TRADING RECORD

The following is a summary of the combined results of the Group for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 and 2003, extracted from the accountants' report as set out in Appendix I to this prospectus and have been prepared on the bases that the existing Group structure had been in place throughout the Track Record Period:

Combined results

	Year ended 31st March,			Eight months ended 30th November,	
	2002	**2003**	**2004**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Turnover *(Note 1)*	331,341	360,235	640,194	333,377	449,528
Cost of contract works	(268,602)	(269,925)	(465,213)	(238,883)	(332,807)
Cost of sales	(36,402)	(43,809)	(97,436)	(52,396)	(57,954)
Gross profit	26,337	46,501	77,545	42,098	58,767
Other operating income	645	1,754	2,503	2,746	4,971
Selling and distribution costs	(549)	(1,179)	(2,801)	(1,773)	(1,511)
Administrative expenses	(14,200)	(21,809)	(37,880)	(19,149)	(26,830)
Profit from operations	12,233	25,267	39,367	23,922	35,397
Finance costs	(460)	(746)	(610)	(459)	(417)
Profit before taxation	11,773	24,521	38,757	23,463	34,980
Taxation	(1,693)	(3,800)	(4,600)	(2,454)	(2,000)
Net profit for the year/period	10,080	20,721	34,157	21,009	32,980
Dividend	12,000	15,000	20,000	—	16,000
Earnings per Share *(Note 3)*	4.48 cents	9.21 cents	15.18 cents	9.34 cents	14.66 cents

Notes:

1. The following illustrates the breakdown of the Group's turnover generated from the provision of engineering system contracting services and sales of consumables and spare parts.

	For the year ended 31st March,						For the eight months ended 30th November,			
	2002		**2003**		**2004**		**2003**		**2004**	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000 (unaudited)*	*% of total*	*HK$'000*	*% of total*
Provision of engineering system contracting services *(Note 2)*										
Turnover	281,940	85.1	299,654	83.2	511,149	79.8	262,446	78.7	371,143	82.6
Gross profit	13,338		29,729		45,936		23,563		38,336	
Gross profit margin	4.7%		9.9%		9.0%		9.0%		10.3%	
Sale of consumable and spare parts										
Turnover	49,401	14.9	60,581	16.8	129,045	20.2	70,931	21.3	78,385	17.4
Gross profit	12,999		16,772		31,609		18,535		20,431	
Gross profit margin	26.3%		27.7%		24.5%		26.1%		26.1%	
Total										
Turnover	331,341	100.0	360,235	100.0	640,194	100.0	333,377	100.0	449,528	100.0
Gross profit	26,337		46,501		77,545		42,098		58,767	
Gross profit margin	7.9%		12.9%		12.1%		12.6%		13.1%	

2. Set out below is the breakdown of the turnover generated from the provision of engineering system contracting services in respect of the optical disc manufacturing systems, the broadcasting and audio-visual systems, the theme park show systems and the intelligent traffic management systems during the Track Record Period:

	Optical disc manufacturing systems				
	For the year ended 31st March,			For the eight months ended 30th November,	
	2002	**2003**	**2004**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000 (unaudited)*	*HK$'000*
Provision of engineering system contracting services					
Turnover	178,050	272,579	511,149	262,446	369,124
Gross profit	8,480	29,878	45,936	23,563	36,926
Gross profit margin	4.8%	11.0%	9.0%	9.0%	10.0%

	Broadcasting and audio-visual systems				
	For the year ended 31st March,			For the eight months ended 30th November,	
	2002	**2003**	**2004**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Provision of engineering system contracting services					
Turnover	10,901	6,853	—	—	—
Gross profit	1,360	1,114	—	—	—
Gross profit margin	12.5%	16.3%	—	—	—

	Theme park show systems				
	For the year ended 31st March,			For the eight months ended 30th November,	
	2002	**2003**	**2004**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Provision of engineering system contracting services					
Turnover	92,989	17,039	—	—	—
Gross profit	3,498	(1,840)	—	—	—
Gross profit margin	3.8%	(10.8%)	—	—	—

	Intelligent traffic management systems				
	For the year ended 31st March,			For the eight months ended 30th November,	
	2002	**2003**	**2004**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Provision of engineering system contracting services					
Turnover	—	3,183	—	—	2,019
Gross profit	—	577	—	—	1,410
Gross profit margin	—	18.1%	—	—	69.8%

	Combined				
	For the year ended 31st March,			For the eight months ended 30th November,	
	2002	2003	2004	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Provision of engineering system contracting services					
Turnover	281,940	299,654	511,149	262,446	371,143
Gross profit	13,338	29,729	45,936	23,563	38,336
Gross profit margin	4.7%	9.9%	9.0%	9.0%	10.3%

3. The calculation of the basic earnings per Share for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2003 and 30th November, 2004 respectively is based on the combined profit for each relevant year or period and assuming 225,000,000 Shares (comprising 150,000,000 Shares in issue as at the date of this prospectus and 75,000,000 Shares to be issued pursuant to the Capitalisation Issue) had been in issue during the relevant year or period, but without taking into account the Shares to be issued under the Share Offer and any Shares which may be issued upon the exercise of the Pre-IPO Options and options granted under the Share Option Scheme.

4. Set out below is the breakdown of the turnover by geographical areas:

	For the year ended 31st March,						For the eight months ended 30th November,			
	2002		2003		2004		2003		2004	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
							(unaudited)			
Hong Kong	26,587	8.0%	56,769	15.8%	140,580	22.0%	88,610	26.6%	36,547	8.1%
PRC	70,834	21.4%	123,551	34.3%	285,236	44.6%	116,979	35.1%	256,347	57.0%
Taiwan	105,024	31.7%	35,460	9.8%	53,794	8.4%	23,152	6.9%	27,790	6.2%
Southeast Asia	127,099	38.4%	143,317	39.8%	157,748	24.6%	103,468	31.0%	126,415	28.1%
Others	1,797	0.5%	1,138	0.3%	2,836	0.4%	1,168	0.4%	2,429	0.6%
	331,341	100%	360,235	100%	640,194	100%	333,377	100%	449,528	100%

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover of the Group during the three financial years immediately preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group for each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to Rule 4.04(1) of the Listing Rules, the Company is required to include in this prospectus an accountants' report covering the combined results of the Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

The accountants' report for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus has been issued within a short period of time after 31st March, 2005, the accountants' report has not been prepared for the full year ended 31st March, 2005 as it would be unduly burdensome for the Company to do so and impossible for the audited results for the year ended 31st March, 2005 to be finalised within a short period of time.

In these circumstances, an application was made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31st March, 2005 in this prospectus on the ground that it would be unduly burdensome for the Company to do so and such certificate of exemption has been granted by the SFC under section 342A(1) of the Companies Ordinance.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules, and such waiver has been granted by the Stock Exchange.

The Directors have confirmed that they have performed sufficient due diligence on the Group to ensure that up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 30th November, 2004, and there is no event which would materially affect the information shown in the accountants' report as set out in Appendix I to this prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL INFORMATION AND COMBINED RESULTS OF THE GROUP

The following discussion and analysis should be read in conjunction with the combined financial information of the Group for the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 which is set forth in the accountants' report included in Appendix I to this prospectus.

Overview

The Group is principally engaged in the provision of engineering systems contracting and supporting services and sale of related consumables and spare parts to customers. Engineering systems contracting services provided by the Group mainly relate to optical disc manufacturing systems, broadcasting and audio-visual systems, theme park show systems and intelligent traffic management systems. The turnover of the Group for the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 was approximately HK$331.3 million, HK$360.2 million, HK$640.2 million and HK$449.5 million respectively. The growth of the Group's turnover for the two years ended 31st March, 2004 was approximately 8.7% and 77.7% respectively.

During each of the three years ended 31st March, 2004 and eight months ended 30th November, 2004, the Group's turnover from the above 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 from sales 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.

The increases in the Group's turnover for the two years ended 31st March, 2004 were mainly due to the substantial growth in the provision of optical disc manufacturing system contracting services and the sales of the related consumables and spare parts. The aggregate turnover from this segment of business for the three years ended 31st March, 2004 were approximately HK$223.7 million, HK$330.8 million and HK$635.8 million, representing a growth of approximately 47.9% and 92.2% for the two years ended 31st March, 2004 respectively. The turnover derived from projects relating to optical disc manufacturing systems recorded a surge of approximately HK$94.6 million from approximately HK$178.0 million in 2002 to approximately HK$272.6 million in 2003. However, such surge was partly offset by the reduction in turnover from the theme park project in Taiwan of approximately HK$76.0 million from approximately HK$93.0 million in 2002 to HK$17.0 million in 2003. The overall growth for the Group's turnover in 2003 was just approximately HK$28.9 million.

Turnover derived from Hong Kong and the PRC had been constantly increased throughout the Track Record Period due to the Group's focus on Hong Kong and the PRC market. Turnover derived from Southeast Asia was relatively stable throughout the Track Record Period. On the other hand, turnover derived from Taiwan dropped significantly from approximately HK$105.0 million for the year ended 31st March, 2002 to approximately HK$35.5 million and HK$53.8 million for the two years ended 31st March, 2004, due to the suspension of the two shows under the Yamay Theme Park Project.

The profit margin of optical disc manufacturing systems project for the year ended 31st March, 2002 was low, with just approximately 4.8%. It was contributed by the Group's payment of US$1 million (equivalent to approximately HK$7.8 million) to a company which introduced a customer to the Group. Had the profit margin been adjusted by such one-off expense, the gross profit margin project for the year ended 31st March, 2002 would have been improved from approximately 4.8% to approximately 8.1%. The profit margin of optical disc manufacturing systems project was improved to approximately 11.0% for the year ended 31st March, 2003 due to the launch of DVD-R replication systems which had a better gross profit margin and no incurrence of such one-off customer introduction expense. The gross profit margin of optical disc manufacturing systems project was subsequently dropped to approximately 9.0% for the year ended 31st March, 2004 due to market competition.

The profit margin of theme park show systems project for the two years ended 31st March, 2003 were approximately 3.8% and (10.8)% respectively. The gross loss for the year ended 31st March, 2003 was mainly due to the write off of unbilled work in progress for the two suspended show systems during the year ended 31st March, 2003.

The Group's operating expenses mainly comprise selling and distribution costs and administrative expenses, which include, among other things, staff salaries and allowances, directors' emolument, allowance for bad and doubtful debts, depreciation of property, plant and equipment and travelling expenses. The overall gross profit margin of the Group for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 were 7.9%, 12.9%, 12.1% and 13.1%, which were attributable to the gross profit margin from the provision of engineering systems contracting services for the respective year of 4.7%, 9.9%, 9.0% and 10.3% and the sales of spare parts and consumables for the respective year of 26.3%, 27.7%, 24.5% and 26.1%.

For the year ended 31st March, 2002

Turnover of the Group for the year ended 31st March, 2002 was approximately HK$331.3 million, of which approximately HK$281.9 million was attributed to provision of engineering systems contracting services and approximately HK$49.4 million was attributed to sale of consumables and spare parts. The turnover was derived as to approximately HK$178.0 million from the optical disc manufacturing systems contracting services, as to approximately HK$10.9 million from broadcasting and audio-visual systems contracting services, and as to approximately HK$93.0 million from theme park show systems contracting services. No revenue was recognised for intelligent traffic management systems in 2002. Sales of consumables and spare parts amounted to approximately HK$49.4 million, with 92.5% of which contributed from sales of spare parts and consumables for optical disc manufacturing systems and the remaining portion from that for broadcasting and audio-visual systems.

Gross profit of the Group for the year ended 31st March, 2002 was approximately HK$26.3 million, representing a gross margin of approximately 7.9%.

Gross profit margins of the Group in respect of engineering systems contracting services and sales of consumables and spare parts for the year ended 31st March, 2002 were approximately 4.7% and 26.3% respectively.

Administration costs of approximately HK$14.2 million was recorded during the year, which mainly comprised of staff salaries and allowances of approximately HK$4.9 million, overseas travelling expense of approximately HK$1.0 million and allowance for bad and doubtful debts of approximately HK$4.5 million. During the year ended 31st March, 2002, old and obsolete office equipment and computer equipment with aggregate value of approximately of HK$76,000 was written off due to relocation of the Group's principal office.

The Group's net profit was approximately HK$10.1 million for the year, representing a net profit margin of approximately 3.0%.

Other debtors, deposits and prepayment of approximately HK$3.1 million mainly comprised the expenses of approximately HK$1.6 million incurred by the Company for the listing application made in October 2002 and deposits of approximately HK$1.4 million paid for equipment for use in optical disc manufacturing systems projects. The deposits paid for the aforesaid equipment will be subsequently recognised as cost of contract work upon completion of the relevant engineering system projects.

Other creditors and accrued charges of approximately HK$2.8 million mainly comprised deposits of approximately HK$2.1 million received from customers in respect of the optical disc manufacturing system projects. The deposits received will be subsequently recognised as project revenue upon completion of the relevant engineering system projects.

For the year ended 31st March, 2002, the inventory turnover days, debtors' turnover days and creditors' turnover days were approximately 26 days, 30 days, and 56 days respectively.

During the year ended 31st March, 2002, the Company declared dividends of HK$12.0 million to its then shareholders.

For the year ended 31st March, 2003

Turnover of the Group for the year ended 31st March, 2003 was approximately HK$360.2 million, of which approximately HK$299.6 million was attributed to provision of engineering systems contracting services and approximately HK$60.6 million was attributed to the sales of consumables and spare parts representing an increase of approximately 6.3% and 22.7% respectively. The optical disc manufacturing systems, broadcasting and audio-visual systems, theme park show systems and intelligent traffic management systems contributed as to approximately HK$272.6 million, HK$6.9 million, HK$17.0 million and HK$3.1 million respectively to the turnover of the provision of engineering system contracting services.

The DVD-R replication systems were launched by the Group in June 2001. Having observed the market recognition of DVD-R replication systems in the financial year ended 31st March, 2002, more resources were devoted to capture business opportunity emerged from recordable optical disc sector in 2003, which contributed mainly to the jump by approximately 53.1% in the turnover of optical disc manufacturing systems in 2003. For the turnover of the theme park show systems, most of the revenue for the four completed shows systems of Yamay Theme Park Project were recognised in 2002 and the outstanding two shows systems were postponed in 2003. Accordingly, there was a drop in turnover derived from theme park show systems contracting services from approximately HK$93.0 million in 2002 to approximately HK$17.0 million in 2003. Nonetheless, the Group recorded an overall minor increase in the total turnover derived from provision of engineering system contracting services due to the growth of business in provision of optical disc manufacturing systems.

The sales of consumables and spare parts in relation to optical disc manufacturing systems remained approximately 96.0% of the total sales of consumables and spare parts. Due to the increase in sales of chemicals for manufacturing recordable optical disc, the total sales of consumables and spare parts increased by approximately 22.7%.

The gross profit margin of the Group had improved, with an increase from approximately 7.9% in 2002 to approximately 12.9% in 2003. During the year ended 31st March, 2002, the Group paid US$1 million (equivalent to approximately HK$7.8 million) to a company which introduced a customer to the Group. Had the profit margin been adjusted by such one-off expense, the gross profit of the Group for the year ended 31st March, 2002 would have been increased from approximately HK$26.3 million to approximately HK$34.1 million and the gross profit margin would be improved from approximately 7.9% to approximately 10.3%. Such improvement was also contributed by the expansion of business in DVD-R replication systems, which enjoyed a higher gross profit margin than CD and CD-R replication systems. The improvement was also contributed by the increase of sales in consumables and spare parts which enjoyed a higher gross profit margin than the provision of engineering system contracting projects.

Selling and distribution costs increased significantly by approximately HK$0.6 million in 2003 as the Group took more active role in participating trade fairs and exhibitions and organising seminars to promote its services.

Administrative expenses increased by approximately HK$7.6 million in 2003. The increase reflected the increase of staff salaries and allowances from approximately HK$4.9 million in 2002 to approximately HK$13.2 million in 2003 as a result of an increase of the number of staff members from 24 in 2002 to 51 in 2003. During the year 2003, the Group expanded the engineering team from 9 engineers in 2002 to 18 engineers in 2003 to cater for the growth of optical disc manufacturing systems business. Moreover, more supporting staff in finance and marketing department was recruited as a result of the Group's expansion. Such increase was partly offset by the drop of allowance for bad and doubtful debts from approximately HK$4.5 million for the year ended 31st March, 2002 to approximately HK$1.6 million for the year ended 31st March, 2003. During the year ended 31st March, 2002, the Group identified certain slow moving balances from a customer and accordingly approximately HK$3.9 million was provided for the amount due from that customer. No such material slow moving balance was noted for the year ended 31st March, 2003 and a drop of allowance for bad and doubtful debts was therefore noted during the year.

As a result of various factors discussed above, the Group recorded a net profit of approximately HK$20.7 million in 2003, representing a growth of approximately 105.0% as compared to 2002.

For the year ended 31st March, 2003, the inventory turnover days were approximately 14 days, representing a decrease of approximately 46.2% as compared to the previous corresponding year. The reduction was caused by the increases in sales of fast moving items such as chemical consumables.

For the year ended 31st March, 2003, the debtors' turnover days was approximately 60 days, representing an increase of approximately 100.0% as compared to that of 2002. The increase was mainly caused by granting of longer credit term to customers so as to solicit more engineering works.

Other debtors, deposits and prepayments increased by approximately HK$34.8 million to approximately HK$37.9 million as compared to the balance as at 31st March, 2002. About 90.0% of other debtors, deposits and prepayments represented the Group's payment of deposits and balances of contract sum to suppliers under the terms of purchases in respect of optical disc manufacturing system contracting projects prior to the completion of the relevant projects. The increase was mainly due to business growth during the year.

Other creditors and accrued charges increased by approximately HK$39.2 million to approximately HK$42.0 million as compared to the balance as at 31st March, 2002. About 92.6% of total other creditors and accrued charges represented the Group's receipt of deposits and progress payments from customers under contracts with them in respect of optical disc manufacturing system contracting projects prior to the completion of such projects. The increase of deposits received from customers was mainly due to business growth during the year.

The creditors' turnover days remained quite stable at approximately 59 days for the year ended 31st March, 2003, representing an increase of approximately 5.4% as compared to that of 2002.

During the year ended 31st March, 2003, the Company declared dividends of HK$15.0 million to its then shareholders.

For the year ended 31st March, 2004

Turnover of the Group for the year ended 31st March, 2004 was approximately HK$640.2 million, of which approximately HK$511.1 million was attributed to provision of engineering systems contracting services and approximately HK$129.1 million was attributed to the sale of consumables and spare parts, representing an increase of approximately 70.6% and 113.0% respectively as compared to that of the year ended 31st March, 2003. The turnover in respect of the provision of engineering system contracting services was wholly derived from the provision of optical disc manufacturing system contracting services. No revenue was recognised for intelligent traffic management system contracting services during the year as only minimal works were performed for the VTS project located in the PRC during the outbreak of the severe acute respiratory syndrome. Due to the suspension of the Yamay Theme Park Project, no work was done by the Group since March 2003, hence no revenue was recognised. The outbreak of the severe acute respiratory syndrome had affected the business of the Group for the first quarter of the financial year ended 31st March, 2004. After the outbreak, the Group speeded up the progress of contract work so as to maintain the growth of the business. Moreover, the Group's strategy in expanding the business in optical disc manufacturing system contracting services contributed to the growth of the business in this area.

Sales of consumables and spare parts in relation to optical disc manufacturing systems to the total sales of consumable and spare parts remained at about 96%. Due to the increase in sales of chemicals for manufacturing recordable optical disc, the total sales of consumables and spare parts increased by approximately 113.0%.

Gross profit margin of the Group for the year ended 31st March, 2004 dropped slightly from approximately 12.9% in 2003 to approximately 12.1% due to the decrease in gross profit margin in engineering systems contracting projects resulting from price competition among providers of the optical disc manufacturing system contracting services in the market. The average project revenue dropped from approximately HK$9.1 million for the year ended 31st March, 2003 to approximately HK$7.7 million for the year ended 31st March, 2004.

Selling and distribution costs increased from approximately HK$1.2 million in 2003 to approximately HK$2.8 million in 2004. Such increase was mainly due to the increase in turnover volume during the year.

Administrative expenses increased by approximately HK$16.1 million to approximately HK$37.9 million in 2004. Such increase was mainly attributable to the increase of staff salaries and allowances of approximately HK$4.2 million, allowance for bad and doubtful debts of approximately HK$6.4 million, overseas travelling expenses of approximately HK$1.5 million and exchange losses of approximately HK$1.7 million.

The increase of staff salaries and allowances from approximately HK$13.2 million in 2003 to approximately HK$17.4 million in 2004 was due to the increase of staff headcount from 51 as at 31st March, 2003 to 64 as at 31st March, 2004 during the year. With the increase of staff headcount and volume of business, the overseas traveling expenses increased from approximately HK$2.0 million in 2003 to approximately HK$3.5 million in 2004.

During the year, the Group identified certain slow moving balances from a customer and therefore approximately HK$6.0 million was provided for the amount due from that customer. This contributed primarily the increase of the allowance for bad and doubtful debts during the year.

The purchase of optical disc manufacturing equipment was mainly settled by the Group in EURO. The weak US$ and strong EURO during the year 2004 resulted in the Group suffering exchange losses of about HK$1.9 million, with a rise of HK$1.7 million as compared to that of previous year.

As a result of various factors discussed above, the Group recorded a net profit of approximately HK$34.2 million in 2004, representing an improvement of approximately 65.2% as compared to 2003.

Other debtors, deposits and prepayments increased by approximately HK$43.6 million to approximately HK$81.5 million as compared to the balance as at 31st March, 2003. About 95.8% of other debtors, deposits and prepayments represented deposits paid for equipment for use in optical disc manufacturing system contracting projects which will be subsequently recognised as cost of contract work upon the completion of the relevant projects. Other creditors and accrued charges increased by approximately HK$28.5 million to approximately HK$70.5 million as compared to the balance as at 31st March, 2003. About 94% of total other creditors and accrued charges represented deposits received from customers in respect of the optical disc manufacturing systems contracting projects which will be subsequently recognised as project revenue upon the completion of the relevant projects. The expansion and growth in the Group's business of the optical disc manufacturing system projects contributed to such increases.

The inventory turnover days increased from about 14 days in 2003 to about 19 days in 2004. The Group increased its inventory level to capture the business opportunities emerged from recordable optical disc sector. The debtors' turnover days and creditors' turnover days were quite stable as compared to 2003 and were approximately 64 days and 64 days respectively.

During the year ended 31st March, 2004, the Company declared dividend of HK$20.0 million to its then shareholders.

For the eight months ended 30th November, 2004

Turnover of the Group for the eight months ended 30th November, 2004 was approximately HK$449.5 million, of which approximately HK$371.1 million was attributed to engineering systems contracting and approximately HK$78.4 million was attributed to the sales of consumables and spare parts. The unaudited turnover in respect of the corresponding eight months ended 30th November, 2003 was approximately HK$333.4 million, of which approximately HK$262.5 million was attributed to provision of engineering systems contracting services and approximately HK$70.9 million was attributed to the sales of consumables and spare parts. Due to the outbreak of the severe acute respiratory syndrome in mid 2003, many commercial activities in area in which the Group had business operation were immobilised. Accordingly, the unaudited turnover of the corresponding eight months ended 30th November, 2003 was relatively low. After the outbreak, the business returned back to normal and an increase was noted as compared to the corresponding eight months ended 30th November, 2003. Approximately 99.5% of the turnover in respect of the provision of engineering system contracting services was attributed optical disc manufacturing systems. The remaining portion was derived from intelligent traffic management systems.

Sales of consumables and spare parts in relation to optical disc manufacturing systems represented approximately 98.3% to the total sales of consumables and spare parts.

The gross profit for the eight months ended 30th November, 2004 was approximately HK$58.8 million, representing an increase of approximately 39.7% as compared to the unaudited gross profit of approximately HK$42.1 million for the eight months ended 30th November, 2003. Gross profit margin of the Group for the eight months ended 30th November, 2003 and 2004 remained quite stable at approximately 12.6% and 13.1% respectively. During the eight months ended 30th November, 2004, an exchange gain of approximately HK$4.0 million was recognised by the Group mainly due to the appreciation of the EURO during the period. Such appreciation resulted in the exchange gain arising from translation of the net EURO receivables at the period end.

The selling and distribution costs decreased slightly from the unaudited balance of approximately HK$1.8 million for the eight months ended 30th November, 2003 to approximately HK$1.5 million for the eight months ended 30th November, 2004.

The administrative expenses for the eight months ended 30th November, 2004 was approximately HK$26.8 million, representing an increase of approximately 40.1% as compared to the unaudited amount of approximately HK$19.1 million for the eight months ended 30th November, 2003. Such increase was mainly attributable to the increase of staff salaries and allowances of approximately HK$1.2 million, allowance for bad and doubtful debts of approximately HK$3.8 million and overseas travelling expenses of approximately HK$0.9 million. The increase in allowance for bad and doubtful debts was mainly due to certain slow moving balances due from customers.

As a result of the various factors discussed above, the Group's net profit attributable to Shareholders for the eight months ended 30th November, 2004 was approximately HK$33.0 million. The net profit margin was approximately 7.3%, which was increased by 1.0% as compared to that for the eight months ended 30th November, 2003.

Other debtors, deposits and prepayments increased by approximately HK$104.4 million to approximately HK$185.9 million as compared to the balance as at 31st March, 2004. About 95.0% of other debtors, deposits and prepayments was deposits paid for equipment for use in optical disc manufacturing system contracting projects. Other creditors and accrued charges increased by approximately HK$105.4 million to approximately HK$175.9 million as compared to the balance as at 31st March, 2004. About 97.9% of other creditors and accrued charges represented deposits received from customers for the optical disc manufacturing systems contracting projects. Such increases were contributed by the growth of the engineering system contracting services business for the eight months ended 30th November, 2004. The turnover for the eight months ended 30th November, 2004 attributable to provision of engineering system contracting services was approximately HK$371.1 million, which represented approximately 72.6% of the turnover of approximately HK$511.1 million attributable to such business segment for the year ended 31st March, 2004.

For the eight months ended 30th November, 2004, the inventory turnover days, debtors' turnover days and creditors' turnover days were approximately 45 days, 78 days and 72 days. During the eight months ended 30th November, 2003, the Group's turnover was relatively low due to the outbreak of the severe acute respiratory syndrome and a lower inventory level was therefore maintained throughout the period. After the outbreak, the Group's business returned back to normal and a higher inventory level was maintained to cater for the growth in the market demand during the eight months ended 30th November, 2004. This resulted in the increase of the inventory turnover days from about 14 days in the eight months ended 30th November, 2003 to about 45 days in the eight months ended 30th November, 2004. Due to the longer credit terms granted to its recurring customers, the debtors' turnover days was increased from about 62 days in the eight months ended 30th November, 2003 to about 78 days in eight months ended 30th November, 2004. In turn, the Group also obtained longer credit term from its suppliers and therefore the creditors' turnover days was also increased from about 59 days in the eight months ended 30th November, 2003 to about 72 days in the eight months ended 30th November, 2004.

During the eight months ended 30th November, 2004, the Company declared dividend of HK$16 million to its then shareholders.

The contract costs incurred to date plus recognised profits less recognised losses and the progress billing included under amounts due from/to customers for contract work mainly related to the Yamay Theme Park Project and the VTS project at the port of Dalian. The decrease in both contract costs incurred to date plus recognised profits less recognised losses of approximately HK$221.7 million and progress billings of approximately HK$220.4 million as at 31st March, 2004 to approximately HK$3.6 million and nil balance as at 30th November, 2004, respectively, was mainly attributable to the closure of the Yamay Theme Park Project which remained dormant for over one year and the completion of the VTS project at the port of Dalian during the eight months ended 30th November, 2004 which resulted in the off-set between the aggregate amount of contract costs incurred to date plus recognised profits less recognised losses and the aggregate amount of progress billings. The contract costs incurred to date plus recognised profits less recognised losses of approximately HK$3.6 million as at 30th November, 2004 related to payments made by the Group to suppliers for equipment for the Group's engineering systems contracting services, the shipment of which was made after the period end date.

Critical accounting policies

The above discussion and analysis of the Group's financial position and results of operations is based on the combined financial statements prepared in accordance with the principal accounting policies set forth in note 3 to the accountants' report set out in Appendix I to this prospectus, which conform with the generally accepted accounting policies in Hong Kong. Accounting methods, assumptions and estimates that underlie the preparation of a company's financial statements affect its financial position and results of operation reported. Such assumptions and estimates are made based on historical experience and various other assumptions that the Group believes to be reasonable, the results of which form the basis of judgments on the Group's carrying amounts of assets and liabilities and the Group's results. Results may differ under different assumptions or conditions.

The selection of critical accounting policies, judgments and uncertainties affecting application of those policies and sensitivity of reported results and financial position to change in conditions and assumptions are factors to be considered when reviewing the Group's combined financial statements. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its combined financial statements:

Revenue recognition

The Group is mainly engaged in the business of provision of engineering systems contracting services and sales of consumables and spare parts. The engineering contracting services are provided on project basis. Contract accounting is adopted for recognition of revenue derived from the provision of certain types of engineering system contracting services. In considering whether to adopt contract accounting for recognition of revenue derived from provision of engineering systems contracting services, the Group takes into account the length of time for completing the projects. Contract accounting method by reference to the percentage of cost incurred to date to the estimated total cost is only applied for projects with expected completion time of over twelve months. Project revenue from provision of theme park show systems and intelligent traffic management systems contracting services is recognised based on the percentage of work completed in a project with reference to the value of work carried out by the Group during the period as they normally take more than twelve months to complete. If the Group cannot reasonably foresee the progress of a project or it is unlikely that the costs incurred will be recovered, revenue will not be recognised and the costs incurred will be treated as expenses of the Group.

Project revenue from provision of optical disc manufacturing systems and broadcasting and audio-visual systems contracting services is recognised when a customer accepts delivery, and installation and inspection are completed as they normally take less than twelve months to complete.

Revenue from sale of consumables and spare parts is recognised when goods are delivered and title is passed.

Allowances for bad and doubtful debts

The management of the Group performs ongoing credit evaluation of the customers' financial position and makes allowance for bad and doubtful accounts based on the outcome of the credit valuations. The evaluation of the collectibility of the Group's accounts receivable is based on specific customer circumstances, current economic trends, historical payment records and the age of past due receivables. Generally, 100% allowances will be made for accounts receivable arising from sales of consumables and spare parts due over 240 days. Allowances for the accounts receivable arising from provision of engineering systems contracting services will only be made when the management of the Group identifies specific accounts receivable as doubtful. Unanticipated changes in the liquidity or financial position of the Group's customers may require additional allowances for doubtful accounts.

Provision for inventories

The Group's inventories comprise materials, parts and consumables held for consumption and usage and are stated at the lower of cost (on a first-in, first-out basis) and net realisable value. The Group makes specific obsolescence provisions based on the review with reference to the age and conditions of the inventory. Specifically, 100% obsolescence provisions will be made for stocks relating to broadcasting and audio-visual systems of over 18 months, 50% and 100% obsolescence provision will be made for stocks relating to optical disc manufacturing systems of over 3 years but not exceeding 5 years and over 5 years respectively.

Impairment on assets

The Group reviews the carrying amounts of its assets on each balance sheet date to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, where the increased carrying amount does not exceed the carrying amount determined had no impairment loss been recognised for the asset in prior years, a reversal of an impairment loss is recognised as income immediately.

Provision for contract losses

Provision for contract losses will be made when the Group identifies the recoverability of the costs incurred is in doubt. The evaluation is based on specific customer's circumstances and current economic trends.

Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial information for the eight months ended 30th November, 2004.

The Group has commenced considering the potential impact of these new HKFRSs and has preliminarily identified the following possible impact on the Group's accounting policies and the related financial impact:

Share-based payments. HKFRS 2 "Share-based Payment" requires a fair value based method for accounting for share-based compensation plans which takes into account vesting conditions related to market performance. Under this method, compensation cost is measured as at date of grant based on the value of the award and is recognised over the service period, which is usually the vesting period. The Group is required to recognise compensation cost in respect of the share option granted after 7th November, 2002 and had not yet vested at the accounting period beginning on or after 1st January, 2005. This HKFRS2 will become effective and will be adopted by the Group during the financial year ending 31st March, 2006.

TAXATION

The effective tax rate for the three years ended 31st March, 2004 were approximately 14.4%, 15.5% and 11.9% respectively and for the eight months ended 30th November, 2003 and 2004 were approximately 10.5% and 5.7% respectively. The drop of effective tax rates from approximately 15.5% for the year ended 31st March, 2003 to approximately 11.9% for the year ended 31st March, 2004 was mainly attributed to the reversal of the provision amounting to approximately HK$0.9 million made in the three years ended 31st March, 2003 in respect of taxation in overseas jurisdictions. Without taking into account of this effect, the effective tax rate for the year ended 31st March, 2004 would be approximately 14% which was quite stable as compared to that of 15.5% for the year ended 31st March, 2003. Such overseas tax provision was made for prudence sake with respect to the exposure to overseas tax which might be imposed on Linfair (HK) for its provision of assistance on equipment installation and maintenance services at the customers' sites in various overseas jurisdictions.

Throughout the past few years, the management had been seeking ways to clarify the overseas tax issues and minimise the exposures. It was confirmed recently from certain overseas customers that their local tax authorities had never demanded any taxes from them with respect to the sales proceeds remitted to the Group at all relevant years. After seeking advice from the tax adviser of the Group, the entire overseas tax provision was reversed.

The offshore profits were mainly generated by Linfair (Samoa) which were not subject to tax as detailed below. The increase in profits derived by Linfair (Samoa) for the eight months ended 30th November, 2004 contributed to the low effective tax rate for the period and that offshore profit for such period was greater than that in each of the three years ended 31st March, 2004.

Hong Kong

The Group is principally subject to Hong Kong profit tax which is calculated at the rate of 16% for the two years ended 31st March, 2003, and 17.5% for the year ended 31st March, 2004 and for the eight months ended 30th November, 2003 and 2004 on estimated assessable profits arising in or derived from business carried on in Hong Kong.

Linfair (HK) filed profits tax returns with the Inland Revenue Department of Hong Kong (the "IRD") on onshore income basis for the years of assessment prior to 1999/2000. In July of 2001, the Group appointed a new tax adviser and such tax adviser advised that Linfair (HK)'s profits from projects of which both the contracts of purchase and contracts of sale were negotiated, concluded and effected overseas (the "Offshore Income") was offshore sourced under the Hong Kong Inland Revenue Ordinance and the Departmental Interpretation and Practice Notes No. 21 (Revised 1998) issued by the IRD, therefore was not subject to Hong Kong profits tax. Accordingly, Linfair (HK) lodged on 8th January, 2002 a back year claim in respect of the Offshore Income for the year of assessment 1999/2000 under Section 70A of the Hong Kong Inland Revenue Ordinance. The IRD issued a letter dated 10th November, 2003 requiring Linfair (HK) to provide further information and documents for consideration of the claim and a reply was made to the IRD on 24th February, 2005. The claim is still under the review by the IRD.

The profits tax returns of Linfair (HK) for the subsequent years of assessment 2000/2001 to 2003/2004 were filed with the IRD with the Offshore Income excluded from the calculation of the assessable profits as advised by the tax adviser of the Group. The IRD issued notices of tax assessment to Linfair (HK) and no tax had been charged on the Offshore Income. Linfair (HK) had paid the relevant taxes to the IRD according to the tax assessments issued by the IRD. Nonetheless, the IRD has the right to re-visit the tax position and issue additional assessment within six years after the issue of the relevant tax assessment. In the event the IRD does not accept the abovementioned back year claim filed by Linfair (HK) and decides to issue additional tax assessments in respect of years of assessment 2000/2001 to 2003/2004, Linfair (HK) might be subject to additional tax. The Group estimates that such additional tax might amount to a total of approximately HK$4.4 million. However, the Group has received an opinion from its tax adviser indicating that Linfair (HK) has a strong case for the Offshore Income not to be subject to Hong Kong tax and therefore no additional tax provision is necessary. The Directors, based on the aforesaid opinion, believe that Linfair (HK) has such a strong case, and therefore no additional tax provision has been made.

During the Track Record Period, Linfair (Samoa) carried on its business through its only branch office in Taiwan and did not carry on any business in Hong Kong. The branch office of Linfair (Samoa) in Taiwan has 15 permanent staff members who are responsible for contacting and liaising with the suppliers and customers and to attend industry events such as trade fairs. Staff members of the Taiwan branch office of Linfair (Samoa) have the authority to solicit, negotiate and enter into sales and purchases contracts under the name of Linfair (Samoa). The Directors confirmed that all the sales and purchases contracts were negotiated and concluded outside Hong Kong. On this basis, the Group has received an opinion from its tax adviser indicating that Linfair (Samoa) should not be subject to Hong Kong profits tax during the Track Record Period as it did not carry on any business in Hong Kong and did not have profits arising in or derived from Hong Kong.

The PRC

There were two types of employees of the Group working in the PRC. The first type refers to those employees employed by the representative office ("Representative Office") of Linfair (HK) in Beijing, the PRC which was closed on 31st December, 2004. Under PRC tax laws, the Representative Office is considered to be a permanent establishment in the PRC, Linfair (HK) is subject to business tax and foreign enterprise income tax in the PRC during the Track Record Period except that the foreign enterprise income tax would be computed on a prescribed manner, generally at 33% of the deemed profit, which is in turn computed as 10% of the cost of operating the Representative Office. PRC tax filing procedures have been complied with by the Representative Office. The amount of PRC taxes charged on the Representative Office for the three years ended 31st March, 2004 and the eight months ended 30th November, 2004 were approximately HK$17,000, approximately HK$12,000, approximately HK$41,000 and approximately HK$28,000 respectively.

The second type of employees refers to the engineers of Linfair (HK) performing the after-sales installation and maintenance services (the "Services") in the PRC on project basis, installation project would constitute a permanent establishment in the PRC if it lasts for more than six months under the avoidance of double taxation agreement entered into between Hong Kong government and the PRC government on 11th February, 1998. Since the Group's engineers had not performed the Services in the PRC for more than six months in a calendar year, the Group has received an opinion from its tax adviser indicating that Linfair (HK) would not be deemed as having a permanent establishment in the PRC with respect to the Services provided, therefore the provision of the Services will not be subject to the PRC income tax. The Group's PRC legal advisers concur with the view of the tax adviser of the Group in this regard.

During the Track Record Period, Linfair (Samoa) made sales to certain customers in the PRC. In general, sales of equipment by Linfair (Samoa) to the customers in the PRC should not be subject to income tax in the PRC as Linfair (Samoa) does not carry on such trading business through a permanent establishment in the PRC nor obtain the sales through any dependent agents located in the PRC who were given general authority to negotiate or enter into contracts on its behalf. In addition, as the Services performed were insignificant, the Group has received opinions from its tax adviser and the PRC legal advisers indicating that Linfair (Samoa) should not be subject to business tax or withholding tax in the PRC.

Linfair (Shenzhen) and Linfair (Beijing) were established in September 2004 and November 2004 respectively. They do not have any income tax exposure during the Track Record Period as they have not yet commenced business.

Overseas

The Group provides services to source and sell equipment, spare parts and consumables (the "Sales") to overseas customers in Malaysia, Singapore and Taiwan through Linfair (HK) and Linfair (Samoa). In general, the Sales to overseas customers should not be subject to income tax in the overseas jurisdictions as both Linfair (HK) and Linfair (Samoa) do not carry on a trading business through a permanent establishment in the relevant jurisdictions nor obtain the Sales through any dependent agents located in these jurisdictions who were given general authority to negotiate or enter into contracts on their behalf.

However, the Services performed by the engineers in the overseas jurisdictions may be deemed by the overseas authorities as having a permanent establishment in these overseas jurisdictions. Linfair (HK) and Linfair (Samoa) may be exposed to overseas withholding taxes on these service income. Despite the above, the Directors are of the view that the Services performed were only auxiliary to the Sales and the Services are in fact part and partial to the Sales. The contract price of the equipment is determined with reference to the profit margin that can be captured from a particular customer and the cost of equipment and without taking into consideration the cost of the Services. Accordingly, the contract price would be the same even no Services would be provided to the customers. In addition, the Group's engineers were not required to spend significant amount of time in performing their Services in the customers' sites and therefore the period of stay of the Group's engineers in the overseas jurisdictions would not be considered long. Based on the above factors, the Group has received an opinion from its tax adviser indicating that Linfair (HK) and Linfair (Samoa) do not have permanent establishments in the relevant overseas jurisdictions.

Since Linfair (HK) and Linfair (Samoa) are not considered to have permanent establishments in the overseas jurisdictions, they would rely on the customers who are residents in the overseas jurisdictions to pay taxes, if any, on their behalf. In this case, the tax adviser of the Group is of the view that the overseas customers should normally withhold taxes before remitting out sales proceeds to Linfair (HK) or Linfair (Samoa). Moreover, some of the Sales' contracts of the Group have included a "tax liabilities" clause to the effect that the customers would be responsible for the local taxes and import duty, if any. In view of the above, the Group has received an opinion from its tax adviser indicating that the overseas withholding tax exposures for Linfair (HK) and Linfair (Samoa) are remote.

The Group has branches and/or subsidiaries in Taiwan, Malaysia and Singapore. Their tax positions are briefly set out as follows:

1. *Taiwan*

A branch office of Linfair (Samoa) was set up in Taiwan in January 2003 and was mainly subject to Taiwan income tax. The branch has fulfilled its obligation in making proper tax filing for the year ended 31st December, 2003 and the tax return for the year ended 31st December, 2004 has not yet been due for filing. As the branch did not generate any assessable profits during the Track Record Period, no income tax was paid. Though Linfair (Samoa) has a branch office in Taiwan, its trading profits will not be subject to Taiwan income tax pursuant to a Taiwanese ruling.

2. *Malaysia*

Linfair (Malaysia) was set up in Malaysia in September 2001 and was mainly subject to Malaysian income tax as it traded and performed Services solely in Malaysia. As it did not derive any assessable profits during the Track Record Period, no income tax was paid. Linfair (Malaysia) has fulfilled its obligation in making proper tax filing during the Track Record Period and the tax return for 2004/2005 has not yet been due for filling.

3. *Singapore*

Linfair (Singapore) was set up in Singapore in January 2004 and it has been dormant since its incorporation. Therefore, there was no income tax exposure during the Track Record Period in PRC, Malaysia, Singapore and Vietnam.

PROPERTY INTERESTS

Details relating to the property interests of the Group are set out in Appendix IV to this prospectus.

The Group's wholly-owned subsidiary, Linfair (Beijing), occupies a leased property (the "Beijing Leased Property") located at Unit 0803, Floor 7, Block B, Jian Wai SOHO Offices, No. 39 Dong San Huan Zhong Lu, Chao Yang District, Beijing City, the PRC for office use. The Beijing Leased Property is leased from an independent third party (the "Landlord") by Linfair (Beijing). As the Real Estate Ownership Certificate has not been issued to the Landlord, the Group's PRC legal advisers advise that the legal title to the Beijing Leased Property has not been vested in the Landlord.

Linfair (Shenzhen), another wholly-owned subsidiary of the Company, also occupies a leased property (the "Shenzhen Leased Property") located at Room 19F, Hai Jing Plaza, Tai Zi Road, Nan Shan District, Shenzhen City, Guangdong Province, the PRC.

The tenancy agreements in respect of the Beijing Leased Property and the Shenzhen Leased Property (collectively the "PRC Leased Properties") have not been registered with the relevant authorities in the PRC. The Group's PRC legal advisers are of the view that non-registration of the tenancy agreements would not affect the validity of the tenancy agreements as between the relevant landlords and tenants. However, such tenancy agreements, if not registered with the relevant authorities, may not be enforceable against third parties.

The Group has not received any notice requiring it to leave the PRC Leased Properties or any of them by reason of the Landlord not having received the Real Estate Ownership Certificate or the non-registration of the tenancy agreements in respect of the PRC Leased Properties, as the case may be. In the event that the subject leases are challenged by reason of defect of the Landlord's title in the Beijing Leased Property or non-registration of the subject leases, the Group may have to leave the PRC Leased Properties and suffer losses due to written off of immovable fixed assets, prepayments, deposits paid for the PRC Leased Properties and relocation cost. The Directors consider that the effect (if any) of removal on the Group's operation would be immaterial as alternative office units with a comparable standard are readily available in Beijing and Shenzhen and such losses are immaterial to the Group's financial position.

The Group owns certain properties in Hong Kong and the particulars of which are set out in Group I Property No. 1 of the Property Valuation Report in Appendix IV of the prospectus ("Owned Properties"). The Owned Properties are occupied by the Group as its principal place of business in Hong Kong for ancillary office in relation to design workshop operation and storage use. The Company has received a title certificate from the Company's legal advisers advising on laws of Hong Kong which contains, inter alia, that they have noted certain description errors in the title deeds in respect of the Owned Properties, but notwithstanding the aforesaid the Group has good and marketable title to the Owned Properties and that there is no real risk that such discrepancies would affect title to the Owned Properties. Particulars of the errors in the title deeds are as follows:

(a) the reference of the lot number in the description of the Crown Lease in the assignment registered in the Land Registry by Memorial No. 5459544 is erroneous;

(b) the Memorial number of the Deed of Mutual Covenant and Management Agreement referred to in the assignment registered in the Land Registry by Memorial No. 5459543 and 5459546 respectively is erroneous; and

(c) the reference of the Memorial number of the assignment to which floor plan and roof plan were annexed to in the aforesaid assignment Memorial No. 5459543 is erroneous.

The above errors existed prior to the acquisition of the Owned Properties by the Group in around October 2001. The reason for the aforesaid errors is unknown to the Group. Based on the opinion of the Company's legal advisers advising on laws of Hong Kong, the Directors believe that the Group has good and marketable title to the Owned Properties and that there is no real risk that such discrepancies would affect title to the Owned Properties.

The Directors are of the view that the Owned Properties are not crucial to the Group's business activities as they are mainly used for ancillary office and storage uses and alternative office units with comparable conditions are readily available.

BMI Appraisals Limited, an independent property valuer, valued these property interests of the Group as at 31st March, 2005. The text of its letter and summary of values and the valuation certificates of these properties are set out in Appendix IV to this prospectus.

INDEBTEDNESS

Borrowings

As at 31st March, 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK$53.5 million, comprising bank overdraft of approximately HK$0.1 million, bank loan of approximately HK$15.0 million, mortgage loan of approximately HK$0.5 million and trust receipt loan of approximately HK$37.9 million. The borrowings are secured by properties of the Group, unlimited personal guarantees from certain Directors, bank deposits from a Director and properties of a Director.

Mortgages and charges

As at 31st March, 2005, the Group had outstanding mortgage loan of approximately HK$0.5 million, for which the office premises of the Group is charged.

Contingent liabilities

As at 31st March, 2005, the Group had the contingent liabilities in respect of a letter of guarantee and performance bonds to the extent of approximately HK$0.2 million and HK$1.3 million respectively issued by banks in respect of projects undertaken by a subsidiary.

Personal guarantees and personal assets pledged by certain Directors

Certain Directors have provided personal guarantees and pledged or charged personal assets in favour of banks 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 pledge/charge by corporate guarantee(s) and/or other securities from the Group upon the listing of the Shares on the Stock Exchange.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance (other than normal trade bills) or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 31st March, 2005.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 31st March, 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cashflow

Overview

For each of the two years ended 31st March, 2003 and 2004 and the eight months ended 30th November, 2004, the Group recorded a net increase of approximately HK$16.4 million, a net decrease of approximately HK$1.7 million and a net increase of approximately HK$2.1 million in cash and cash equivalents respectively. The Group maintained positive cash position at the respective balance sheet dates during the Track Record Period.

Operating activities

The Group had a net cash inflow from operating activities of approximately HK$7.0 million for the year ended 31st March, 2002. This inflow was primarily a result of approximately HK$17.9 million from operating cash inflows before movements in working capital, approximately HK$23.6 million increase in trade creditors and bills payable and approximately HK$6.0 million increase in amounts due to customers for contract work. Such inflow was partially offset by approximately HK$39.4 million increase in trade debtors and bills receivable.

The Group had a net cash inflow from operating activities of approximately HK$9.9 million for the year ended 31st March, 2003. This inflow was primarily attributable to approximately HK$27.3 million from operating cash inflows before movements in working capital, approximately HK$15.7 million increase in trade creditors and bills payable and approximately HK$40.0 million increase in other creditors and accrued charges. Such inflow was partially offset by approximately HK$31.5 million increase in trade debtors and bills receivable, approximately HK$34.9 million increase in other debtors, deposits and prepayments and approximately HK$5.9 million drop in amounts due to customers for contract work.

The Group had a net cash inflow from operating activities of approximately HK$21.5 million for the year ended 31st March, 2004. This inflow was primarily attributable to approximately HK$46.5 million from operating cash inflows before movements in working capital, approximately HK$78.6 million increase in trade creditors and bills payable and approximately HK$30.2 million increase in other creditors and accrued charges. Such inflow was partially offset by approximately HK$82.6 million increase in trade debtors and bills receivable, approximately HK$43.6 million increase in other debtors, deposits and prepayments and approximately HK$6.9 million increase in inventories.

The Group had a net cash outflow from operating activities of approximately HK$4.5 million for the eight months ended 30th November, 2004. This outflow was primarily attributable to approximately HK$104.4 million increase in other debtors, deposits and prepayments, approximately HK$41.7 million decrease in trade creditors and bills payable, approximately HK$4.9 million increase in inventories and approximately HK$1.8 million increase in amounts due from customers for contract work. Such outflow was partially offset by approximately HK$43.7 million from operating cash inflows before movements in working capital and approximately HK$105.5 million increase in other creditors and accrued charges.

Investing activities

The Group recorded approximately HK$5.6 million, HK$0.3 million and HK$0.5 million of net cash used in investing activities for the year ended 31st March, 2002 and that of 2004 and the eight months ended 30th November, 2004 respectively. During the year ended 31st March, 2002, approximately HK$7.5 million was used for the purchase of property, plant and equipment. The drop in the net cash used in investing activities during the year ended 31st March, 2004 was due to the decrease in purchase of property, plant and equipment which amounted to approximately HK$0.4 million that year.

Net cash inflow from investing activities of approximately HK$5.6 million was recorded for the year ended 31st March, 2003 which was contributed by repayment from a director of approximately HK$6.1 million during the year.

Financing activities

The Group recorded approximately HK$9.6 million, HK$0.9 million and HK$7.1 million of net cash from financing activities for the year ended 31st March, 2002 and that of 2003 and for the eight months ended 30th November, 2004 respectively. Approximately HK$22.9 million of net cash was used in financing activities for the year ended 31st March, 2004.

The net cash from financing activities of approximately HK$9.6 million for the year ended 31st March, 2002 was mainly resulted from the drawdown of new bank loans of approximately HK$20.0 million, which was partly offset by the payment of dividend of HK$12.0 million.

The net cash from financing activities for the year ended 31st March, 2003 of approximately HK$0.9 million was principally due to advance from a director of approximately HK$9.8 million and trust receipt loans raised of HK$7.9 million, which was partly offset by the payment of dividend of HK$15.0 million.

The net cash used in financing activities for the year ended 31st March, 2004 of approximately HK$22.9 million was principally due to the payment of dividend of HK$20.0 million and the net repayment of bank loan and trust receipt loans of approximately HK$1.5 million.

The net cash from financing activities for the eight months ended 30th November, 2004 of approximately HK$7.1 million was principally due to the net trust receipt loans raised of approximately HK$28.8 million which is partly offset by the payment of dividend of HK$12.0 million and repayment of advance from a director of HK$9.2 million.

Net current assets

As at 31st March, 2005, the Group had net current assets of approximately HK$53.8 million. The Group's current assets consisted of cash and bank balances of approximately HK$23.1 million, inventories of approximately HK$4.3 million, trade debtors and bills receivable of approximately HK$211.8 million, other debtors, deposits and prepayments of approximately HK$31.3 million and amounts due from customers for contract work of approximately HK$18.0 million. The Group's current liabilities consisted of secured bank borrowings of approximately HK$53.3 million, trade creditors and bills payable of approximately HK$140.7 million, other creditors and accrued charges of approximately HK$39.0 million and taxation of approximately HK$1.7 million.

The cash and bank balances of the Group decreased by approximately HK$7.5 million from approximately HK$30.6 million as at 30th November, 2004 to approximately HK$23.1 million as at 31st March, 2005. It was mainly due to the payment of dividend of approximately HK$4 million in March 2005 and the repayment of trust receipt loans, in aggregate, of approximately HK$2.3 million during the four months ended 31st March, 2005.

The trade debtors and bills receivable increased by approximately HK$70.8 million from approximately HK$141.0 million as at 30th November, 2004 to approximately HK$211.8 million as at 31st March, 2005. It was mainly resulted from the turnover recognised during the four months ended 31st March, 2005.

The trade creditors and bills payable increased by approximately HK$44.9 million from approximately HK$95.8 million as at 30th November, 2004 to approximately HK$140.7 million as at 31st March, 2005. It was mainly resulted from the cost of contract work recognised during the four months ended 31st March, 2005.

The other debtors, deposits and prepayments decreased by approximately HK$154.6 million from approximately HK$185.9 million as at 30th November, 2004 to approximately HK$31.3 million as at 31st March, 2005. It was mainly resulted from the deposits paid recognised as cost of contract work during the four months ended 31st March, 2005.

The other creditors and accrued charges decreased by approximately HK$136.9 million from approximately HK$175.9 million as at 30th November, 2004 to approximately HK$39.0 million as at 31st March, 2005. It was mainly resulted from the deposits received recognised as turnover during the four months ended 31st March, 2005.

Banking facilities

As at 30th November, 2004, the Group had banking facilities of approximately HK$70.9 million for bank loan, mortgage loan and trade financing, of which HK$51.8 million had been utilised. The mortgage loan was used for the purchase of the Group's office in Hong Kong. The bank loan and the trade financing such as import loan and letter of credit were utilized for the purposes of capital expenditure, working capital and settlement of purchases of equipment and consumables from overseas suppliers.

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

Capital commitments

As at 31st March, 2005, the Group did not have any material capital commitments.

Financial resources

Prior to the completion of the Share Offer, the Group's operations was financed principally by equity funding and cash flows generated from operations. The Directors believe that the net proceeds raised from the Share Offer together with cash flows from operations will be sufficient to meet the working capital and capital expenditure requirements on a short term basis. The Directors believe that, on a longer term basis, the Group will be financed by cash flows from operations, however, the Group may raise additional equity financing or bank borrowings should the needs arise.

Foreign exchange risk

The majority of the transactions of the Group are denominated in US$, EURO, and JPY. The Group has not entered into any financial instruments for the purpose of hedging against foreign exchange risks involved in the Group's operations. However, the Group monitors its foreign exchange exposure by matching the timing of its trading receipts with payments. The Group also matches its selling currencies with its purchasing currencies.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Based on the total asset values of the Group as at 31st March, 2002, 2003, 2004 and 30th November, 2004, which were approximately HK$81.8 million, HK$154.3 million, HK$274.5 million and HK$379.1 million respectively (as referred to in the accountants' report set out in appendix I to this prospectus) and the expected market capitalisation of the Company of approximately HK$291 million (based on the Offer Price of HK$0.97 per Offer Share (being the mid-point of the indicative Offer Price range between HK$0.88 per Offer Share and HK$1.06 per Offer Share) and 300 million Shares in issue upon listing of the Shares), the following details of advances to entities as at 31st March, 2002, 2003, 2004 and 30th November, 2004 would have been discloseable under Rules 13.13 to 13.19 of the Listing Rules had the Company been listed on the Stock Exchange as at the respective date.

		As at 31st March,			**As at 30th November,**
		2002	**2003**	**2004**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note 3)*
Hong Kong Jie Hing Trading Co., Ltd	1	—	—	22,155	—
M2	2	—	24,793	55,364	109,057
Mechtronic International Ltd	1	10,608	13,739	—	—
Toyo Machinery and Metal Co. Ltd.	2	—	—	—	47,390
Zhan Jiang Hua Li Jin Video Plate Co., Ltd ("Zhan Jiang Hua Li Jin")	1	—	—	—	31,211
Zhi Cheng Wei Optical Disc Production Co., Ltd	1	8,932	12,389	—	—
		19,540	50,921	77,519	187,658

Notes:

1. The balances represented the trade receivables due from customers arising mainly from engineering system contracts for optical disc manufacturing systems and were unsecured, interest free and repayable in accordance with the agreed credit terms under sales contracts. The customers were not connected persons of the Company as defined in the Listing Rules.

2. The balances represented the trade deposits made by the Group in relation to purchases of equipment for optical disc manufacturing systems. Such trade deposits were interest free and would be set off against the purchase prices payable by the Group for the purchases of equipments in the future. M2 and Toyo are major suppliers of the Group and are not a connected person of the Company as defined in the Listing Rules.

3. Up to 28th February, 2005, approximately HK$2.3 million was subsequently settled by Zhan Jiang Hua Li Jin. The balance of approximately HK$40.5 million and HK$11.6 million trade deposits paid to M2 and Toyo respectively were subsequently set off against the trade payable to M2 and Toyo up to 28th February, 2005.

Save as disclosed above, the Directors confirm that there are no other circumstances which gives rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

WORKING CAPITAL

Taking into account the estimated net proceeds from the issue of Offer Shares under the Share Offer and the financial resources available to the Group, including internally generated funds, the Directors confirm that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

DIVIDENDS

Dividends of HK$12.0 million, HK$15.0 million, HK$20.0 million and HK$16 million were declared for each of the three years ended 31st March, 2004 and the eight months ended 30th November, 2004. Unsettled dividends of HK$4 million as at 30th November, 2004 was subsequently settled in March 2005. The dividend payments were funded by internally generated cash of the Group.

Prospective investors are reminded that the Company's historical dividend payments should not be used as a basis for determining the Company's future dividend policy and there is no assurance that dividend of such amounts or any amount will be declared or distributed each year or in any year.

It is the present intention of the Directors to declare for each year dividends equivalent to approximately 40% of the net profit attributable to Shareholders. The Directors presently intend that future interim and final dividends will be paid in or around January and September respectively of each year and that interim dividends will represent approximately one-third of the expected total dividends for each year.

DISTRIBUTABLE RESERVES

As at 30th November, 2004, the Company had no reserves available for distribution to the Shareholders.

NO MATERIAL ADVERSE CHANGE

The Directors confirmed that since 30th November, 2004 (being the date to which the latest audited financial statement of the Group were made up), there has been no material adverse change in the financial or trading position or prospect of the Group.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

An unaudited pro forma statement of adjusted net tangible assets of the Group prepared based on the audited combined net tangible assets of the Group as at 30th November, 2004 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjustments as set out in Appendix III to this prospectus.

PROFIT ESTIMATE

The Directors estimate that, in the absence of unforeseen circumstances and on the bases set forth in Appendix II to this prospectus, the combined profit after taxation but before extraordinary items of the Group for the year ended 31st March, 2005 will not be less than HK$50.5 million. The Directors are not aware of any extraordinary items which have risen for the year ended 31st March, 2005.

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial information for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of these new HKFRSs and has preliminarily identified the following possible impact on the Group's accounting policies and the related financial impact:

Share-based payments. HKFRS 2 "Share-based Payment" requires a fair value based method for accounting for share-based compensation plans which takes into account vesting conditions related to market performance. Under this method, compensation cost is measured at date of grant based on the value of the award and is recognised over the service period, which is usually the vesting period. The Group is required to recognise compensation cost in respect of the share option granted after 7th November, 2002 and had not yet vested at the accounting period beginning on or after 1st January, 2005.

The Directors are of the opinion that HKFRS 2 would not have any significant impact on the profit estimate of the Group for the year ended 31st March, 2005.

On the basis of the above profit estimate and 300,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue but takes no account of (i) any Shares which may be issued upon the exercise of the Pre-IPO Options and options which may be granted under the Share Option Scheme and (ii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates referred to in Appendix VI to this prospectus, the estimate earnings per share for the year ended 31st March, 2005 on a fully diluted basis will be approximately HK$0.168, representing a prospective price/earnings multiple on a fully diluted basis of approximately 5.24 times based on the Offer Price of HK$0.88 per Offer Share or approximately 6.31 times based on the Offer Price of HK$1.06 per Offer Share.

The texts of letters from Deloitte Touche Tohmatsu, the reporting accountants, and from the Joint Sponsors in respect of the profit estimate, and further details regarding the bases of the profit estimate are set forth in Appendix II to this prospectus.