

CHAIRMAN'S STATEMENT

主席報告

On behalf of the board of directors (the "Board") of Linfair Holdings Limited (the "Company") and its subsidiaries (together the "Group"), I present the annual report for the financial year ended 31st March, 2006.

Fifteen years have passed since I founded the Group in 1991, and we encountered the most discouraging market ever in this reporting year. Reliance on system integration engineering projects of a single emerging and booming industry as major income revenue has led to the Group's explosive and impressive growth in previous years. However, every industry has its ebb and flow. After years of exponential growth, in later half of 2005, the optical compact disc storage media manufacturing industry suddenly found itself hit by two adverse factors, over-capacity resulted from the slowdown in growth of market demand and soaring raw material prices as a consequence of mounting commodity prices in the global market all at the same time. The Group, upstream equipment suppliers, downstream product manufacturers, and other competitors of different scales all faced a sluggish market. The downturn lasted until the beginning of 2006 when signs of recovery did emerge with optical compact discs' material cost dropped after peaking and market demand for optical compact disc regained growth momentum. However, the rebound is not strong enough to support the industry to make significant capital expenditure commitments. Industry participants were prudent and only increased their production capacity in small scale or chose to upgrade their existing equipment. These activities delivered engineering projects income of higher margin, though contracted amount is not very substantial, to the Group and supported the Group's results in the second half so as to recover part of our first half loss.

Our management is committed to increase the proportion of other existing and newly-developed businesses in the turnover of the Group. Nevertheless, this vision is yet to be fully realized in this financial year and their respective developments are as follow:

1. We finally launched our Digital Audio Broadcasting (DAB) business after years of development. Several major cities and regions in the PRC have adopted the system format distributed by the Group for experimental broadcasting and this accounted for a not so significant contribution to the Group during the year. I am looking forward to this format's country-wide adoption in the huge PRC market and, consequently, a large scale ancillary equipment upgrade by the PRC radio stations. It is expected that this segment by then would show its importance in the Groups' business portfolio.

本人謹代表福茂控股有限公司(「公司」)及其附屬公司(「集團」)董事局(「董事局」)提呈截至二零零六年三月三十一日止財政年度之全年業績報告。

本人自一九九一年創辦本集團至今第十五個年頭，從未經歷過像本報告年度令本人如此失望之市場情況。倚賴單一行業之工程系統整合項目為主要收入來源，其優勢當然就是在該行業冒起及興旺之時，令集團高速壯大，但任何行業都必然面對週期性起伏，光儲存媒體生產行業經歷了多年的高速增長，突然在二零零五年後期一下子面對市場需求增長放緩引致之產能過剩，及全球商品價格暴漲引致之材料價格飆升兩大不利因素同時衝擊，令致本集團、上游設備供應商及下游成品生產廠商，甚至行業內大大小小的競爭對手都陷入低迷的經營狀況。此情況在二零零六年初開始出現復甦的跡像，其時碟片生產材料價格從高峰回落，碟片的市場需求再現增長，但力度未算強勁至令業界作重大資本性投資，反而都持審慎態度只作小規模之增產或把現有設備升級，該等活動為本集團帶來了金額不大但毛利率較高的工程項目收入，亦因此令下半年業績補回一部份上半年出現之虧損。

集團管理層銳意提升本集團於其他現有及新開拓行業在集團營運裡的比重，然而這理想未能在本財政年度內大幅實現，各自的狀況分析如下：

- 一、經多年開發之數碼音頻廣播(DAB)業務終於在本年度開展，中國內地幾個大城市及地區已引入本集團代理之制式系統，作試驗性廣播。是年度亦因此帶給集團小額的貢獻。本人祈盼這制式能被廣泛於幅員廣大的中國應用，同時帶動國內電台配套設備之大規模更新，屆時方能突顯於集團的業務比重內。

CHAIRMAN'S STATEMENT

主席報告

- During the financial year, by providing large scale, outdoor and high definition display system used in the 2006 Winter Olympics held early this year in Turin, Italy, the Group has successfully advanced into the market of providing systems to high-end international events. As this is a recently developed business, its contribution to results is somewhat limited. However, it is certain that since then and up to 2008 Beijing Olympics, the Group will be awarded some of the system provision and project management contracts.
- Intelligent traffic control system business also achieved a breakthrough in the year. The Group provided a control tower information system to Northern China Civil Aviation Bureau and implemented the system in the main control tower in Beijing Capital Airport. The client completed its inspection and acceptance procedures on this effectiveness upgrade system shortly after the year end date. This signified the Group's position in the high technology professional industry is widely recognized.

Apart from the breakthroughs achieved in these three emerging businesses as stated above, the Group successfully secured consultancy, design or system engineering contracts of theme parks, professional studios and performance venues and thus contributed to its results. The aggregate contract value of our overall non industrial engineering projects that have submitted tenders or passed the pre-qualification stage is also very significant, as the amount was a multiple of our total turnover in 2005. It is expected that certain results could be achieved in the near future.

Based on the prevailing market conditions, I believe the worst is over and every business segment stated above will pick up its growth momentum. For example, the number of contracts on hand and under progress of our optical compact disc business is already on a rising trend. I am convinced that with the concerted effort of every Group member, the Group will witness its recovery in the coming year.

Chang Ei Eu
Chairman

二、本財政年度，集團透過提供大型戶外高清顯示系統應用於二零零六年初於意大利都靈市舉辦之冬季奧運會，正式進入了高規格大型國際盛事的系統提供業務。既然是初入門檻，便只能產生不大的業績貢獻。然而，從此以後直至二零零八年北京舉辦奧林匹克運動會，本集團已肯定會承接到部份系統提供及項目管理工作。

三、智能交通管理系統業務亦於是年度取得突破，集團提供了一個塔樓信息系統予華北地區空中交通管理局。並安裝於北京首都機場主控制塔內，此效能提升系統於年結日後不久已獲客戶完成驗收程序。這標誌了本集團於這高科技專業行業上已獲認同。

除上述三項新業務領域之突破外，集團亦在主題公園、專業錄音室、演藝場館等熟練的業務於年度內爭取到顧問、設計或系統工程的業績貢獻。而總體非工業工程之已投標或已通過資格預審之目標項目總金額，甚至倍於集團最高峰之2005年度總營業額。相信短期內便會有一定成果。

綜合目前狀況，本人認為集團於過去一年面對的最壞時刻已經過去，而上述各業務都會重回增長軌道，例如，光碟業務方面在執行中之手頭上合約已開始回升。本人有信心，憑藉集團上下同寅努力不懈，明年業績復甦可期。

主席
張翼宇