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## **LINFAIR HOLDINGS LIMITED**

**福茂控股有限公司**

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

(Stock code: 462)

### **POSTPONEMENT OF BOARD MEETING AND DELAY IN THE PUBLICATION OF THE RESULTS AND DESPATCH OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2007**

The Board wishes to inform the shareholders of the Company that the meeting of the Board scheduled to be held on 30 July 2007 to consider, amongst other things, the results of the Group for the financial year ended 31 March 2007, has been postponed and there will be a delay in the publication of the results of the Company and the despatch of the annual report for the financial year ended 31 March 2007.

Further announcement will be made by the Company as and when appropriate in accordance with the Listing Rules regarding this matter.

**Trading in the securities of the Company on the Stock Exchange has been suspended with effect from 9:30 a.m. on 31 July 2007.**

The board of directors (the “Board”) of Linfair Holdings Limited (the “Company”) wishes to inform the shareholders of the Company that the meeting of the Board scheduled to be held on 30 July 2007 as set out in the announcement of the Company dated 18 July 2007 to consider, amongst other things, the results of the Company and its subsidiaries (“Group”) for the financial year ended 31 March 2007, has been postponed and thus, there will be a delay in the publication of the results of the Group and the despatch of the annual report for the financial year ended 31 March 2007. The delay was due to the fact that the audit of the financial statements of the Group for the year ended 31 March 2007 has not been completed.

On 26 July 2007, the auditors of the Company (“Auditors”) sent a letter to the members of the audit committee of the Company (the “Audit Committee”) requesting it to investigate certain issues (“Issues”) relating to purchase of goods (“Purchase of Goods”) at the price of US\$12,698,000 from a vendor (“Vendor”) and sale of the Goods (including provision of installation services) (“Sale of Goods”) at the price of US\$13,500,000 to a purchaser (“Purchaser”). The Issues raised by the Auditors relate to, among other things, the Group had not been able to collect a remaining sum of about US\$1.93 million from the Purchaser

(representing about the remaining 14.3% of the contract sum of US\$13,500,000) in the Sale of Goods. In the Purchase of Goods, 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 CPA firm into the matters raised in the 2 letters from the Auditors. The Auditors also informed the Audit Committee that according to the information on the internet, the holding company of the company holding equity interests in the Purchaser is under fraud investigation.

To the best of the knowledge, information and belief of the directors of the Company (“Directors”), having made all reasonable enquiry, each of the Vendor and the Purchaser (and its ultimate beneficial owner(s)) are third parties independent of the Company and connected persons of the Company. The Vendor first commenced business and supplied Goods to Linfair Engineering Company Limited (“Linfair”), a member of the Group during the financial year of the Group ended 31 March 2007 (though the contract was dated January 2006). The purchase of Goods from the Vendor was about 38.48% of total cost of works and sales of the Group, and the Vendor is considered one of the major suppliers of the Group for the year ended 31 March 2007. Since the Vendor is only one of the major suppliers and the Group has other suppliers which can supply the Goods, it is expected that if the Vendor ceased to have business relationship with the Group, it would not affect the business and operations of the Group in a material respect. The Purchaser first commenced business with the Group during the financial year of the Group ended 31 March 2007 (though the contract was dated August 2005). The value of sale to the Purchaser was about 35.47% of the total turnover of the Group, and the Purchaser is considered one of the major customers of the Group for the year ended 31 March 2007. It is expected that if the Purchaser ceased to have business relationship with the Group, it would not affect the business and operations of the Group in a material respect.

Between 26 July 2007 and 3 August 2007, the Audit Committee conducted investigation on the Issues and provided the findings in 2 reports to the Board and copied to the Auditors for their review on 30 July 2007 and 3 August 2007 respectively. The management explained to the Audit Committee that in the Purchase of Goods, the sum of about US\$881,500 was paid to third parties in 3 payments under oral directions of the Vendor as partial settlement for the Purchase of Goods. To the best of the knowledge, information and belief of the directors of the Company (“Directors”), having made all reasonable enquires, each of the third parties mentioned above (and its ultimate beneficial owner(s)) are third parties independent of the Company and connected persons of the Company. Of the 3 payments, one was made to a company (in the sum of US\$680,000, representing approximately 77% of the total sum of US\$881,500) that supplied goods to the Vendor. The Company has found that another payment (in the sum of US\$151,000) was made to another company that also supplied goods to the Vendor. Save as aforesaid, the Company did not know the reasons as to why the Vendor did not require direct settlement of the purchase price with it. The Group did not ask for an invoice or written resolution from the Vendor prior to making payments for the Purchase of Goods, as the Group had a contract with the Vendor in relation to the subject transaction. The Company knew from the Auditors that they were able to obtain confirmation from one of the three payees that payment was made by the Group for and on behalf of the Vendor. Further, the Group had never received any indication or objection that the Vendor disputed such directions and payment. The Group has been trying to contact and obtain a written confirmation from the Vendor. However, it is now unable to contact the Vendor. In the first report of the Audit Committee for the Purchase of Goods (“First Report”), the Audit Committee was of the

view that the management should have asked for an invoice from a vendor before making payment to it, that written instructions should have been obtained from a vendor prior to making payment to a person on behalf of a vendor and that more stringent control is to be exercised on checking documents before signing. In this investigation, the Audit Committee did not investigate into any other payment. For the Sale of Goods, the management explained to the Audit Committee that the Group had not been able to collect the sum of about US\$1.93 million due to the failure of the Purchaser to make the requisite payment. Although the payment was due according to the relevant contract since about July 2006, the Purchaser had been making payment up to January 2007 (last payment made in January 2007 for about US\$620,000). The Group had been urging orally the Purchaser for payment of the remaining sum. However, the Group did not undertake more aggressive debt collection measures previously, because the Group was then still expecting having business with the Purchaser. As the subject transaction was the first transaction the Group had with the Purchaser, the Purchaser did not have any previous default payment record. The Company has made full provision for such sum and the Audit Committee did not have further findings for the Sale of Goods in the First Report. Based on the findings as set out in the First Report, which had been communicated to the Auditors on 30 July 2007, the Audit Committee in its second report to the Board and copied to the Auditors said there was no sufficient basis to commission another CPA firm to conduct the proposed independent investigation and request the Auditors to re-assess the necessity of an independent investigation.

On 6 August 2007, the Auditors wrote a letter to the Audit Committee informing the Audit Committee that in the Purchase of Goods, the payment terms as set out in the original contract provided to the Auditors were different from those in the copy of the contract previously provided to the Auditors and requesting it to appoint an independent forensic investigation firm in the context of its professional responsibilities under Hong Kong Standard on Auditing 240 "The Auditor's responsibility to consider fraud in an audit of financial statements.". On 7 August 2007, the Audit Committee and the Board have decided to appoint an independent forensic investigation firm to investigate the matters raised in the letters from the Auditors. The investigation will be commenced as soon as an independent forensic investigation firm is engaged and further announcement in relation to the update of investigation will be made when appropriate. It is expected that the investigation would start in 2 weeks' time. The Group expects the investigation would be completed within the next 3 months.

As disclosed above, the Group will make full provision of about US\$1.93 million in relation to the Sale of Goods in the accounts of the Group for the financial year ended 31 March 2007. The Board thus consider that the Issues will have a material adverse impact to the Group's results for the financial year ended 31 March 2007. The present material adverse impact of the Issues is that the Group will make full provision of about US\$1.93 million and the loss of the Group will be increased by US\$1.93 million. So far as the information is available and subject to the confirmation of the Auditors, the Group will have total provisions, including the US\$1.93 million, of not less than HK\$70 million in the accounts of the Group for the year ended 31 March 2007. Other than in connection with the Issues, the Company is not aware of other uncertainties arising from the lack of supporting evidence or relating to the valuation of assets or liabilities in relation to the financial statements of the Group for the year ended 31 March 2007.

The Board envisages that the Company will be in a position to release its preliminary results and despatch its annual report, when the Issues are resolved with the Auditors. As the Auditors have not indicated when the Issues can be resolved, the Company is not in a position to assess when the final results for the year ended 31 March 2007 can be published at this stage. After making due enquiries with all the directors of the Company, the Board confirmed that save as disclosed above and in the announcements of the Company dated 5 July 2007 and 20 June 2007 relating to profit warning and the placing and subscription for shares of the Company respectively, the Board is not aware of any price-sensitive information or fact in relation to the Company which has given rise to the delay in the publication of the Company's results and ought to be disclosed under the general obligation imposed by Rule 13.09 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Board further confirmed that as at the date of this announcement, save as disclosed above, the Company did not have any disagreement with the Auditors in the course of the preparation of the audited report for the financial year ended 31 March 2007.

The directors of the Company acknowledge that the delay constitutes a breach of Rules 13.46(2)(a) and 13.49(1) of the Listing Rules. Under Rule 13.50 of the Listing Rules, the trading of an issuer's securities will normally be suspended if the issuer fails to publish periodic financial information in accordance with the Listing Rules. The suspension will normally remain in force until the issuer publishes the requisite financial information.

Meanwhile, the Company is keeping in close contacts with the Auditors on the development of this matter and is not in a position to assess when the final results for the year ended 31 March 2007 can be published at this stage. Further announcement will be made by the Company as and when appropriate in accordance with the Listing Rules regarding this matter.

**Trading in the securities of the Company on the Stock Exchange has been suspended with effect from 9:30 a.m. on 31 July 2007.**

By order of the Board  
**Linfair Holdings Limited**  
**Chang Ei Eu**  
*Chairman*

Hong Kong, 13 August, 2007

*As at the date of this announcement, the board of directors of the Company comprises three executive directors, being Mr. Chang Ei-Eu, Ms. Hsieh Ming Chiu 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.*