# LINFAIR HOLDINGS LIMITED
# 福茂控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

Stock code : 462

## INTERIM REPORT 2007/2008

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## CORPORATE INFORMATION

**Board of Directors**

*Executive Directors*
Ms. Katherine Chan Wai Kay
Ms. Zuo Lihua

*Non-Executive Directors*
Mr. He Changming (Chairman)
Mr. Chow Kin Ming*

*Independent Non-Executive Directors*
Mr. Lee Kin Keung#*
Dr. Lam Chun Kong#*
Mr. Xu Wen An#
Mr. Stephen Bryden Kerr#
(appointed on 14th March, 2008)

# Audit Committee members
* Remuneration Committee members

**Company Secretary**
Mr. Navin K. Aggarwal

**Qualified Accountant**
Mr. Lok Shing Kwan

**Authorised Representatives**
Ms. Katherine Chan Wai Kay
Mr. Chow Kin Ming

**Legal Advisers**
*Hong Kong*
Kirkpatrick & Lockhart Preston Gates Ellis Solicitors

*Cayman Islands*
Conyers Dill & Pearman, Cayman

**Auditors**
SHINEWING (HK) CPA Limited

**Registered Office**
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

**Head Office and Principal Place of Business**
Rooms 1801-02, 18th Floor
Shui On Centre
6-8 Harbour Road, Wanchai
Hong Kong

**Principal Share Registrar and Transfer Office**
Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town, Grand Cayman
Cayman Islands

**Hong Kong Branch Share Registrar and Transfer Office**
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

**Principal Bankers**
Shanghai Commercial Bank Limited
DBS Bank (Hong Kong) Limited
The Hongkong & Shanghai Banking Corporation

**Compliance Adviser**
Somerley Limited

**Stock Code**
462

**Company Website**
http://www.linfair.net
http://www.capitalfp.com.hk/eng/index.jsp?co=462

The Board of Directors ("Directors") of Linfair Holdings Limited (the "Company") presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2007.

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th September, 2007*

| | | For the six months ended 30th September, | |
|---|---|---|---|
| | | **2007** | 2006 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Turnover | 2 | **23,937** | 173,011 |
| Cost of contract works | | **(5,504)** | (131,012) |
| Cost of sales | | **(14,049)** | (27,183) |
| Gross profit | | **4,384** | 14,816 |
| Other income | 3 | **1,915** | 14,010 |
| Selling and distribution expenses | | **(929)** | (1,614) |
| Administrative expenses | | **(22,571)** | (31,086) |
| Finance costs | 5 | **(516)** | (892) |
| Loss before tax | | **(17,717)** | (4,766) |
| Income tax | 4 | **–** | – |
| Loss for the period | 5 | **(17,717)** | (4,766) |
| Dividend | 6 | **–** | – |
| Loss per share – Basic | 7 | **(4.73)HK cents** | (1.59)HK cents |

## CONDENSED CONSOLIDATED BALANCE SHEET

*At 30th September, 2007*

| | Notes | **30th September, 2007 (Unaudited) HK$'000** | 31st March, 2007 (Audited) HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 8 | **17,002** | 16,486 |
| Prepaid lease payments | 9 | **789** | 799 |
| Available-for-sale investment | 10 | **–** | 1,103 |
| Investment in convertible note | | **–** | 1,170 |
| | | **17,791** | 19,558 |
| **CURRENT ASSETS** | | | |
| Inventories | 11 | **5,991** | 8,902 |
| Prepaid lease payments | 9 | **20** | 20 |
| Trade and bills receivables | 12 | **53,396** | 61,110 |
| Other receivables, deposits and prepayments | 13 | **51,450** | 19,428 |
| Tax recoverable | | **507** | 515 |
| Pledged bank deposits | | **6,750** | 6,750 |
| Bank balances and cash | | **142,356** | 44,562 |
| | | **260,470** | 141,287 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 14 | **46,313** | 61,685 |
| Other payables and accrued charges | 15 | **60,951** | 23,789 |
| Bank borrowings | | **7,688** | 31,706 |
| | | **114,952** | 117,180 |
| **NET CURRENT ASSETS** | | **145,518** | 24,107 |
| | | **163,309** | 43,665 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 17 | **42,133** | 33,821 |
| Reserves | | **120,946** | 9,614 |
| | | **163,079** | 43,435 |
| **NON-CURRENT LIABILITY** | | | |
| Deferred tax liability | 16 | **230** | 230 |
| | | **163,309** | 43,665 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th September, 2007*

| | Share capital | Share premium | Merger reserve | Investment revaluation reserve | Exchange reserve | Retained profits (Accumulated losses) | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* *(Note a)* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st April, 2006, as restated | 30,000 | 40,981 | (14,990) | 502 | (1,242) | 37,101 | 92,352 |
| Loss for the period | – | – | – | – | – | (4,766) | (4,766) |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 3,713 | – | 3,713 |
| At 30th September, 2006 | 30,000 | 40,981 | (14,990) | 502 | 2,471 | 32,335 | 91,299 |
| At 1st April, 2007 | 33,821 | 73,600 | (14,990) | (2,046) | 6,437 | (53,387) | 43,435 |
| Loss for the period | – | – | – | – | – | (17,717) | (17,717) |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 5,328 | – | 5,328 |
| Shares issued under Pre-IPO Share Option Scheme *(note b)* | 312 | 1,719 | – | – | – | – | 2,031 |
| Shares issued pursuant to placement *(note c)* | 3,000 | 28,500 | – | – | – | – | 31,500 |
| Expenses on placement | – | (397) | – | – | – | – | (397) |
| Shares issued pursuant to top-up subscription *(note d)* | 5,000 | 95,000 | – | – | – | – | 100,000 |
| Expenses on top-up subscription | – | (3,147) | – | – | – | – | (3,147) |
| Released upon sales of available-for-sale investments | – | – | – | 2,046 | – | – | 2,046 |
| At 30th September, 2007 | 42,133 | 195,275 | (14,990) | – | 11,765 | (71,104) | 163,079 |

*Notes:*

(a) The merger reserve of the Group represented the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital of the subsidiaries acquired pursuant to the group reorganisation on 18th May, 2005.

(b) During the six months period ended 30th September, 2007, an aggregate of 3,126,000 new shares of the Company were issued at the exercise price of HK$0.65 pursuant to the Pre-IPO share option scheme.

(c) On 11th May, 2007, 30,000,000 new shares of the Company were issued at the price of HK$1.05 share for cash by way of placing.

(d) On 22nd August, 2007, 50,000,000 new shares of the Company were issued at the price of HK$2.00 per share for cash by way of top-up subscription.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30th September, 2007*

| | For the six months ended 30th September, | |
|---|---|---|
| | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(9,368)** | (17,919) |
| **NET CASH FROM INVESTING ACTIVITIES** | **1,385** | 860 |
| **NET CASH FROM (USED IN) FINANCING ACTIVITIES** | **105,522** | (259) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **97,539** | (17,318) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD** | **44,562** | 36,747 |
| Effect of foreign exchange rate changes | **255** | – |
| **CASH AND CASH EQUIVALENTS AT END OF THE PERIOD** | **142,356** | 19,429 |
| **ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS, represented by:** | | |
| Bank balances and cash | **142,356** | 19,429 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30th September, 2007*

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair vales, as explained in the accounting policies.

The accounting policies adopted in preparation of these condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31st March, 2007 ("2007 Annual Report").

The Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st April, 2007. The adoption of the new HKFRSs had no material effect on the results or the financial position of the Group for the current or prior accounting period. Accordingly, no prior period adjustment has been required.

The Group has not early applied the new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results or the financial position of the Group.

These unaudited condensed consolidated financial statements should be read in conjunction with the 2007 Annual Report.

These unaudited condensed consolidated financial statements have been reviewed by the audit committee of the Company.

**2. TURNOVER**

Turnover represents revenue generated from provision of engineering systems contracting services and the amount received and receivable for consumables and spare parts sold, as after sales services incidental and ancillary to the engineering systems, during the period.

**Business segments**

For management purposes, the Group is currently organised into two operating divisions – provision of engineering systems contracting services and sale of consumables and spare parts. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these divisions is presented below.

| | **For the six months ended 30th September,** | |
|---|---|---|
| | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Provision of engineering systems contracting services | **7,482** | 138,379 |
| Sale of consumables and spare parts | **16,455** | 34,632 |
| | **23,937** | 173,011 |
| Segment results | | |
| Provision of engineering systems contracting services results | **1,978** | 7,367 |
| Sale of consumables and spare parts results | **2,406** | 7,449 |
| | **4,384** | 14,816 |
| Unallocated corporate revenue | **1,915** | 14,010 |
| Unallocated corporate expenses | **(23,500)** | (32,700) |
| Finance costs | **(516)** | (892) |
| Loss before tax | **(17,717)** | (4,766) |
| Income tax | **–** | – |
| Loss for the period | **(17,717)** | (4,766) |

**2. TURNOVER *(continued)***

**Geographical segments**

The Group's operations are principally located in Hong Kong, the other regions of PRC, Taiwan and the Southeast Asia.

The following tables provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

| | Sales revenue by geographical market For the six months ended 30th September, | |
|---|---|---|
| | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **3,415** | 16,677 |
| PRC | **10,651** | 35,609 |
| Taiwan | **7,016** | 4,595 |
| Southeast Asia | **2,455** | 115,147 |
| Others | **400** | 983 |
| | **23,937** | 173,011 |

**3. OTHER INCOME**

| | For the six months ended 30th September, | |
|---|---|---|
| | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Commission | **53** | 48 |
| Exchange gains | **291** | 12,460 |
| Impairment on available-for-sale investment | **–** | (866) |
| Interest income | **998** | 616 |
| Other income | **75** | 1,435 |
| Service income | **483** | 317 |
| Dividend income | **15** | – |
| | **1,915** | 14,010 |

## 4. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits in Hong Kong and no deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of the future profit streams for the period and for the six months period ended 30th September, 2006.

## 5. LOSS FOR THE PERIOD

| | For the six months ended 30th September, | |
|---|---|---|
| | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Loss for the period have been arrived at after charging the following items: | | |
| Cost of inventories recognised as expense | **13,594** | 26,516 |
| Depreciation and amortisation | **2,242** | 2,339 |
| Loss on disposal of available-for-sale investment | **1,184** | – |
| Finance costs | **516** | 892 |
| Impairment loss in respect of irrecoverable trade receivables | **615** | 9,399 |
| Write down for inventories | **113** | – |

## 6. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2007 (for the six months ended 30th September 2006: Nil).

## 7. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK$17,717,000 and the weighed average number of 374,477,154 shares in issue during the period.

The comparative basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK$4,766,000 and the weighed average number of 300,000,000 shares in issue during the period.

No dilutive loss per share is presented for the respective six months ended 30th September, 2007 and 2006 as the exercise of the potential ordinary shares would result in reduction in loss per share in both periods.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$2,763,000 (for the six months ended 30th September, 2006: HK$222,000) on acquisition of property, plant and equipment.

**9. PREPAID LEASE PAYMENTS**

The prepaid lease payments represents leasehold land in Hong Kong and are analysed for reporting purposes as non-current asset and current asset.

**10. AVAILABLE-FOR-SALE INVESTMENT**

The available-for-sale investment represents listed securities outside Hong Kong, at fair value.

**11. INVENTORIES**

Inventories represent consumable and spare parts as at the balance sheet dates.

**12. TRADE AND BILLS RECEIVABLES**

The Group has a policy of allowing credit period ranging from three to twelve months to its trade customers.

In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted, such as the balance of the contract sum being paid by way of instalments over a period up to 18 months.

An aged analysis of trade and bills receivables is as follows:

| | **30th September, 2007 (Unaudited)** *HK$'000* | 31st March, 2007 (Audited) *HK$'000* |
|---|---|---|
| Within 30 days | **2,313** | 14,549 |
| Between 31 to 60 days | **979** | 1,000 |
| Between 61 to 90 days | **1,102** | 6,086 |
| Between 91 to 180 days | **1,255** | 3,957 |
| Between 181 to 365 days | **21,784** | 36,452 |
| Over 1 year but not more than 2 years | **49,295** | 29,686 |
| Over 2 years | **84,733** | 76,830 |
| | **161,461** | 168,560 |
| *Less:* Impairment loss recognised | **(108,065)** | (107,450) |
| | **53,396** | 61,110 |

**13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

Included in other receivables, deposits and prepayments is an amount of approximately HK$37,773,000 (31st March, 2007: HK$14,962,000) in respect of deposits paid for provision of engineering systems contracting services.

**14. TRADE AND BILLS PAYABLES**

An aged analysis of the trade and bills payables is as follows:

| | 30th September, 2007 (Unaudited) *HK$'000* | 31st March, 2007 (Audited) *HK$'000* |
|---|---|---|
| Within 30 days | **2,344** | 11,357 |
| Between 31 to 60 days | **1,594** | 264 |
| Between 61 to 90 days | **927** | 12,620 |
| Between 91 to 180 days | **869** | 2,827 |
| Between 181 to 365 days | **23,719** | 16,744 |
| Over 1 year but not more than 2 years | **13,771** | 14,829 |
| Over 2 years | **3,089** | 3,044 |
| | **46,313** | 61,685 |

**15. OTHER PAYABLES AND ACCRUED CHARGES**

Included in other payables and accrued charges is amount of approximately HK$48,951,000 (31st March, 2007: approximately HK$17,035,000) in respect of deposits received for provision of engineering systems contracting services.

**16. DEFERRED TAX LIABILITY**

The deferred tax liability recognised by the Group represents the excess of tax allowances over depreciation, and movements thereon during the period/year are as follows:

| | 30th September, 2007 (Unaudited) *HK$'000* | 31st March, 2007 (Audited) *HK$'000* |
|---|---|---|
| At beginning of the period/year | **230** | 653 |
| Credit to consolidated income statement | **–** | (423) |
| At end of the period/year | **230** | 230 |

No deferred tax asset has been recognised due to the unpredictability of the future profit streams.

## 17. SHARE CAPITAL

| | 30th September, 2007 | | 31st March 2007 | |
|---|---|---|---|---|
| | **(Unaudited)** | **(Unaudited)** | (Audited) | (Audited) |
| | ***Number of shares*** | ***HK$'000*** | *Number of shares* | *HK$'000* |
| Authorised ordinary shares of HK$0.10 each | | | | |
| At beginning and end of the period/year | **1,000,000,000** | **100,000** | 1,000,000,000 | 100,000 |
| Issued and fully paid ordinary shares of HK$0.10 each | | | | |
| At beginning of the period/year | **338,208,000** | **33,821** | 300,000,000 | 30,000 |
| Exercise of share options *(Note a)* | **–** | **–** | 8,208,000 | 821 |
| Issue of shares on 26th February, 2007 *(Note b)* | **–** | **–** | 30,000,000 | 3,000 |
| Exercise of share options *(Note c)* | **3,126,000** | **312** | – | – |
| Issue of shares on 11th May, 2007 *(Note d)* | **30,000,000** | **3,000** | – | – |
| Issue of shares on 22nd August, 2007 *(Note e)* | **50,000,000** | **5,000** | – | – |
| At end of the period/year | **421,334,000** | **42,133** | 338,208,000 | 33,821 |

*Notes:*

(a) During the year ended 31st March, 2007, an aggregate of 8,208,000 new share of the Company were issued pursuant to Pre-IPO share option scheme at exercise price of HK$0.65 per share.

(b) On 26th February, 2007, 30,000,00 new shares of the Company were issued at HK$1.05 per share for cash by way of placing.

(c) During the six months period ended 30th September, 2007, an aggregate of 3,126,000 new shares of the Company were issued pursuant to Pre-IPO share option scheme at the exercise price of HK$0.65 per share.

(d) On 11th May, 2007, 30,000,000 new shares of the Company were issued at the price of HK$1.05 share for cash by way of placing.

(e) On 22nd August, 2007, 50,000,000 new shares of the Company were issued at the price of HK$2.00 per share for cash by way of top-up subscription.

**18. SHARE OPTION SCHEME**

**Pre-IPO share option scheme**

A pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was approved and adopted by the Company on 30th March, 2005.

The maximum number of shares which may be issued under the Pre-IPO Share Option Scheme shall be 15,000,000 shares. The Pre-IPO Share Option Scheme is not subject to any vesting condition precedent and the exercise period shall commence from the day following 6 months after 10th June, 2005 and end on 30th March, 2010 (both dates inclusive). Upon acceptance of the pre-IPO share option, each participant shall pay HK$1 to the Company by way of consideration for the grant.

The exercise price is HK$0.65 per share and there is no restriction on the number of pre-IPO share options granted under the Pre-IPO Share Option Scheme to any grantee.

On 30th March, 2005, 1,720,000 and 13,280,000 pre-IPO share options were granted under the Pre-IPO Share Option Scheme to a director and employees of the Group respectively for an aggregate consideration of HK$47. No charge was recognised in the condensed consolidated income statement in respect of the value of pre-IPO share options granted. 3,126,000 of these pre-IPO share options have been exercised by employees during the six months ended 30th September, 2007 (six months ended 30th September, 2006: Nil; Six months ended 31st March, 2007: 8,208,000 share options).

**Other share options scheme**

Another share option scheme (the "Share Option Scheme") was approved and adopted by the Company on 20th May, 2005.

Under the Share Option Scheme, the Directors may, at their description, grant to any eligible person as defined under the Share Option Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the Directors and notified to each grantee but in any case shall not be less than the higher of (1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which the Directors approve the making of the offer for the grant option (the "Date Of Grant"), which must be a trading day; (2) the average of closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the Date Of Grant; or (3) the nominal value of a share. Upon acceptance of the share option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

The total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30,000,000 shares, being 10% of the total number of shares in issue as at the date of listing of the Company's shares unless separate approval is obtained. Details of the Share Option Scheme are set out in the prospectus dated 27th May, 2005 issued by the Company.

At 30th September, 2007, there were no share options granted under the Share Option Scheme.

## 19. PLEDGE OF ASSETS

At the balance sheet date, the bank credit facilities of the Group were secured by the followings:

| | **30th September, 2007 (Unaudited)** | 31st March, 2007 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank deposits | **6,750** | 6,750 |
| Property, plant and equipment | **1,932** | 1,991 |
| | **8,682** | 8,741 |

## 20. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

| | **30th September, 2007 (Unaudited)** | 31st March, 2007 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Performance bonds | **1,227** | 406 |

## 21. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had committed for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **30th September, 2007 (Unaudited)** | 31st March, 2007 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **1,869** | 641 |
| In the second to fifth year inclusive | **861** | 10 |
| | **2,730** | 651 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

Turnover of the Group of the six months ended 30th September, 2007 had dropped significantly consequent upon persistent downturn and pessimism in the optical disc manufacturing sector. The turnover of the Group for the six months ended 30th September, 2007 recorded a decrease of approximately 86.2% as compared with the six months ended 30th September, 2006. Approximately 51.4% (for the six months ended 30th September, 2006: 90.6%) of the turnover in respect of the provision of engineering system contracting services was attributed optical disc manufacturing systems. The remaining portions were mainly attributed to audio visual and broadcasting systems. There seemed no sign of recovery of the optical disc manufacturing industry.

The gross profit margin for the six months ended 30th September, 2007 was approximately 18.3% as compared with last corresponding period of approximately 8.6%. Such improvement was mainly resulted from the decrease in proportion in turnover of narrow profit margin optical disc manufacturing systems as compared to the higher profit margin other engineering systems contracting services and sale of consumables and spare parts business. The total gross profit for the six months ended 30th September, 2007 was approximately HK$4.4 million (for the six months end 30th September, 2006: HK$14.8 million).

The Group has allocated resources for business development and technology advancement in other business sector such as intelligent traffic management systems. However, this business area has not yet been able to contribute much to the financial results of the Group.

The other income for the six months ended 30th September, 2007 was approximately HK$1.9 million as compared to the corresponding period of approximately HK$14.0 million.

On the other hand, the total amount of administrative expenses for the six months ended 30th September, 2007 were approximately HK$22.6 million as compared to approximately HK$31.1 million for the corresponding period.

Based on the above factors, for the six months ended 30th September, 2007, the Group incurred a loss of approximately HK$17.7 million (for the six months ended 30th September, 2006: a loss of approximately HK$4.8 million).

## USE OF PROCEEDS

The proceeds from the issuance of new shares by the Company in June 2005, net of listing expenses, were approximately HK$49.6 million. As at 30th September, 2007, net proceeds were utilized (as changed) in the following manner:

| | As changed to the Prospectus and detailed in the announcement of the Company dated 29th March, 2007 | Amount Utilized | Balance as at 30th September, 2007 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Formation of business alliances | 9,519 | 8,319 | 1,200 |
| Expansion of existing subsidiaries and formation of new subsidiaries | 2,000 | 2,000 | – |
| Acquisition of premises for setting up showrooms | – | – | – |
| Expansion of communication network | 107 | 107 | – |
| Repayment of revolving term loan | 15,000 | 15,000 | – |
| Expansion of research capabilities | 3,595 | 3,595 | – |
| Working capital | 19,407 | 19,407 | – |
| | 49,628 | 48,428 | 1,200 |

The unutilized balance was placed in short term bank deposits.

## CAPITAL STRUCTURE

Pursuant to a placing agreement dated 6th February, 2007 (the "Placing Agreement"), 30 million ordinary shares of HK$0.10 each of the Company were issued on 26th February, 2007 at the price of HK$1.05 per share for cash to not fewer than six independent private investors.

On 27th April, 2007, the over-allotment option granted pursuant to the Placing Agreement was exercised in full, 30 million ordinary shares of HK$0.10 each of the Company were issued on 11th May, 2007 at the price of HK$1.05 per share for cash and placed by the placing agent to not fewer than six professional, institutional and/or private investors, all of whom are independent of and not connected with the directors, chief executive or substantial shareholders of the Company and of its subsidiaries or any associates of them in order to enlarge the shareholder base of the Company and strengthen the Group's financial position. The proceeds were intended to be used for the general working capital of the Group.

On 18th June, 2007, the Company, Polestar Assets Limited (the "Vendor") and the placing agent entered into the placing agreement (the "June Placing Agreement") and the Vendor and the Company entered into the conditional agreement in relation to the subscription for the new shares up to 50 million (the "Subscription Agreement"). Pursuant to the June Placing Agreement, the placing agent has agreed to procure, on a best effort basis, purchase for up to 50 million existing ordinary shares of par value HK$0.10 each in the capital of the Company ("Tranche 1 Placing Shares") held by the Vendor (with unlisted transferable warrants to be constituted by an instrument by way of deed poll to be executed by the Company and to be issued in units of HK$3.30 each entitling holders to subscribe for fully paid shares at the initial exercise price of HK$3.30 per share (subject to adjustment) ("Warrants"), if applicable). Subject to the fulfillment or waiver (as applicable) of the conditions precedent for placing of up to 100 million new shares issuable by the Company ("Tranche 2 Placing") (with Warrants) pursuant to the June Placing Agreement, Warrants will then be issued to the placees to whom the Tranche 1 Placing Shares have successfully been placed. Accordingly, the placement of the Tranche 1 Placing Shares may or may not be accompanied by Warrants issuable to the placees subsequent to the completion of the Tranche 1 Placing.

On 22nd August, 2007, the subscription of 50 million shares by the Vendor pursuant to the Subscription Agreement at HK$2.0 per share was completed. The purpose was to broaden the shareholder and capital base of the Company and strengthen its financial position. The proceeds were intended to be used for general working capital and, if the Company was able to acquire the iron are mining business as described in its announcement dated 14th June, 2007, development of iron ore mining business and relevant investment project(s) opportunity.

On 28th September, 2007, the Company and the placing agent agreed in writing to extend the long stop date for the Tranche 2 Placing to 31st December, 2007. All other provisions of the Placing Agreement have remained unchanged.

On 31st December, 2007, the Company and the placing agent agreed in writing further extend the long stop date for the Tranche 2 Placing to 31st March, 2008. All other provisions of the Placing Agreement have remained unchanged.

The Company has approved and adopted a pre-IPO share option scheme on 30th March, 2005. During the period, 3,126,000 ordinary shares of HK$0.10 each of the Company were issued at the exercise price of HK$0.65 per share pursuant to the pre-IPO share option scheme.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations through a combination of shareholders equity, new issue of shares, internally generated cash flows and bank borrowings. As at 30th September, 2007, the Group had cash and cash equivalent of approximately HK$142.3 million (31st March, 2007: HK$44.6 million) and total interest-bearing bank borrowings of approximately HK$7.7 million (31st March, 2007: HK$31.7 million) being repayable within one year. As at 30th September, 2007, the Group's current ratio was 2.3 (31st March, 2007: 1.2) and the gearing ratio (a ratio of total loans to total assets) was 2.8% (31st March, 2007: 19.7%).

## CAPITAL COMMITMENTS

As at 30th September, 2007, the Group had no material capital commitments.

## CONTINGENT LIABILITIES

As at 30th September, 2007, the Group had contingent liabilities in respect of performance bonds amount to approximately HK$1,227,000 (31st March, 2007: HK$406,000).

## MORTGAGES AND CHARGES

As respectively at 30th September and 31st March, 2007, the Group did not have outstanding mortgage loan.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30th September, 2007, the Group employed a work force of about 90 staff. Remuneration for employee including medical benefits and staff quarters which are determined based on industry practice, the performance and working experience of the employees and the current market conditions. During the period, the total staff costs amounted to approximately HK$10.6 million (for the six months ended 30th September, 2006: HK$10.5 million).

The Company adopted a pre-IPO share option scheme on 30th March, 2005 and another share option scheme on 20th May, 2005 for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations. As at 30th September, 2007, 3,666,000 pre-IPO share options remained outstanding.

## FOREIGN EXCHANGE EXPOSURE

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 exposure 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.

## SUSPENSION IN TRADING OF SHARES

At the request of the Company, trading in the shares of the Company has been suspended in the Stock Exchange on 31st July, 2007 pending, at then time, for the publication of an announcement for the annual results for its financial year ended 31st March, 2007, and the thereafter publication of an announcement for the interim results for the six months ended 30th September, 2007. Trading in the shares of the Company remains suspended until further notice.

## POST BALANCE SHEET DATE EVENT – ACQUISITION OF QINGDAO YONGXINHUI MINING COMPANY LIMITED AND SERVICE AGREEMENT

With reference to the announcement of the Company dated 10th December, 2007 and the circular of the Company dated 31st January, 2008, the Company and Citywin Pacific Limited ("Citywin") entered into an agreement on 7th December, 2007 in relation to the acquisition of the entire equity interest in Qingdao Yongxinhui Mining Company Limited ("Acquisition Agreement"). Also, the Company entered into an agreement for the provision of services in relation to the mining business by Citywin to the Company. The aggregrate consideration for the acquisition is HK$130 million, which was satisfied by the Company as a) a deposit of HK$10 million in cash had been paid to Citywin upon signing of the Acquisition Agreement; b) a further installment of HK$20 million in cash shall be payable to Citywin upon completion of the acquisition; and c) HK$100 million shall be satisfied by the issue of the convertible bond to Citywin (or such other person as it may direct in writing) upon completion. On 25th February, 2008, the Acquisition Agreement (including the issue of the convertible bonds and conversion shares) and the service agreement (including the issue of the subscription shares) were duly passed by the shareholders by way of poll.

## POST BALANCE SHEET DATE EVENTS – CHANGE OF COMPANY NAMES

With reference to the announcement of the Company dated 25th January, 2008, the Directors of the Company proposed the change of the English name and Chinese name of the Company from "Linfair Holdings Limited 福茂控股有限公司" to "China Jin Hui Mining Corporation Limited 中國金匯礦業有限公司".

The proposed change of names of the Company is subject to (i) the passing of a special resolution by the shareholders at the extraordinary general meeting of shareholders ("EGM"); and (ii) the approval by the Registrar of Companies in the Cayman Islands; and will take effect from the date on which the new English name and Chinese Company name are entered on the register of companies maintained by the Registrar of Companies in the Cayman Islands.

At the EGM held on 25th February, 2008, the special resolution relating to the proposed change of names was duly passed by shareholders of the Company by show of hands.

The Company is waiting for approval by the Registrar of Companies in the Cayman Islands for the proposed change of names.

## PROSPECTS

The Group has allocated resources for business development and technology advancement in other emerging business. These other business areas have not yet been able to contribute much to the financial results of the Group. The Group has secured a few system installation works for sports venues and entertainment facilities contracts during this reporting period which will contribute to the post period date results.

Diversification continued to be the major development strategy of the Group to broaden the Group's income stream and to reduce the Group's reliance on the business of optical disc manufacturing systems. The Group has commenced its attempt of iron ore mining new business with the signing of a conditional acquisition agreement on 7th December, 2007 for the acquisition of iron ore mining business. Such acquisition has been approved by Shareholders on 25th February, 2008. Optical disc manufacturing systems, being once the most important revenue source, had lost weight in the business of the Group. Directors will continue to look for other business opportunities that may make other good use of the talents and capabilities of the Group.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2007.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the period.

## OTHER INFORMATION

## DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at the date of this report, the interests and short positions of the Directors and chief executive, in the shares and share options of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO Ordinance"), as recorded in the registers maintained by the Company pursuant to Section 352 of the SFO Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO Ordinance or the Model Code (the "Model Code") for Securities Transaction by Directors of Listed Companies in the Listing Rules, were as follows:

**Long positions**

*Share options*

| Name of Director | Capacity | Number of options held | Number of underlying shares |
|---|---|---|---|
| Mr. Chow Kin Ming | Beneficial owner | 1,720,000 | 1,720,000 |

Other than disclosed above, none of the Company's Directors, chief executives and their associates, had any interests or short positions in any shares of the Company or any of its associated corporations at the date of this report.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than disclosed above under "Share Options", at no time during the period was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS

As at the date of this report, so far as is known to the Directors of the Company, the persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the registers maintained by the Company pursuant to Section 336 of the SFO Ordinance and/or as notified to the Company were as follows:

**Long positions**
**Ordinary shares of HK$0.1 each of the Company**

| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Polestar Assets Limited | Beneficial owner *(Note)* | 171,360,000 | 40.67% |

*Note:* Polestar is beneficially owned as to 80% by Mr. Chang Ei Eu and as to 20% by Ms. Hsieh Ming Chiu, and they are therefore deemed to be interested in the 171,360,000 shares held by Polestar.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Directors of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, during the period under review. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code.

## AUDIT COMMITTEE

The Company has established audit committee (the "Audit Committee"), of which comprises four independent non-executive directors, namely Mr. Lee Kin Keung (the Chairman). Dr. Lam Chun Kong, Mr. Xu Wen An and Mr. Stephen Bryden Kerr. The unaudited financial statements for the six months ended 30th September, 2007 have been reviewed by the Audit Committee of the Company.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30th September, 2007, with deviation from code provisions A.2.1 and A.4.1 of the Code as summarized below.

Pursuant to code provision A.2.1 of the Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Office and Mr. Chang Ei Eu held both positions. The Directors believes that it is in the interest of the Company for Mr. Chang Ei Eu holding both positions as such arrangement provides the Group with strong and considerate leadership in the development and execution of long-term business strategies. On 22nd June, 2007, Mr. He Changming was appointed as non-executive director and co-chairman of the Board. The Company has on 28th September, 2007 appointed Ms. Katherine Chan Wai Kay to takeover Mr. Chang Ei Eu for the position of the Chief Executive Officer and has complied with code provision A.2.1 since 28th September, 2007.

On 5th November, 2007, Mr. Chang Ei Eu resigned as executive director of the Company.

Pursuant to code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. There is no specific terms for the two non-executive directors of the Company. However, they are subject to retirement by rotation at each annual general meeting of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance is no less exacting than that in the Code.

The Group will implement modified internal control policies that cover all material aspects including financial, operational and compliance control and risk management functions as soon as practicable. The Group intends to engage an independent consultant to conduct a detailed review after implementation to ensure that sound and effective internal controls are in force within the Group.

## BOARD OF DIRECTORS

As at the date of this interim report, the Board comprises two executive Directors, being Ms. Katherine Chan Wai Kay and Ms. Zuo Lihua, two non-executive Directors, being Mr. He Changming and Mr. Chow Kin Ming, and four independent non-executive Directors, being Mr. Lee Kin Keung, Dr. Lam Chun Kong, Mr. Xu Wen An and Mr. Stephen Bryden Kerr.

By order of the Board
**Katherine Chan Wai Kay**
*Executive Director*

Hong Kong, 28th March, 2008