. In terms of customer base, the target customers of the Group tend to be more internationalised whereas Linfair (Taiwan) focuses on local customers in Taiwan. Furthermore, the Group principally emphasises on the provision of high end services such as system design, planning and overseeing the implementation of such design and planning whilst the focus of Linfair (Taiwan) is on the provision of general system integration and assembly work which requires more manpower and equipment.

The turnover of the Group derived from the Taiwan market amounted to approximately HK\$105.0 million, HK\$35.5 million, HK\$53.8 million and HK\$27.8 million for each of the three years ended 31st March, 2004 and for the eight months ended 30th November, 2004, representing approximately 31.7%, 9.8%, 8.4% and 6.2% respectively of the Group's total turnover for the same period. The turnover of Taiwan market was mainly derived from the provision of optical disc manufacturing systems contracting services and theme park show systems with the balances from sales of consumables and spare parts.

Reasons for not injecting Linfair (Taiwan) into the Group

Linfair (Taiwan) has not been injected into the Group due to the following reasons:

(i) *the confidential and sensitive nature of certain business conducted by it in Taiwan*

Based on the information provided by Linfair (Taiwan), its business projects regarding public infrastructure and facilities in Taiwan involve the supply and installation of audio, visual and communications equipment/systems in governmental authorities in Taiwan, including works executed in non-civil use government architecture which are highly sensitive in nature. Linfair (Taiwan) had entered into non-disclosure undertakings in respect of information of these projects. The management of Linfair (Taiwan) considers that if Linfair (Taiwan) were included in the Group, its business will be subject to the disclosure requirement for prospectus and under the Listing Rules. Such disclosure will conflict with the confidential nature of business carried on by Linfair (Taiwan) and jeopardise its relationship with its customers.

The Directors also consider that it is difficult to compromise between shareholders' rights to information of the Group's affairs and the confidential undertakings that Linfair (Taiwan) has given or to be given to its customers.

(ii) *objection by Mr. Chang's parents and sister due to the dilution of interest in Linfair (Taiwan)*

Mr. Chang's parents and sister consider the injection of Linfair (Taiwan) into the Group is not appropriate as it is a family business largely owned by the Chang's family and object to any dilution of their interests in Linfair (Taiwan). Due to the objection of these family members, Mr. Chang and Ms. Hsieh decided not to include Linfair (Taiwan) in the Group.

(iii) *investments in other business*

Linfair (Taiwan) has investments in other business that are different to that carried on by the Group, including investments in radio stations and cinemas, which are not directly related to the core business of the Group.

Mr. Chang and Ms. Hsieh have confirmed that they have no intention to inject the business of Linfair (Taiwan) into the Group presently.

Non-competition Agreement

Although the Group considers Linfair (Taiwan) is just one of the potential competitors within a minor part of the Group's geographical area of business coverage and the Group has the technical capability to compete with Linfair (Taiwan) in suitable projects, in order to eliminate/reduce any potential competition between the Group and Linfair (Taiwan), the Company, Mr. Chang, Ms. Hsieh and Linfair (Taiwan) have entered into the Non-competition Agreement, pursuant to which:

- (i) each of Mr. Chang and Ms. Hsieh has agreed to and undertaken with the Company that, during the continuance of the Non-competition Agreement other than through the Group and subject to (iii) below, he/she will not and will procure that none of his/her associates, their children and the spouses of their children will, engage or be interested, directly or indirectly, in any business which may be in competition with the businesses as may from time to time be carried on by the Group ("Competing Business") (a) outside Taiwan; and (b) in Taiwan (other than as a holder(s) in aggregate, of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange of or in which neither Mr. Chang nor Ms. Hsieh is a director or has any management function);
- (ii) subject to (iii) below Linfair (Taiwan) has agreed to and undertaken with the Company that during the continuance of the Non-competition Agreement, it will not and will procure that none of its subsidiaries will, engage or be interested, directly or indirectly, in any Competing Business in or outside Taiwan (other than as a holder(s), in aggregate, of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange in which there is no director nominated by Linfair (Taiwan));
- (iii) the Company has acknowledged and confirmed that the Group does not engage nor is interested, directly or indirectly in any engineering system contracting business involving audio-visual broadcasting systems, the primary purpose of which are for human appreciation and entertainment but which does not constitute a theme park project or any part thereof, in Taiwan ("Non-competing Business"). The Company has agreed with Linfair (Taiwan) that during the continuance of the Non-competition Agreement, Linfair (Taiwan) and its subsidiaries will be entitled to, engage or be interested, directly or indirectly in any Non-competing Business.
- (iv) in respect of any business not covered by the above and identified as being interested in by both the Group and Linfair (Taiwan) ("Other Business"), Linfair (Taiwan) has agreed to and undertaken with the Company that during the continuance of the Non-competition Agreement, the Group will have a right of first refusal to engage or be interested in the Other Business in any territory specified by the Group ("Specified Territory") and Linfair (Taiwan) will not and will procure that none of its subsidiaries will, engage or be interested, directly or indirectly, in any Other Business in any Specified Territory unless the Group shall have given prior written notice to Linfair

(Taiwan) of its decision of not to engage or be interested in the Other Business in such Specified Territory (other than as a holder(s), in aggregate, of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange in which there is no director nominated by Linfair (Taiwan)). For the purpose of this clause, Linfair (Taiwan) undertakes to inform the Company if it or its subsidiaries intend to explore new business or new markets, it or its subsidiaries may only do so with the consent of the Company, such consent shall be given if the Group does not intend to engage or be interested in the Other Business in such relevant Specified Territory.

No consent shall be given by the Company unless it is decided by the Board with the presence of the independent non-executive Directors. In respect of any consent given by the Group in relation to Other Business in any Specified Territory for any competing businesses, the Company will issue an announcement setting out the reasons for the giving of such consent.

The Non-competition Agreement is conditional upon: (i) the Listing Committee granting the listing of, and permission to deal in, all the Shares in issue and the Shares to be issued as mentioned herein; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Underwriters) and the Underwriting Agreement not being terminated in accordance with its terms.

The Non-competition Agreement will cease to have effect on the earlier of the date on which:

- (i) both Mr. Chang and Ms. Hsieh ceasing to be Directors and the Controlling Shareholders (including their respective associates, the children of Mr. Chang and Ms. Hsieh and their spouses) together ceasing to have control (as defined in the Code on Takeovers and Mergers of Hong Kong) of the Company; or
- (ii) both Mr. Chang and Ms. Hsieh (including their respective associates, the children of Mr. Chang and Ms. Hsieh and their spouses) ceasing to hold any interest in Linfair (Taiwan) and the parents and siblings of Mr. Chang and Ms. Hsieh, in aggregate ceasing to hold more than 30% of the interest in Linfair (Taiwan); or
- (iii) the Shares ceasing to be listed and traded on the Stock Exchange; or
- (iv) Linfair (Taiwan) becomes a subsidiary of the Company.

The Directors consider that the entering into the Non-competition Agreement by the Company is in the interests of the Company and the Shareholders as a whole.

Save as disclosed herein, none of the Directors, substantial Shareholders or their respective associates have any interest in any business that directly or indirectly competes with the business of the Group as at the Latest Practicable Date.

Annual confirmation

Mr. Chang and Ms. Hsieh will provide an annual confirmation to the Company in respect of the compliance with the terms of the non-competition undertaking given by Mr. Chang, Ms. Hsieh and Linfair (Taiwan). Such annual confirmation will be disclosed in the annual report of the Company.

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group had balances with related companies and a Director and also entered into a number of related party transactions as set out in Notes 17, 18 and 29 respectively to the accountants' report in Appendix I to this prospectus which, save for the transaction with Goldsense Technology Limited, also constitute connected transactions of the Group under the Listing Rules. Such connected transactions except the purchase of goods from Linfair (Taiwan) have discontinued before the listing of the Shares on the Stock Exchange.

The Directors are of the view that the aforesaid related party transactions were conducted in the ordinary and usual course of business of the Group, and the terms are determined on arm's length basis and based on normal commercial terms.

Certain Directors have provided personal guarantees and pledged personal assets in favour of lenders in connection with banking facilities granted to the Group, the relevant banks have conditionally agreed, in principle, to release and replace such personal guarantees and pledged personal assets by corporate guarantee(s) and/or other securities from the Group upon the listing of the Shares on the Stock Exchange.

CONTINUING CONNECTED TRANSACTION

The Company expects that the following exempted continuing connected transaction will subsist following the listing of the Shares.

Purchase of goods from Linfair (Taiwan)

During the three years ended 31st March, 2004 and the eight months ended 30th November, 2004, the Group purchased equipment and spare parts from Linfair (Taiwan) amounted to approximately HK\$67,000, HK\$67,000, nil and HK\$209,000 respectively. Such purchases were charged against the Group at a discount to the prevailing prices charged by Linfair (Taiwan) against its independent third party customers due to bulk purchases. On this basis, the Directors considered the charge was fair and reasonable. It is the present intention of the Directors to continue such purchases from Linfair (Taiwan) after the listing.

The Directors expect the annual purchases from Linfair (Taiwan) will be (i) above 0.1% but below 2.5% of the Company's total assets as at 30th November, 2004 and expected initial market capitalisation calculated based on the minimum Offer Price of HK\$0.88 per Offer Share as at the commencement of dealing of the Shares on the Stock Exchange and (ii) below HK\$1 million. The purchases therefore fall within the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules and are exempted from all relevant reporting, announcement and independent Shareholders' approval requirements under the Listing Rules.