



New Focus Auto Tech Holdings Limited  
新焦點汽車技術控股有限公司\*

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

Stock Code: 360



INTERIM REPORT  
**2007**

\* For identification purpose only

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# CORPORATE INFORMATION

## **Directors**

### **Executive Directors**

Hung Wei-Pi, John (*Chairman*)  
Wu Kwan-Hong  
Hung Ying-Lien  
Lu Yuan Cheng  
Douglas Charles Stuart Fresco  
Norman L. Matthew

### **Non-executive Director**

Low Hsiao-Ping  
Li Jung Hsing  
Irene Shih

### **Independent non-executive Directors**

Du Haibo  
Zhou Tai-Ming  
Uang Chii-Maw

### **Company Secretary and Qualified Accountant**

Cheng, Yun Chung Ronie, ACA

### **Registered Office**

Century Yard, Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### **Principal Place of Business in Hong Kong**

Rm 1409, 14/F  
Harcourt House  
39 Gloucester Road  
Wanchai  
Hong Kong

## **Auditor**

Horwath Hong Kong CPA Limited  
*Certified Public Accountants*  
Rm 2001, Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

## **Legal Advisers**

Jones Day  
29/F, Edinburgh Tower  
The Landmark, 15 Queen's Road Central  
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

### **Branch Share Registrar and Transfer Office in Hong Kong**

Computershare Hong Kong Investor  
Services Limited  
46/F., Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## **Stock Code**

360

## **Websites**

<http://www.nfa360.com>

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited results of New Focus Auto Tech Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2007 (the “Period”) are as follows:

## **Condensed Consolidated Income Statement**

*For the six months ended 30 June 2007*

		<b>Unaudited Six months ended 30 June</b>	
	<i>Note</i>	<b>2007 RMB'000</b>	2006 RMB'000 (Restated)
Sales	4	<b>330,190</b>	197,401
Cost of goods sold		<b>(267,313)</b>	(159,382)
Gross profit		<b>62,877</b>	38,019
Other revenue and gains	4	<b>6,401</b>	12,461
Selling and distribution costs		<b>(30,213)</b>	(13,147)
Administrative expenses		<b>(27,168)</b>	(22,193)
Operating profit	4	<b>11,897</b>	15,140
Finance costs	5	<b>(3,597)</b>	(290)
Profit before income tax		<b>8,300</b>	14,850
Income tax expense	6	<b>(1,906)</b>	(2,007)
Profit for the period		<b>6,394</b>	12,843
Attributable to:			
Equity holders of the Company		<b>5,354</b>	12,907
Minority interests		<b>1,040</b>	(64)
		<b>6,394</b>	12,843
Earnings per share for profit attributable to the equity holders of the Company during the period			
– Basic	7	<b>RMB0.012</b>	RMB0.031
– Diluted	7	<b>RMB0.012</b>	RMB0.030
Dividends	8	<b>–</b>	33,433

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Balance Sheet

As at 30 June 2007

	Note	As at 30 June 2007 RMB'000 (unaudited)	As at 31 December 2006 RMB'000 (audited and restated)
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Property, plant and equipment	9	90,265	96,742
Investment properties	9	14,419	14,419
Leasehold land and land use rights	9	39,997	21,665
Other intangible assets	9	10,036	10,381
Goodwill	9	40,659	2,749
Other assets		13,193	6,851
Deferred tax assets		74	195
		<b>208,643</b>	153,002
Current assets			
Inventories	10	126,984	85,105
Trade receivables	11	115,128	87,887
Prepayments, deposits and other receivables	12	48,535	47,648
Amounts due from related parties	13(a)	338	1,481
Amount due from a director	14(a)	181	–
Term deposits with initial term of over three months		1,185	1,148
Cash and cash equivalents		137,595	65,941
		<b>429,946</b>	289,210
Total assets		<b>638,589</b>	442,212

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Balance Sheet (continued)

As at 30 June 2007

	Note	As at 30 June 2007 RMB'000 (unaudited)	As at 31 December 2006 RMB'000 (audited and restated)
Current liabilities			
Trade payables	15	150,369	110,505
Accruals and other payables		32,965	35,979
Current tax liabilities		4,169	1,011
Bank borrowings, secured	16	68,150	23,355
Amounts due to directors	14(b)	2	15,049
Amounts due to related parties	13(b)	6,541	23,207
		262,196	209,106
Non-current liabilities			
Bank borrowings, secured	16	17,066	17,999
Convertible bond	17	82,004	–
Deferred tax liabilities		769	769
		99,839	18,768
Total liabilities		362,035	227,874
Net current assets		167,750	80,104
Net assets		276,554	214,338
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	46,394	42,987
Reserves	19	203,110	162,054
Minority interests		27,050	9,297
Total equity		276,554	214,338

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Unaudited				
	Attributable to equity holders of the Company			Minority interests RMB'000	Total RMB'000
	Share capital RMB'000 (Note 18)	Share premium and reserves RMB'000 (Note 19)	Retained earnings RMB'000 (Note 19)		
Balance as at 1 January 2007:					
As reported	42,987	104,102	70,391	9,297	226,777
Prior period adjustments (Note 2.2)	–	–	(12,439)	–	(12,439)
As restated	42,987	104,102	57,952	9,297	214,338
Issue of new shares from exercise of share options	–	45	–	–	45
Profit for the period	–	–	5,354	–	5,354
Bonus share	–	(2,048)	–	–	(2,048)
Exchange realignment	–	(17)	–	–	(17)
Proceeds from shares issued	9	–	–	–	9
Arising on acquisition of subsidiaries	–	29,713	–	–	29,713
Arising on issue of convertible bonds	–	8,009	–	–	8,009
Minority interest arising on acquisition of subsidiaries and additional injection from minority shareholders	–	–	–	16,713	16,713
Minority interests' share of profit	–	–	–	1,040	1,040
Bonus issue	2,048	–	–	–	2,048
Issue of new shares arising of subsidiary	1,350	–	–	–	1,350
<b>Balance as at 30 June 2007</b>	<b>46,394</b>	<b>139,804</b>	<b>63,306</b>	<b>27,050</b>	<b>276,554</b>

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## **Condensed Consolidated Statement of Changes in Equity** (continued)

For the six months ended 30 June 2007

	Unaudited				
	Attributable to equity holders of the Company				
	Share capital RMB'000 (Note 18)	Share premium and reserves RMB'000 (Note 19)	Retained earnings RMB'000 (Note 19)	Minority interests RMB'000	Total RMB'000
Balance as at 1 January 2006	42,400	96,936	92,333	–	231,669
Release of reserve on disposal of investment properties	–	(557)	–	–	(557)
Profit for the period (restated)	–	–	12,907	–	12,907
Employee share option scheme: – value of employee services	–	498	–	–	498
Proceeds from shares issued	567	4,778	–	–	5,345
Dividend	–	–	(33,433)	–	(33,433)
Minority interest arising on acquisition of subsidiaries	–	–	–	8,299	8,299
Minority interests' share of loss	–	–	–	(64)	(64)
Balance as at 30 June 2006 (restated)	42,967	101,655	71,807	8,235	224,664

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## **Condensed Consolidated Cash Flow Statement**

*For the six months ended 30 June 2007*

	Unaudited	
	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Net cash (used in)/generated from operating activities	<b>(44,377)</b>	(2,043)
Net cash used in investing activities	<b>(16,377)</b>	(5,446)
Net cash generated from financing activities	<b>132,408</b>	9,455
Net increase in cash and cash equivalents	<b>71,654</b>	1,966
Cash and cash equivalents at the beginning of the period	<b>65,941</b>	74,616
Cash and cash equivalents at the end of the period	<b>137,595</b>	76,582
Analysis of cash and cash equivalents		
Cash and bank balances	<b>137,595</b>	76,582

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## **Notes to the Consolidated Financial Statements**

### **1. Organisation**

New Focus Auto Tech Holdings Limited (the "Company") was incorporated in the Cayman Islands on 15 May 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group.

### **2.1 Basis of preparation and accounting policies**

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

These unaudited condensed consolidated interim financial statements should be read in conjunction with the 2006 annual financial statements included in the Company's 2006 Annual Report.

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006. The Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA, that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007.

The Group considered that the adoption of the new and revised HKFRSs has had no material impact on the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007.

### **2.2 Prior period adjustments**

- (i) During the six months ended 30 June 2007, the directors of the Company obtained additional information about the valuation and quantities of the Group's raw materials, work-in-progress, finished goods and merchandise goods as at 31 December 2006 and considered that there were overstatements of raw materials, work-in-progress and finished and merchandise goods as at 31 December 2006. In restating the financial statements of the Group to correct this fundamental error, a prior period adjustment has been made. The effect is to reduce the consolidated profit for the six months ended 30 June 2006 and 31 December 2006 by approximately RMB4,366,000 and RMB8,073,000 respectively, and to reduce consolidated inventories, retained profits and net assets of the Group as at 31 December 2006 by approximately RMB12,439,000. There is no net tax effect in respect of this adjustment.
- (ii) During the six months ended 30 June 2007, the directors of the Company obtained additional information about the Group's accrued purchases of approximately RMB9,400,000 included in trade payables as at 31 December 2006 and considered that there is an overstatement of accrued purchases and inventories of the Group as at 31 December 2006. In restating the financial statements of the Group to correct this fundamental error, a prior period adjustment has been made. The effect is to reduce the Group's inventories and trade payables as at 31 December 2006 by approximately RMB2,000,000. There is no net tax effect in respect of this adjustment.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. Impact of issued but not yet effective Hong Kong Financial Reporting Standards

At the date of authorisation of these financial statements, the following HKFRSs were in issue but not yet effective:

		Effective for accounting periods beginning on or after
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) – Int 12	Service Concession Arrangements	1 January 2008
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKFRS 8	Operating segments	1 January 2009

The Group is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of initial application.

## 4. Turnover, other revenue and gains and segment information

The Group is principally engaged in the manufacturing and sales of automobile accessories and the provision of automobile repair, maintenance and restyling services. Revenues recognised during the period are as follows:

Unaudited Six months ended 30 June		
	2007 RMB'000	2006 RMB'000
Turnover – Sale of goods	330,190	197,401
Other revenue and gains		
Interest income	1,492	531
Government subsidies	20	196
Gain on disposal of property, plant and equipment	2	7,155
Gain on disposal of investment properties	–	232
Tax refund on capitalised profit on which corporate income tax was previously charged	2,442	4,300
Rental income	600	–
Transportation income	609	–
Gain on sale of scrap materials	1,096	–
Others	140	47
	6,401	12,461
Total	336,591	209,862

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. Turnover, other revenue and gains and segment information *(continued)*

### (a) **Primary reporting format – business segments**

The Group operates in two business segments, the manufacturing and sales of automobile accessories; and the provision of automobile repair, maintenance and restyling services.

Analysis of the segment revenues and results is as follows:

Unaudited Six months ended 30 June 2007				
	Manufacturing and sales of automobile accessories RMB'000	Provision of automobile repair, maintenance and restyling services RMB'000	Eliminations RMB'000	Group RMB'000
Segment revenues				
External sales	255,781	74,409	-	330,190
Inter-segment sales	4,818	4,735	(9,553)	-
Other revenue and gains	3,388	208	-	3,596
Inter-segment other revenue and gains	-	363	(363)	-
	263,987	79,715	(9,916)	333,786
Segment results	15,781	(2,312)		13,469
Unallocated other revenue and gains				2,805
Unallocated costs				(4,377)
Operating profit				11,897
Finance costs				(3,597)
Profit before income tax				8,300
Income tax expense				(1,906)
Profit for the period				6,394
Segment assets	358,813	206,139		564,952
Unallocated corporate assets				73,637
Total assets				638,589
Segment liabilities	214,593	67,298		281,891
Unallocated corporate liabilities				80,144
Total liabilities				362,035
Capital expenditure	22,667	-		22,667
Unallocated capital expenditure				83
				22,750
Depreciation and amortisation charges	6,523	2,945		9,468
Unallocated depreciation and amortisation charges				7
				9,475

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. Turnover, other revenue and gains and segment information (continued)

### (a) Primary reporting format – business segments (continued)

	Manufacturing and sales of automobile accessories RMB'000	Unaudited and restated Six months ended 30 June 2006 Provision of automobile repair, maintenance and restyling services RMB'000	Eliminations RMB'000	Group RMB'000
Segment revenues				
External sales	177,610	19,791	–	197,401
Inter-segment sales	1,875	76	(1,951)	–
Other revenue and gains	597	144	–	741
Inter-segment other revenue and gains	38	–	(38)	–
	180,120	20,011	(1,989)	198,142
Segment results	13,867	(3,899)		9,968
Unallocated other revenue and gains				11,720
Unallocated costs				(6,548)
Operating profit				15,140
Finance costs				(290)
Profit before income tax				14,850
Income tax expense				(2,007)
Profit for the period				12,843
Segment assets	283,570	53,145		336,715
Unallocated corporate assets				20,069
Total assets				356,784
Segment liabilities	126,494	4,796		131,290
Unallocated corporate liabilities				780
Total liabilities				132,070
Capital expenditure	28,946	2,224		31,170
Unallocated capital expenditure				21
				31,191
Depreciation and amortisation charge	4,529	1,288		5,817
Unallocated depreciation and amortisation charges				11
				5,828

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. Turnover, other revenue and gains and segment information *(continued)*

### *(b) Secondary reporting format – geographical segments*

The Group operates in five geographical areas. An analysis of the geographical segment turnover is as follows:

	<b>Unaudited Six months ended 30 June</b>	
	<b>2007 RMB'000</b>	<b>2006 RMB'000</b>
Segment turnover		
North America	<b>189,403</b>	119,953
Europe	<b>22,183</b>	23,902
Asia Pacific	<b>8,982</b>	21,281
Greater China (including Taiwan and the People's Republic of China (the "PRC"))	<b>109,352</b>	32,223
Africa	<b>270</b>	42
Total	<b>330,190</b>	197,401

There are no sales between the geographical segments during the six months period ended 30 June 2007 and 2006.

## 5. Finance costs

	<b>Unaudited Six months ended 30 June</b>	
	<b>2007 RMB'000</b>	<b>2006 RMB'000</b>
Interest on:		
Bank borrowings wholly repayable within five years	<b>2,609</b>	290
Convertible bond wholly repayable within five years	<b>988</b>	–
	<b>3,597</b>	290

## 6. Income tax expense

The amount of income tax expenses charged to the condensed consolidated income statement represents:

	<b>Unaudited Six months ended 30 June</b>	
	<b>2007 RMB'000</b>	<b>2006 RMB'000</b>
Current tax – PRC and Taiwan corporate income tax	<b>1,789</b>	2,608
Deferred tax	<b>117</b>	(601)
	<b>1,906</b>	2,007

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 6. Income tax expense (continued)

- (a) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong during the six month ended 30 June 2007 (2006: nil).
- (b) (i) Shanghai New Focus Auto Parts Co., Ltd. ("NFA Parts")  
In accordance with the relevant tax laws and regulations in the PRC, NFA Parts is qualified as an Export Oriented Enterprise if it has over 70% export sales per annum and will therefore be entitled to a 50% reduction in corporate income tax for the period. Accordingly, corporate income tax was provided at a rate of 12% for the six months ended 30 June 2007 (2006: 12%).
- (ii) New Focus Light and Power Technology (Shanghai) Co., Ltd. ("NF Light & Power")  
Being qualified as a foreign investment production enterprise in an industrial development zone in the PRC, NF Light & Power is exempted from local income tax and is subject to an applicable corporate income tax rate of 24%. In accordance with the approval from the relevant tax authorities, NF Light & Power is entitled to two years exemption from corporate income tax followed by three years of 50% reduction in corporate income tax commencing from the first profit-making year net of losses carried forward. The year ended 31 December 2003 is NF Light & Power's first profit-making year net of losses carried forward from previous years, and hence NF Light & Power is entitled to enjoy 50% reduction in corporate income tax at a rate of 12% for the six months ended 30 June 2007 (2006: 12%).
- (iii) Shanghai New Focus Auto Repair Services Co., Ltd. ("NFA Service")  
As a domestic enterprise, NFA Service is subject to an applicable corporate income tax rate of 33%. For the six months ended 30 June 2007, NFA Service was in loss-making position, accordingly, no income tax has been provided (2006: Nil).
- (iv) New Focus Richahaus Co., Ltd. ("NF Richahaus")  
NF Richahaus is incorporated in Taiwan and acquired by the Group after 30 June 2006, and it is subject to applicable domestic income tax rate of 25% for the six months ended 30 June 2007.
- (v) Shanghai New Focus Longsheng Auto Parts Co., Ltd. ("NF Longsheng")  
NF Longsheng is a foreign investment production enterprise situated in an industrial development zone in the PRC. It is exempted from local corporate income tax and therefore is subject to applicable corporate income tax of 24%. Subject to approval, NF Longsheng is entitled to two years exemption from corporate income tax followed by three years of 50% reduction in corporate income tax. The year ended 31 December 2006 is the NF Longsheng first profit-making year net of losses carried forward from previous years, and hence NF Longsheng is entitled to enjoy 100% exemption in corporate income tax rate. According, no corporate income tax was provided for the six months ended 30 June 2007.
- (vi) Beijing Aiyihang Auto Service Ltd ("Aiyihang")  
Aiyihang is established in the PRC and acquired by the Group during the six months ended 30 June 2007 and it is subject to applicable domestic tax rate of 33%.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 7. Earnings per share

### – Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, as adjusted to reflect the bonus issue during the period.

	<b>Unaudited</b> <b>Six months ended 30 June</b>	
	<b>2007</b>	2006 (Restated)
Profit attributable to equity holders of the Company (RMB thousands)	<b>5,354</b>	12,907
Weighted average number of ordinary shares in issue (thousands)	<b>431,849</b>	422,438
Basic earnings per share (RMB per share)	<b>0.012</b>	0.031

### – Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares arising from share options and convertible bond. For the share options and convertible bond, a calculation is carried out to determine the number of shares that could have been acquired at fair value (determined as the average period market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and convertible bond.

	<b>Unaudited</b> <b>Six months ended 30 June</b>	
	<b>2007</b>	2006 (Restated)
Profit attributable to equity holders of the Company and used to determine diluted earnings per share (RMB thousands)	<b>5,888</b>	12,907
Weighted average number of ordinary shares in issue (thousands)	<b>431,849</b>	422,438
Adjustments for share options (thousands)	<b>82</b>	2,288
Adjustments for convertible bond (thousands)	<b>45,217</b>	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<b>477,148</b>	424,726
Diluted earnings per share (RMB per share)	<b>0.012</b>	0.030

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 8. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007.

## 9. Capital expenditures

	Goodwill RMB'000	Other intangible assets RMB'000	Property, plant and equipment RMB'000	Leasehold land and land use rights RMB'000	Investment properties RMB'000
Opening net book amount as at 1 January 2007	2,749	10,381	96,742	21,665	14,419
Acquisition of a subsidiary	37,150	–	13,386	–	–
Other additions	–	–	9,364	–	–
Exchange realignment	–	(260)	(988)	–	–
Disposals	–	–	(517)	–	–
Depreciation/amortisation charge	–	(85)	(7,810)	(1,580)	–
Adjustment (Note 1)	760	–	–	–	–
Transfer (to)/from land use right	–	–	(19,912)	19,912	–
Closing net book amount as at 30 June 2007 (unaudited)	40,659	10,036	90,265	39,997	14,419
Opening net book amount as at 1 January 2006	2,787	1,694	50,112	17,769	20,985
Acquisition of a subsidiary	102	–	737	–	–
Other additions	–	–	24,250	6,204	–
Disposals	–	–	(5,440)	(2,042)	(6,566)
Depreciation/amortisation charge	–	(85)	(5,653)	(90)	–
Adjustment (Note 2)	(140)	–	–	–	–
Closing net book amount as at 30 June 2006 (unaudited)	2,749	1,609	64,006	21,841	14,419

Note:

1. The amount is attributable to the contingent consideration in acquisition of 100% equity interest in NF Richahaus. The adjustment is made to the consideration cost as the directors of the Company considered that the adjustment is probable as at 30 June 2007.
2. A downward adjustment of RMB140,000 was made to the purchase consideration in relation to the acquisition of a subsidiary, Shanghai Beforly Investment Management Limited, upon finalisation of the acquisition during the period.

As at 30 June 2007, the net book values of property, plant and equipment and leasehold land and land use rights pledged as securities for Group's bank borrowings totalled to RMB27,513,000 (2006: RMB29,013,000) (Note 16).

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 10. Inventories

	Unaudited 30 June 2007 RMB'000	Audited and restated 31 December 2006 RMB'000
Raw materials	36,294	22,869
Work-in-progress	32,621	21,456
Finished goods	15,740	9,819
Merchandise goods	42,306	31,587
Goods in transit	23	158
	126,984	85,889
Less: Write down of inventories	–	(784)
	126,984	85,105

## 11. Trade receivables

Details of the aging analysis are as follows:

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Current to 30 days	50,472	38,164
31 to 60 days	33,298	39,326
61 to 90 days	23,424	7,669
Over 91 days	11,403	4,056
	118,597	89,215
Less: Impairment on receivables	(3,469)	(1,328)
	115,128	87,887

Credit terms generally range from 30 days to 90 days.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 12. Prepayments, deposits and other receivables

Included in the prepayments, deposits and other receivables was a total of RMB6,400,000 prepaid to the suppliers in the following arrangements:

According to the agreement, RMB5,000,000 was paid to a supplier for certain subcontracting services and the amount should be used to set off against the future subcontracting service fee to be charged by the supplier and the remaining balance would be repaid to the Group in full by 1 April 2007. The agreement was extended to 1 April 2008.

According to the agreement, RMB1,400,000 was paid to a supplier for certain subcontracting services and the amount should be used to set off against the future subcontracting service fee to be charged by the supplier and the remaining balance would be repaid to the Group in full by 12 May 2007. The agreement was extended to March 2008.

## 13. Amounts due from/to related parties

### (a) Amount due from a related party

Included in the amounts due from related parties was an amount of RMB282,000 (31 December 2006: RMB320,000) due from Custom Accessories Asia Limited ("Custom Accessories"). Majority interests of Custom Accessories are mainly held by Mr. Fresco and his spouse, who together held 50% of its equity interest, and Mr. Matthew and his family members, who together held 48% of its equity interest. Mr. Fresco and Mr. Matthew are directors of Custom Accessories and directors of the Company and have beneficial interests in the Company.

Name		Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Custom Accessories	Balance at beginning of period/year	320	68
	Balance at end of period/year	282	320
	Maximum amount outstanding during the period/year	721	1,087

Amount due from Custom Accessories arising from trading activities with aging from current to 90 days is unsecured, interest-free and repayable on demand.

Amounts due from other related parties are unsecured, interest free and repayable on demand.

### (b) Amounts due to related parties

The amounts due to related parties are unsecured, interest free and repayable on demand.

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## 14. Amount due from/to a director

### (a) Amount due from a director

Name		Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Hung Wei-Pi John	Balance at beginning of period/year	–	–
	Balance at end of period/year	181	–
	Maximum amount outstanding during the period/year	181	–

Amount due from the director of the company is unsecured, interest free and repayable on demand.

### (b) Amount due to a director

Amount due to a director of the Company is unsecured, interest free and repayable on demand.

## 15. Trade payables

Details of the aging analysis are as follows:

	Unaudited 30 June 2007 RMB'000	Audited and restated 31 December 2006 RMB'000
Current to 30 days	65,154	76,210
31 to 60 days	21,880	16,197
61 to 90 days	22,422	15,656
Over 91 days	40,913	2,442
	150,369	110,505

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 16. Bank borrowings, secured

At 30 June 2007, total current and non-current bank borrowings were repayable as follows:

	<b>Unaudited 30 June 2007 RMB'000</b>	<b>Audited 31 December 2006 RMB'000</b>
On demand or within year	<b>68,150</b>	23,355
Within two or five years	<b>–</b>	4,456
After five years	<b>17,066</b>	13,543
	<b>85,216</b>	41,354
Amount due within one year included in current liabilities	<b>(68,150)</b>	(23,355)
	<b>17,066</b>	17,999

The bank borrowings are secured by the Group's leasehold land and buildings which has a net book value of RMB27,513,000 (2006: RMB29,013,000), guarantees from NFA Parts and Mr. Hung Wei-Pi, John. The interest rate ranges from 2.8% to 8.56% per annum.

## 17. Convertible bond

On 16 May 2007, the Company issued US\$12,000,000 5.2% redeemable convertible bond with a nominal value of approximately RMB91,897,000. The bond is convertible at the option of the bondholders into ordinary shares on 15 May 2010. The bond carries interest rate of 5.2% per annum, which is payable semi-annually in arrears with the first interest payment due on 30 June 2007 and the last interest payment due on 15 May 2010.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual value amount is assigned as the equity component and is included in shareholders' equity.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 17. Convertible bond (continued)

The convertible bond issued during the period has been split as to the liability and equity components, as follows:

	RMB'000
Nominal value of convertible bonds issued during the period	91,897
Equity component	(8,009)
Direct transaction costs attributable to the liability component	(2,285)
Liability component at the issuance date	81,603
Imputed interest payable	401
Liability component at end of period	82,004

## 18. Share capital

Details of the movements of authorised and issued share capital of the Company are as follows:

	Number of shares	Nominal Value	
		HKD'000	RMB'000
At 1 January 2006	400,000,000	40,000	42,400
Employee share option scheme: – proceeds from shares issued	5,835,000	584	587
At 31 December 2006	405,835,000	40,584	42,987
Issue of shares on acquisition of a subsidiary	13,660,442 (Note 20)	1,366	1,350
Bonus issue	20,979,272	2,097	2,048
Employee share option scheme: – proceeds from shares issued	90,000	9	9
At 30 June 2007	440,564,714	44,056	46,394

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 18. Share capital *(continued)*

Movements in the number of share options outstanding are as follows:

	<b>Options (thousands)</b>
At 1 January 2007	16,570
Exercised	(90)
Lapsed	(220)
At 30 June 2007	<u>16,260</u>

Share options outstanding (in thousands) at the end of the period have the following exercise periods and exercise prices:

<b>Expiry date</b>	<b>Exercise price HK\$ per share</b>	<b>Granted to Directors (thousands)</b>	<b>Granted to Consultant (thousands)</b>	<b>Granted to Employees (thousands)</b>	<b>Total (thousands)</b>
31 December 2008	0.94	–	–	1,790	1,790
31 December 2008	1.01	–	300	660	960
31 December 2010	0.94	–	–	3,470	3,470
12 February 2015	0.94	10,040	–	–	10,040
		<u>10,040</u>	<u>300</u>	<u>5,920</u>	<u>16,260</u>

There was no new grant share option during the six months ended 30 June 2007.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 19. Reserves

	Share premium RMB'000	Re- organisation reserve RMB'000	Statutory reserve fund RMB'000	Equity portions of convertible bond RMB'000	Enterprise expansion fund RMB'000	Exchange Reserve RMB'000	Others RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2006 (audited)	69,283	2,738	19,869	–	2,756	–	2,290	92,333	189,269
Release of fair value gains due to disposal of investment properties	–	–	–	–	–	–	(557 )	–	(557 )
Profit for the period (restated)	–	–	–	–	–	–	–	12,907	12,907
Employee share option scheme: – value of employee services	–	–	–	–	–	–	498	–	498
Proceeds from shares issued	4,778	–	–	–	–	–	–	–	4,778
Dividends	–	–	–	–	–	–	–	(33,433 )	(33,433 )
At 30 June 2006 (unaudited and adjusted)	74,061	2,738	19,869	–	2,756	–	2,231	71,807	173,462
Exchange realignment	–	–	–	–	–	(921)	–	–	(921 )
Loss for the period (restated)	–	–	–	–	–	–	–	(11,128 )	(11,128 )
Transfer to reserves	–	–	2,727	–	–	–	–	(2,727 )	–
Employee share option scheme: – value of employee services	–	–	–	–	–	–	467	–	467
Issue of new shares from exercise of share options	174	–	–	–	–	–	–	–	174
At 31 December 2006 (restated)	74,235	2,738	22,596	–	2,756	(921 )	2,698	57,952	162,054
At 31 December 2006: As reported (audited)	74,235	2,738	22,596	–	2,756	(921 )	2,698	70,391	174,493
Prior period adjustments (note 2.2)	–	–	–	–	–	–	–	(12,439 )	(12,439 )
At restated	74,235	2,738	22,596	–	2,756	(921 )	2,698	57,952	162,054
Arising on acquisition of subsidiaries	29,713	–	–	–	–	–	–	–	29,713
Issue of new shares from exercise of share options	45	–	–	–	–	–	–	–	45
Profit for the period	–	–	–	–	–	–	–	5,354	5,354
Arising on issue of convertible bond	–	–	–	8,009	–	–	–	–	8,009
Bonus issue	(2,048 )	–	–	–	–	–	–	–	(2,048 )
Exchange realignment	–	–	–	–	–	(17 )	–	–	(17 )
At 30 June 2007 (unaudited)	101,945	2,738	22,596	8,009	2,756	(938 )	2,698	63,306	203,110

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 20. Business combination

### **Acquisition of a subsidiary – Aihihang**

In April 2007, the Group acquired 51% equity interest in Aihihang from Mr. Xing Aiyi at a total consideration of RMB44.3 million, of which RMB13.3 million was satisfied in cash and RMB31 million was satisfied by the issue of approximately 13,660,442 shares (Note 18) of HK\$0.1 each of the Company.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
Cash paid	13,280
Issue of shares	31,065
Fair value of net assets acquired – shown as below	(7,195)
Goodwill (Note 9)	37,150

The assets and liabilities arising from the acquisition are as follows:

	Net assets acquired
Cash and cash equivalents	5,851
Property, plant and equipment (Note 9)	13,386
Trade receivables	994
Trade payables	(11,651)
Bank loan	(3,000)
Inventories	9,160
Prepayments	6,395
Accruals	(7,027)
Net assets acquired	14,108
Less: 49% owned by minority shareholder	(6,913)
Fair value of net assets acquired	7,195
Purchase consideration settled in cash	13,280
Cash and cash equivalents in subsidiary acquired	(5,851)
Cash outflow on acquisition	7,429

Moreover, an amount of RMB 3,000,000 was paid to Mr. Xing Aiyi as a long term deposit which is interest free, unsecured and repayable in 2010, which is included in other assets under non-current assets of the Group as at 30 June 2007.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 21. Commitments

### (a) *Commitments under operating leases*

The Group has future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Within one year	18,997	12,021
In the second to fifth year inclusive	50,495	35,398
After the fifth year	27,651	25,037
	97,143	72,456

### (b) *Capital commitments*

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Property, plant and equipment – Contracted but not provided for	–	–

## 22. Related party transactions

Apart from the transactions or balances as disclosed in Notes 13 and 14, the Group had the following significant related party transactions:

	Unaudited Six months ended 30 June 2007 RMB'000	2006 RMB'000
Sales of goods to Custom Accessories	1,533	686
Purchases of raw materials from Custom Accessories	–	157
Purchases of raw materials from Longkou Longsheng Wire And Cable Co., Ltd (Note(i))	–	5,595
Purchases of property, plant and equipment from Longkou Longsheng Wire And Cable Co., Ltd (Note(i))	–	7,800
Purchases of property, plant and equipment from Longkou Anbo Trading Co., Ltd (Note (i))	–	2,060
	–	15,612

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 22. Related party transactions *(continued)*

The directors consider the above transactions were conducted in the normal course of business at prices and terms determined by reference to those charged to and contracted with other third party customers or suppliers of the Group.

*Note:*

(i) *These are companies controlled by minority equity holder of the Company's subsidiary*

## 23. Banking facilities

The Group's banking facilities are as follows:

	<b>Unaudited 30 June 2007 RMB'000</b>	<b>Audited 31 December 2006 RMB'000</b>
Total banking facilities available	<b>141,507</b>	211,353
Less: amounts utilised	<b>(85,216)</b>	(41,354)
Unused facilities	<b>56,291</b>	169,999

For details of the securities for the banking facilities, please refer to Note 16.

## 24. Contingent liabilities

As at 30 June 2007, the contingent consideration in acquisition of 100% equity interest in NF Richahaus amounted to approximately RMB10,455,390 (NT45,000,000).

## 25. Approval of financial statements

These unaudited condensed consolidated interim financial statements were approved and authorised for issued by the board of directors on 30 August 2007.

# MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2007, the Group continued to focus on the development of its business in the automotive aftermarket. Based on the core business of manufacturing and distribution of automotive electronic and power-related parts and accessories (the “Manufacturing Business”), the Group took a strategic decision to enter the automotive aftermarket service chain store business in 2002 (the “Chain Store Business”). Presently, the Manufacturing Business is still the primary business of the Group with its turnover accounted for 77.5% of the Group’s total turnover during the Period (corresponding period in 2006: 89.97%). At the same time, the Chain Stores Business also grew rapidly with its turnover accounted 22.5% of the Group’s total turnover during the Period (corresponding period in 2006: 10.03%), representing an increase of 12.5%.

## ***Review of operation***

It was a hard time for Chinese export-oriented manufacturers. During the Period, the Group faced a series of challenges. Despite of the significant growth in sales and profit, impacted by various unfavorable factors in the macro economic environment, the increase in profit was not satisfactory. Although the Chain Store Business achieved significant progress, and owing to the revenue from other businesses, the Group’s turnover increased by 67.27% while profit attributable to shareholders declined by 49.79% as compared to the corresponding period in 2006.

## ***Turnover***

During the Period, the Group recorded a turnover of approximately RMB330,190,000 (corresponding period in 2006: approximately RMB197,401,000), representing a increase of 67.27%, in which the turnover of the Manufacturing Business and Chain Store Business increased by 44.01% and 275.97% respectively.

The continuous increase in the turnover of the Manufacturing Business was mainly attributed to the enhancement of the Group’s sales team, the adoption of the business strategy of developing both domestic and export markets in the Period and the emphasis on maintaining and extending its sales channel. As the price of raw materials continues to rise, the competition from the market becomes increasingly intense and the increasing appreciation of RMB, the best way to safeguard the Company’s return is to increase turnover.

# MANAGEMENT DISCUSSION AND ANALYSIS

In relation to the Chain Store Business, with the effective implementation of various business expansion strategies, this operation has been showing favorable growth. The number of chain stores had increased from 257 as at 30 June 2006 to 328 as at 30 June 2007. Although the increase in the number of chain stores was not significant, under the strategy of turning small and medium sized directly-operated stores into franchised shops while expanding directly-operated large scale stores and district centres, the quality of the management of the stores had increased enormously which resulted in the growth in turnover.

## **Gross profit**

During the Period, the gross profit of Manufacturing Business continued to be adversely impacted by the appreciation of Renminbi and the persistent rise of costs of raw materials and hence the Group's gross profit margin amounted to 19.26%, which approximated to 19.04% as recorded in the corresponding period in 2006. However, the Chain Store Business has maintained its high gross profit margin particularly for the relatively matured markets like Taiwan and Beijing which managed to record gross profit margin of 28% and 52% respectively.

## **Other revenue**

During the Period, the Group recorded other revenue of approximately RMB6,401,000 (corresponding period in 2006: approximately RMB12,461,000), which was mainly attributable to:

- (1) the settled payable income tax of approximately RMB2,442,000; and
- (2) interest income of approximately RMB1,492,000.

The reasons for the reduction compared to the same period in 2006 were that there was a one off profit from the disposal of a factory in 2006 and there was a tax refund in relation to reinvestments. By discounting the effects of these two items, the Group had in fact experienced a significant improvement in the period under review. The increase in profit of its on-going operations were approximately 85%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Expenses***

During the Period, sales and marketing expenses were approximately RMB30,213,000 (corresponding period in 2006: approximately RMB13,147,000), up 129.81%. The increase of the expense was due to several new acquired entities in Shangdong, Taiwan and Beijing, which further expanded the Group's size. The proposed development strategies for expansion require compatible and complementary sales and marketing activities. The Group believes that such expenses would become a solid basis for further development of the Group.

Administrative expenses during the Period was approximately RMB27,168,000 (corresponding period in 2006: approximately RMB22,193,000), representing a growth of 22.42%, which was also arised from the addition of the newly acquired entities.

## ***Profit attributable to shareholders***

During the Period, profit attributable to shareholders as recorded by the Group amounted to approximately RMB6,394,000 (corresponding period in 2006: approximately RMB17,273,000), representing a decline of 49.79%, which was due to the factors such as changes in revenue of other businesses and financial expenses.

## ***Analysis of Progress of Manufacturing Business***

During the Period, the Group continued to implement its 5-year business development strategies according to the business plan formulated in 2007. Under these strategies, the Group focused on the development of OEM (Original Equipment Manufacture) market and high margin products like HID (High Intensity Discharge) ballast. The Group achieved significant progress in the development of new customers while healthy improvement had been recorded in both product mix and turnover.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Development of OEM market**

Subsequent to the approval of Volkswagen (Germany), Dongfeng Peugeot Citroen, Brilliance Jinbei, Dongfeng and Chery Auto of the Group as their OEM suppliers of automobile inverter or refrigerator, during the Period, the Group was successfully approved as the OEM supplier of inverter for Faw-Volkswagen (FAW-VW) in Changchun. These achievement played a good model for the co-operation of the Group with other international renowned automotive manufacturers. The Group's turnover of the OEM business for the period amounted to RMB 4,844,036, representing an increase of 116.35% compared with the corresponding period last year (corresponding period in 2006: RMB2,239,000). Although the growth in the turnover of the OEM business was slow in terms of the orders, with the growth in the orders of the OEM business, we believe that the income of the OEM business will continue to maintain a stable growth in the coming years.

The growth in the Group's OEM business was significant. The Group grasped the chance to extend its parts and accessories in the OEM market, and fully made use of the opportunities generated from the intense competition in the global automotive market which induced automotive assemblers to upgrade their equipments and resort to external procurement of parts and accessories to reduce costs. These situations offered more opportunities for the Group to cooperate with automobile assemblers in the area of electronic instrument-related parts and accessories. Presently, the Group's OEM product line includes inverters, HID ballasts, refrigerators and stoplights etc.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Progress of HID ballast business**

HID light ballast, a high profit margin product with technical edge, is one of the three major products developed by the Group besides inverters and multi-function power packs. Along with the higher requirement on driving safety and comfort, HID light has gradually become a standard configuration for middle and top range automobiles. This creates a boom for the HID ballast market. During the Period, this product accounted for approximately 4% and 8.6% (corresponding period in 2006: 4.91% and 10.67% respectively) respectively of the turnover and gross profit of the Manufacturing Business. Because the new orders for HID Light ballast have not been reflected in the period under review, there was a reduction in sales compared to the same period in 2006.

In order to grasp the business opportunity brought by the expansion of market, the Group has already formulated a comprehensive expansion plan with a view to capture the potential development and the opportunities arising from the fact that there is currently no dominant brand name in the PRC's HID ballast market as well as the well-developed distribution channel of overseas automotive aftermarket. On top of extending its marketing efforts on HID light ballast through the self-owned chain store network and regional retailers, the Group has also started to implement a vertical integration business strategy with existing HID light OEM suppliers in order to enter this OEM market with low costs base. The HID ballast manufactured for a number of Chinese automobile manufacturers were being tested and such cooperation is likely to extend to other products.

## ***Analysis of progress of chain store business***

The Group is the pioneer in the China automotive aftermarket service chain store industry and is committed to establish the leading position in the Greater China market. During the Period, China's GDP and its retail volume of consumer goods maintained their steady growth. As the world's third largest automobile consumption country, China's retail sales on automobile consumables maintained a double-digit, year on year increase during the Period. The market is full of exciting challenges because the market participants are hungry for growth yet the regulations in the market is lacy.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to expand its chain store network and increase its market share by implementing the strategy of improving operation support that will result in long-term core competitive edge. The year 2007 has been a year of development for the Group's Chain Store Business which to a great extent benefit from the effect of last year's external expansion. Along with the self-expansion of the Group's large-scale Super store in Shanghai, and the consolidation of the large-scale super store chain scale network of Richahaus Taiwan and Beijing Aiyihang, the Group is gradually becoming the largest chain store business in autonative aftermarket in the Greater China region.

## **Expansion of chain store network**

In order to provide professional, convenient and high quality service to the consumers at low prices, and continue to expand its market share, the Group has adopted multi-level (being the four store models, namely Super, Creative, Express and Beauty) and multi-mode (namely, acquisition, cooperation, direct operation and franchise operation) network expansion strategies. At present, except for the Super store which is under direct operation, other stores are mainly operated under franchise arrangements.

Catering for china's special characteristic of vast territory, unbalanced economy development and huge differences in market environment, the Group implements the two level business system of "Headquarters - Regional Headquarters", of which the Local Regional Headquarters can provide effective support, control to the local business network as well as new stores expansion. Apart from the Shanghai, Chengdu and Taiwan District Centers, the Beijing Regional Headquarters is taking shape.

At the same time, the Group also expedited its pace in expanding mega Super stores and small franchised stores. Presently, there are over 20 large-scale stores in the Greater China area and is set to continue such growth. As at 30 June 2007, the number of chain stores had increased from 257 (29 directly-operated stores and 228 franchised stores) as at 30 June 2006 to 328 (40 directly-operated stores and 288 franchised stores).

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Progress of the establishment of operation support function**

The Group has gradually established a two tier – operation support system of “the Chain Store Business Headquarters-District Center”. This system not only ensures that the business supports the scale of operation as intended but also maintains the comprehensiveness, convenience and agility of the services provided through various District Centers. For merchandise supply, the Group can supply abundant merchandise totaling more than 18,000 types including automobile stereo, tire, wheels, maintenance products and automobile modifications. The Group also developed merchandise/equipment under its own brand name, which has begun to yield financial results. In technical support aspect, the Group has the operation right of Shanghai Huaqian Professional Technical Training School, which is the first school qualified to certify national professional qualification of automobile beauty care and refit under approved procedure. The Group has established a multi-level technical support system of “Comprehensive technical training-technical support team-new technology development and training”. The Group also continued to develop technical training across different provinces and to enhance technical support on new technologies. In terms of logistics, the Group has developed a national logistic system with various transportation methods including self-transportation, supplier transportation and dedicated logistic company transportation. In terms of brand promotion, besides promoting its brand through media and marketing campaigns, the Group also placed emphasis on participating in various automobile activities to promote its competitive edges and expand its influence in the industry.

## **Progress of acquisition**

Subsequent to the completion of acquisition in Chengdu and Taiwan, during the period, the Group has completed the acquisition of 51% equity interests in Beijing Aiyihang. This acquisition is a mean to enter the city with largest automobile ownership is China and will no doubt enhance the corporate image of the Group's Service Business. Following the strategic deployment in two of the most influential cities in China – Shanghai and Beijing, the currently fragmented automobile service business in China will gradually be improved, setting a milestone for the consolidation strategy of the Group.



# MANAGEMENT DISCUSSION AND ANALYSIS

The successful acquisition of Beijing Aiyihang will enable the Group's Service Business to increase its number of large-scale stores to over 20. On the procurement front, there is ample space for integration and complementation in respect of products such as tires, car stereo, automobile navigation and automobile accessories between New Focus and Aiyihang. The existing procurement channels of the Company have been optimized, enhancing the Company's bargaining power as well as substantially reducing its procurement costs. Lastly, from a perspective of increasing operating income, it is expected that the completion of the acquisition of Aiyihang will be able to generate an operating income of around RMB40 million for the Group's Service Business.

In the next stage, merger and acquisition will still play an important role in the expansion of the Group's automotive chain business. Based on the Group's strategies and the current market nature, the acquisition target will focus on the major regional chain entities in the PRC. It is expected that in the coming one or two years, the number of the Group's large-scale automotive chain stores will enter a new level. In line with the on-going enhancement of the business supporting infrastructure of the Headquarters, and the results of the service business will be significantly improved and enhanced.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Prospects**

The Group was pleased with the progress of its expansion during the first half of 2007. Such progress is expected to fuel the growth momentum for the second half of the year and even the coming few years. Looking ahead, opportunities come with challenges. The Group is actively adapting itself to the changes in its business environment in order to sustain long term growth. The OEM and HID ballast market have already shown signs of rapid growth. The Group will continue to develop new products to satisfy market needs and extend its product range as well as distribution channels by vertical and horizontal integration. These measures will bring more revenue and counteract the impact of RMB appreciation and the generally rising prices of materials and fuel which put a lot of downward pressure on the gross profit margin. The Board believes that the turnover and profitability of the Manufacture Business will continue to increase in light of the new business and products which will result in the improvement of gross profit.

In respect of its Chain Store Business, the Group is implementing the business expansion strategy of “expansion-integration-expansion” systematically, turning the Group into the most competitive player in the China automobile aftermarket services business. 2007 is a year of business integration. At present, the Group is the largest business operator in Greater China in the automobile aftermarket. Discussions on possible co-operations with other chain store networks are also in progress. In the second half of 2007, the Group will focus more on business integration. Leveraging on the expansion of its chain network, sales from the Chain Store Business are expected to increase substantially and the market share will increase remarkably. At the same time, the synergies among each type of stores by strengthening the collective bargaining power of the Group, expanding its sources of income and the development of business support function will become more obvious. The result will be a sizable increase in profit of the Chain Store Business. The ability of the Group’s expansion and business acquisition and integration will also be significantly enhanced. The Chain Store Business will gradually become an important source of profit growth for the Group and contributing to the strengthening of the leading position of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Financial conditions and liquidity***

The Group maintained its stable balance sheet throughout the Period. During the period under review, operation of the Group was mainly financed by internally generated resources, bank facilities and the issue of convertible bonds. As at 30 June 2007, the Group had adequate cash and bank balance amounting to approximately RMB137,595,000.

As at 30 June 2007, current assets of the Group maintained at a healthy level with a liquidity ratio (current assets: current liabilities) of 1.64 (31 December 2006: 1.94). Gearing ratio (total liabilities: total assets) was 0.56 (31 December 2006: approximately 0.37). As at 30 June 2007, the Group had no long-term loans; while short-term loans totaled to RMB68,150,000.

As at 30 June 2007, the Group had no material pledged asset, material contingent liability or external guarantee. The Group will continue to maintain a healthy financial situation. Given a positive cash inflow from operations and available bank facilities, the Group has sufficient financial resources to meet its commitments, working capital requirements and investments for future expansion.

## ***Material acquisitions and disposals of subsidiaries and associated companies***

During the Period, the Group had no material acquisitions and disposals of subsidiaries and associated companies.

## ***Significant investments***

During the period, the Group has no material investment. The Group acquired 51% equity interests in Beijing Aiyiyang Auto Service Ltd by RMB12,000,000 in cash and the issue of the Company's share with the aggregate amount of RMB28,000,000.

During the period under review, the total capital expenditure of the Group amounted to approximately RMB22,667,000 was used.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Use of proceeds***

The Group conducted an open offer and placing of 100,000,000 new shares in February 2005. The net proceeds raised net of the relevant listing expenses amounted to approximately HK\$74,700,000, among which up to 30 June 2007,

- (1) approximately RMB33,655,241 was used for R&D of the Manufacturing Business, construction of new plant and new production lines;
- (2) approximately RMB14,228,571 was used for the development of the Chain Store Business supporting function, expansion of chain stores and as working capital.

The balance of the unutilized net proceeds has been placed as short-term deposit with banks in the PRC.

## ***Exchange risk***

During the Period under review, approximately 67% of sales were conducted with overseas customers and suppliers and were mainly settled in USD.

In connection with the currency reform whereby an unified exchange rate system was long-established in 2005, the PRC had switched to a managed floating exchange rate regime based on market demand and supply and adjustments of which would be made by reference to a basket of currencies such that RMB is no longer pegged only to USD. The Group has mitigated the impact of such currency reform by signing long-term combined settlement contract with the People's Bank of China, expanding sales in the China market and further tightening the proportion of overseas procurement. During the Period, turnover attributable to the China market increased to 33% from 15% of the corresponding period in 2006. In addition, the Group will also leverage on its strong bargaining power and established relationships with customers and suppliers to transfer the additional costs arising from movements in exchange rates.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Employees and remuneration policy***

As at 30 June 2007, the Group employed 2,240 full-time employees, of which 80 were dedicated to the research and development of new products. The Group has been committed to the recruitment of talents to enrich its human resources structure. In order to attract and retain outstanding employees, the Group provided benefits such as medical insurance and housing benefits in addition to the various mandatory pension schemes stipulated by the municipal government. The Group also operates a provident fund scheme registered under Chapter 485 of the laws of Hong Kong for all its Hong Kong employees. Outstanding employees of the Group will also be granted discretionary bonuses and share options as incentives.

## ***Dividend***

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007.

# OTHER INFORMATION

## ***Directors' and Chief Executives' Interest and Short Positions in the Shares of the Company and its Associated Corporations***

As at 30 June 2007, the interests and short positions of each of the directors of the Company (the "Directors") and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or as notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he or she is taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### **(i) The Company**

#### ***(a) Interest in shares of the Company***

Name	Capacity/ Nature of interest	Number of shares in which interested (other than under equity derivatives)	Number of shares in which interested under equity derivatives	Total number of shares	Approximate Percentage of issued shares
		(Note 1)			
Mr. Hung Wei-Pi, John	Interest in a controlled corporation (Note 2)	164,680,000 (L)	Nil	164,680,000 (L)	40.59%
Mr. Douglas Charles Stuart Fresco	Interest in a controlled corporation (Note 3)	50,104,000 (L)	Nil	50,104,000 (L)	12.35%
Mr. Lu Yuan Cheng	Beneficial Owner	3,988,000 (L)	3,250,000 (L) (Note 4)	738,000 (L)	0.98%
Ms. Hung Ying-Lien	Beneficial Owner	373,800 (L)	3,400,000 (L) (Note 4)	3,773,800 (L)	0.93%
Mr. Wu Kwan-Hong	Beneficial Owner	501,400 (L)	3,400,000 (L) (Note 4)	3,901,400 (L)	0.96%

# OTHER INFORMATION

Notes:

1. The letter "L" denotes a long position in the shares.
2. These shares were registered in the name of and beneficially owned by Sharp Concept Industrial Limited, the entire issued share capital of which was registered in the name of and beneficially owned by Mr. Hung Wei-Pi, John. Under the SFO, Mr. Hung Wei-Pi, John is deemed to be interested in all the shares of the Company held by Sharp Concept Industrial Limited.
3. These shares were registered in the name of and beneficially owned by Golden Century Industrial Limited, the entire issued share capital of which was registered in the name of and beneficially owned by Mr. Douglas Charles Stuart Fresco. Under the SFO, Mr. Douglas Charles Stuart Fresco is deemed to be interested in all the shares of the Company held by Golden Century Industrial Limited.
4. Details of these equity derivatives are set out in sub-section (b) below.

**(b) Interests in the underlying shares of the Company through unlisted and physically settled equity derivatives (as defined in the SFO)**

Certain Directors were granted share options under the share option scheme of the Company dated 13 February 2005. Share options granted to the Directors to subscribe for shares of the Company which were outstanding on 30 June 2007 were as follows:

Name	Nature of interest	Number of underlying shares in respect of options granted but not exercised	Exercise period	Price for grant	Exercise price
Ms. Hung Ying-Lien	Beneficial Owner	3,400,000 (L)	1 January 2006 to 12 February 2015	HK\$10.00 (for all)	HK\$0.94 (per share)
Mr. Wu Kwan-Hong	Beneficial Owner	3,400,000 (L)	1 January 2006 to 12 February 2015	HK\$10.00 (for all)	HK\$0.94 (per share)

The letter "L" denotes a long position in underlying shares of the Company.

# OTHER INFORMATION

Save as disclosed above, as at 30 June 2007, to the knowledge of the Directors, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules.

## ***Substantial Shareholders' Interests and Short Positions in the Shares of the Company***

As at 30 June 2007, the interests and short positions of the persons, other than Directors and chief executives of the Company, in the shares and underlying shares of the Company, as notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of the Group, were as follows:

Name of Substantial Shareholder	Capacity/ Nature of interest	Number of shares in which interested (other than under equity derivatives)	Number of shares in which interested under equity derivatives	Total number of shares	Percentage of issued shares
		(Note 1)			
Sharp Concept Industrial Limited	Beneficial owner	164,680,000 (L)	Nil	164,680,000	40.59%
Ms. Jinxiao Yan	Family interest (Note 2)	164,680,000 (L)	Nil	164,680,000	40.59%
Golden Century Industrial Limited	Beneficial owner	50,104,000 (L)	Nil	50,104,000	12.35%
The Norman Matthew LLC	Beneficial owner (Note 3)	50,104,000 (L)	Nil	50,104,000	12.35%
Ms. Linda Fresco	Family interest (Note 4)	50,104,000 (L)	Nil	50,104,000	12.35%

## OTHER INFORMATION

### Notes:

1. The letter "L" denotes a long position in the shares.
2. Ms. Jin Xiao-Yan is the wife of Mr. Hung Wei-Pi, John, an executive Director. Under the SFO, she is deemed to be interested in all the shares of the Company held by Sharp Concept Industrial Limited which is wholly and beneficially owned by Mr. Hung Wei-Pi, John.
3. The Norman Matthew LLC is owned by Mr. Norman L. Matthew as to 28.20%, Mr. Kenneth S. Matthew as to 28.20% , Mr. Edward B. Matthew as to 28.20%, Mr. Abe J. Matthew as to 5.98%, Ms. Nettie Matthew as to 4.43%, Mr. Vince Alesi as to 2.99% and Mr. Glenn Fingerhurt as to 2.00%.
4. Mrs. Linda Fresco is the wife of Mr. Douglas Charles Stuart Fresco, an executive Director. Under the SFO, she is deemed to be interested in all the shares of the Company held by Golden Century Industrial Limited which is wholly and beneficially owned by Mr. Douglas Charles Stuart Fresco.

Save as disclosed above, the Directors are not aware of any person, other than the Directors or chief executives of the Company, who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group as at 30 June 2007.

### **Share Option Scheme**

The Company conditionally adopted a share option scheme (the "Scheme") on 13 February 2005 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

There have been no changes in the terms of Scheme during the six months ended 30 June 2007. The detailed terms of the Scheme were disclosed in the 2005 annual report of the Company.

As at 30 June 2007, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 17,875,000 shares. The total number of shares available for issue under the Scheme (excluding options already granted) is 16,460,000 shares, representing approximately 4.06% of the total issued share capital of the Company on that date.

# OTHER INFORMATION

Details of the share options granted under the Scheme as at 30 June 2007 are as follows:

Name of option holder	Date of grant of share option	Exercise period of share option	Exercise price of share option (per share)	Closing price on date of grant (per share)	Number of underlying shares subject to options at 1 January 2007	Number of underlying shares subject to options exercised since 1 January 2007	Number of Lapsed/ cancelled since 1 January 2007	underlying shares subject to outstanding options at 30 June 2007
Ms. Hung Ying-Lien Executive Director	28/2/2005	1/1/2006– 12/2/2015 <i>(Note 1)</i>	HK\$0.94	HK\$0.94	3,400,000	–	–	3,400,000
Mr. Wu Kwan-Hong Executive Director	28/2/2005	1/1/2006– 12/2/2015 <i>(Note 2)</i>	HK\$0.94	HK\$0.94	3,400,000	–	–	3,400,000
Mr. Lu Yuan Cheng Executive Director	28/2/2005	1/1/2006– 12/2/2015 <i>(Note 3)</i>	HK\$0.94	HK\$0.94	3,250,000	–	–	3,250,000
Continuous contract employees in aggregate	28/2/2005	From 1/1/2007 <i>(Note 4)</i>	HK\$0.94	HK\$0.94	5,430,000	(60,000 )	(120,000 )	5,250,000
Continuous contract employees in aggregate	5/7/2005	From 1/1/2007 <i>(Note 4)</i>	HK\$1.01	HK\$1.00	1,090,000	(30,000 )	(100,000 )	960,000
Total					16,570,000	(90,000 )	(220,000 ) <i>(Note 5)</i>	16,260,000

## OTHER INFORMATION

Notes:

1. *Share options in respect of 600,000 underlying shares are exercisable during the period from 1 January 2006 to 31 December 2006 and the remaining share options are exercisable during the period from 1 January 2006 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.*
2. *Share options in respect of 600,000 underlying shares are exercisable during the period from 1 January 2006 to 31 December 2006 and the remaining share options are exercisable during the period from 1 January 2006 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.*
3. *Share options in respect of 400,000 underlying shares are exercisable during the period from 1 January 2006 to 31 December 2006 and the remaining share options are exercisable during the period from 1 January 2006 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.*
4. *Share options to other employees are exercisable within periods ranging from 1 year to 5 years subject to such performance targets or conditions as determined by the Board.*
5. *Options lapsed in accordance with the terms of the Scheme.*

### **Arrangements to Purchase Shares or Debentures**

Save as disclosed above and save as disclosed in the section headed “Share Option Scheme”, at no time during the Period were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company, any of its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### **Purchase, Sale or Redemption of the Company's Listed Shares**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the Period.

### **Corporate Governance**

Save as disclosed below, in the opinion of the Directors, the Company has complied with the code provisions of the Code of Corporate Governance Practice (the “Code”) as set out in Appendix 14 of the Listing Rules during the Period.

## OTHER INFORMATION

Under A.2.1 of the Code, “the roles of chairman and chief executive officer should be separated and should not be performed by the same individual”. Mr. Hung Wei-Pi, John concurrently takes up the posts of chairman and chief executive officer of the Company. Such deviation is due to the fact that the day-to-day management of the Group is led by Mr. Hung. The Board considers that this arrangement provides the Group with strong and consistent leadership and allows for effective and efficient planning and implementation of business strategies and decisions.

### ***Directors’ Securities Transactions***

The Company has adopted a code of conduct regarding securities transactions of Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the “Model Code”). To ensure the Directors’ dealings in the securities of the Company are conducted in accordance with the Model Code, a committee (the “Securities Committee”) of the Board comprising Mr. Hung Wei-Pi, John as chairman and Ms. Hung Ying-Lien was set up to deal with such transactions. Prior to any dealing in the securities of the Company, a Director is required to notify the chairman of the Securities Committee or in the case of dealings by Mr. Hung Wei-Pi, John himself, notify Ms. Hung Ying-Lien in writing and obtain a written acknowledgement from the Securities Committee. Having made specific enquiry of all Directors by the Securities Committee of the Company, all Directors confirmed that they had complied with the Model Code regarding Directors’ securities transactions during the Period.



## OTHER INFORMATION

### **Audit Committee**

The accounting information given in this interim report has not been audited but has been reviewed by the Audit Committee of the Company.

By Order of the Board

**New Focus Auto Tech Holdings Limited**

**Hung Wei-Pi, John**

*Chairman*

Hong Kong, 30 August 2007