

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement



LINFAIR HOLDINGS LIMITED **福茂控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 462)

COMPLETION OF THE FORENSIC INVESTIGATION REPORT

Completion of the Forensic Investigation Report

On 13 August 2007, the Company announced that the Board had decided to appoint an independent forensic investigation firm to prepare a forensic investigation report. The Forensic Investigation Report was prepared by Alvarez & Marsal and completed on 29 October 2007. The Company has passed a copy of the Forensic Investigation Report to the Auditors and the Hong Kong Stock Exchange.

Trading suspension

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 31 July 2007 and will remain suspended until further notice.

COMPLETION OF THE FORENSIC INVESTIGATION REPORT

On 26 July 2007, the Auditors sent a letter to the Audit Committee requesting it to investigate certain issues (“Issues”) relating to purchase of Machinery at the price of US\$12,698,000 from the Vendor and sale of the Machinery at the price of US\$13,500,000 to the Purchaser. The Issues raised by the Auditors relate to, among other things, Linfair Engineering had not been able to collect a remaining sum of about US\$1.93 million from the Purchaser. In the purchase of Machinery, the Group claims to have paid about US\$881,500 to third parties under oral directions of the Vendor and no written direction has been received from the Vendor. On 30 July 2007, the Auditors sent another letter to the Audit Committee suggesting it to arrange for an independent investigation by an independent firm into the matters raised in the 2 letters from the Auditors.

On 13 August 2007, the Company announced by an announcement dated 13 August 2007 that the Board had decided to appoint an independent forensic investigation firm to prepare a forensic investigation report. The Forensic Investigation Report was prepared by Alvarez & Marsal and completed on 29 October 2007. The Company has passed a copy of the Forensic Investigation Report to the Auditors and the Hong Kong Stock Exchange.

The Findings of the Forensic Investigation Report are set out as follows: –

1. Mr. Chang played a significant role during all stages of the Transaction – contract negotiation, pricing and payment approval.
2. Significant reliance was placed on the prior relationship between a shareholder of a company in the Purchaser Group and the Linfair Group. No independent verification of the credit worthiness of the Purchaser was carried out despite the fact that Linfair Group had not previously traded with such purchaser. However, the Purchaser was part of the Purchaser Group with which Linfair Group had traded since 2002 through a company.
3. There is a lack of cost estimates in support of the selling price of USD13.5 million.
4. No enquiries were made of the Vendor to establish its ownership or capability to supply the upgradeable Machinery or perform the Purchase Contract. There was no direct contact between the Linfair Group and the Vendor at any stage in the performance of the Purchase Contract.
5. In addition to the above, the similarity between the sales contract for the Transaction and previous sales contracts for standard CD-R/DVD-R production coupled with the fact that the sales contract does not appear to include any additional technical specification, hardware or software components indicates that the Machinery actually supplied was already capable of being upgradeable to DL DVD-R production without incurring any additional costs other than replacement of any broken or worn out parts.
6. The Purchase Contract with the Vendor was negotiated almost five months after the sales contract was first agreed with the Purchaser and was identical in virtually all respects. Indeed, it would appear that whoever prepared the Purchase Contract forgot to change key terms to reflect the fact that it was a Purchase Contract rather than a sales contract.
7. A replacement page of the Purchase Contract was prepared to correct an error in the pricing. Mr. Chang stated that he knew nothing about the replacement page until it was raised by Auditors. Mr. Wong confirmed that he had created this replacement page, noting that he had done so on his computer. He however, could not explain why the footer made reference to Ms. Fung. She confirmed that she had not created the page and had not seen it until it was shown to her by Alvarez & Marsal representatives.
8. An invoice from a company in the Purchaser Group addressed to Linfair Engineering in the amount of USD1.35 million supporting the Customs Letter dated 5 June 2006 stated that such company was the seller of the Machinery and that the price was only 10% of the contract value mentioned in the Purchase Contract with the Vendor. The invoice was not created by Linfair Group and it was not known why the invoice was prepared that way.

- 9 The fact that no amendments were made to the sales and Purchase Contract prices despite the fact that the Machinery to be supplied was second-hand machinery from a company in the Purchaser Group and required no significant additional cost to conform to the requirement in the sales contract for the Machinery to be upgradeable to DL DVD-R capability appears to have no commercial logic on the part of the Purchaser. On the part of Linfair Group, Mr. Chang stated that the commercial rationale was the profit it could have achieved on the difference between the sale and purchase prices (assuming that the sale price had been received in full) and the ability to fulfill the requirements of a customer which it had previously had a good working relationship and from which it expected future orders for new machinery.
- 10 Linfair Engineering issued a pro-forma invoice and a commercial invoice to the Purchaser in relation to the letter of credit application and for collection purpose. Both invoices indicated USD4.05 million had been received, albeit only USD 1.5 million had been received at that time.

IMPROVEMENT OF INTERNAL CONTROL

In view of the Findings, the Board and the Audit Committee consider the internal control of the Company should be improved. As mentioned in the announcement dated 16 October 2007 of the Company, the Company has improved the internal control of the Company in the following manner: –

1. The Board accepted Mr. Chang's request to restrict himself from all financial related functions of the Linfair Group with effect from 16 October 2007. Recently, Mr. Chang resigned as an executive Director on 5 November 2007.
2. Ms. Hsieh resigned as an executive Director of the Company from 16 October 2007.
3. With effect from 28 September 2007, Ms. Katherine Chan Wai Kay was appointed as the executive director and chief executive officer of the Company as mentioned in the announcement published on 8 October 2007.
4. Mr. Lok Shing Kwan replaced Mr. Wong as the chief financial officer and the qualified accountant of the Company with effect from 8 October 2007.
5. The new management follows closely the internal control manual of the Company.
6. Alvarez & Marsal was engaged on 22 August 2007 to conduct an internal control review of the Company. It is expected that the review will be completed on or about 30 November 2007. Further announcements will be published by the Company regarding the findings of the internal control review conducted by Alvarez & Marsal.

The aforesaid are the remedial steps that have been taken prior to the issue of the Forensic Investigation Report.

AUDITORS

On 12 November 2007, the Auditors send a letter to the Audit Committee stating that so far as the Auditors were concerned, there are some deficiencies on the Forensic Investigation Report and a number of questions raised in its letter to the Audit Committee dated 6 August 2007 remain unanswered. The Audit Committee has sent a copy of the letter from the Auditors to Alvarez & Marsal to ascertain whether Alvarez & Marsal needs to conduct more investigation. Alvarez & Marsal has conducted further investigations. If Alvarez & Marsal has further findings, the Company will publish an announcement. The Company is keeping in close contacts with the Auditors on the preparation of the financial statements of the Linfair Group. The Findings may give rise to a provision of bad debts for the sum of US\$1.93 million and the loss of the Group will be increased by US\$1.93 million.

TRADING SUSPENSION

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 31 July 2007 until further notice.

DEFINITION

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“Board”	board of the Directors
“Alvarez & Marsal”	Alvarez & Marsal Asia Limited, an independent forensic investigation firm appointed by the company to prepare the Forensic Investigation Report
“Auditors”	Deloitte Touche Tohmatsu, the auditors of the Linfair Group
“Audit Committee”	the audit committee of the Company
“CD-R”	compact disc recordable
“Company”	Linfair Holdings Limited, a company incorporated in the Cayman Islands, the Shares of which are listed on the Main Board of the Stock Exchange;
“Customs Letter”	Letter from a company in the Purchaser Group to Hong Kong Customs & Excise dated 5 June 2006
“Director(s)”	director(s) of the Company
“DL DVD-R”	dual layer DVD recordable
“DVD-R”	DVD recordable
“Findings”	Key findings of the Forensic Investigation Report

“Forensic Investigation Report”	The report dated 29 October 2007 prepared by Alvarez & Marsal
“Linfair Engineering”	Linfair Engineering Company Limited, a wholly owned subsidiary of the Company
“Linfair Group”	the Company and its subsidiaries
“Machinery”	3 production lines sold by Linfair Engineering to the Purchaser by sales contract dated 15 August 2005
“Mr. Chang”	Mr. Chang Ei Eu, a former executive Director and the husband of Ms. Hsieh
“Mr. Wong”	Mr. Wong Yiu Hung, the former CFO of the Linfair Group
“Ms. Fung”	Ms. Vikky Fung, responsible for shipping and logistics of the Linfair Group
“Ms. Hsieh”	Ms. Hsieh Ming Chiu, a former executive Director and the wife of Mr. Chang
“Purchase Contract”	contract dated 15 January 2006 made between Linfair Engineering and the Vendor
“Purchaser”	purchaser of the Machinery
“Purchaser Group”	a group of companies comprising companies in Singapore and Indonesia
“Sales Contract”	sales contract dated 15 August 2005 made between Linfair Engineering and the Purchaser
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Transaction”	(1) sales contract dated 15 August 2005 made between Linfair Engineering and the Purchaser (2) Purchase Contract dated 15 January 2006 made between Linfair Engineering and the Vendor

“Vendor”

vendor of the Machinery

By order of the Board
Linfair Holdings Limited
Navin K. Aggarwal
Company Secretary

Hong Kong, 21 November 2007

As at the date of this announcement, 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 three independent non-executive Directors, being Mr. Lee Kin Keung, Dr. Lam Chun Kong and Ms. Tung Pui Man.