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

ANNUAL 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 Directors

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

Ronie Yun Chung Cheng, ACA

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Cayman Islands

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Stock Code

360

Websites

http://www.nfa360.com
http://www.nfa-cn.com
http://www.autolife.com.cn

CHAIRMAN'S STATEMENT

It is an honor for me to present the Group's 2007 operating results and its plan for 2008 to our shareholders, all the staff and parties who show concern to us.

Results Performance and Dividend Policy

The key aspect of the manufacturing business of the Group is the innovative production of Auto Green Lighting and automotive electronic and power-related parts and accessories, while the provision of professional automotive aftermarket services is the key element of the Group's service business.

For the year ended 31 December 2007, the Group's consolidated turnover amounted to approximately RMB763,451,000, representing a growth of 43.16% from the corresponding period in 2006. Profit attributable to shareholders was approximately RMB17,849,000 and earnings per share were RMB4.11 fen. The manufacturing business of the Group, represented by NFA, accounted for approximately RMB577,441,000 of the consolidated turnover, representing a growth of approximately 21.02% from the corresponding period in 2006, while the consolidated turnover of the Group's chain retail services, represented by AUTOLIFE, amounted to RMB186,010,000, representing a growth of approximately 231% from the corresponding period in 2006. Autolife accounted for 24.36% for the Group's overall turnover, representing approximately 14 percentage point higher than that of 2006 and such growth has laid strong foundation for the Group to become a leading chain retailer in the PRC automotive aftermarket services sector.

With the Group's rapid growth in business and the expected higher demand for capital, the Board recommends a bonus issue of one new share for every forty existing shares of the Company in lieu of cash dividend.

Business Progress

Manufacturing Auto Green Lighting and automotive electronic and power-related parts and accessories – NFA

In 2007, the export-oriented NFA faced exceptional pressure and challenges under the general market condition arising from continuous and disordered raw material price hike and substantial appreciation of Renminbi exchange rate against US dollar and other European currencies. However, NFA has implemented a series of effective solutions, the results of which will be fully reflected in 2008. In spite of the unfavorable situation, NFA persisted in its strategic plan to enlarge its share in the PRC automotive parts and accessories market and shift from the AM market to the OEM market and has diverted itself from producing a complex array of products to focusing on automotive electronic and Green Lighting products.

In response to such difficulties and challenges, the management adopted the following solutions and encouraging results have been achieved:

1) Emphasized on the exploration of the domestic PRC market and seized the opportunities from the booming PRC automotive industry by leveraging its success to becoming a tier-one supplier of a number of the leading PRC car manufacturers;

2) Optimized its product lines and resources allocation in order to raise the gross profit margin by 4% to 5%;

3) Enlarged the share of revenue attributable to "direct export" products (which is to export directly to overseas chain stores and by-passing the importers) to further enhance the gross profit margin by 5% to 8%;

4) Increased the overall price of export products by 8% to 10% and adjusted the quotation policy in order to maintain profit margin;

5) Established a production base in Shanghai to enhance production efficiency and quality;

During the period under review, despite the continuation of the unfavorable internal and external environments, NFA's manufacturing business, through the above initiatives, was capable of capturing the enormous opportunities provided by the fast growing PRC car industry, structurally alleviated the impact of the external adverse factors, such as Renminbi appreciation, on the manufacturing industry, and laid a firm foundation for healthy future growth.

The Automotive Aftermarket Chain Service Business – Autolife

The key element of Autolife is the provision of professional automotive aftermarket services. Since its establishment in 2002 in Shanghai, Autolife has gained experience from years of hard work, exploration and market study, and changed its development strategies from extending its market shares to creating brand value, and shifted the emphasis from quantity to quality with respect to its sales outlet establishment. The Group took further steps to close down poorly managed and unprofitable outlets in 2007 and affirmed that the operation of Super store is its most suitable, sustainable and profitable business model. The original operating model of chain outlets with four types of stores, namely Super, Creative, Express and Beauty stores, were streamlined into two major categories, namely Super store and Convenient store. Super store and Convenient store were established as O&O (own-operated) and franchised stores respectively, which together set forth the optimal business model for Autolife that catered to the current market. In addition, the Super stores, as the major channel, and the Convenient stores, as the supportive network, complemented each other and gave impetus to Autolife.

CHAIRMAN'S STATEMENT

During the period under review, Autolife achieved the following milestones:

1) Set up regional headquarters in Shanghai, Chengdu, Taiwan and Beijing, which offered support in expanding local chain networks and improved the efficiency of network expansion and business support;

2) Increased the number of own-operated Super stores from 10 in 2006 to 23 in 2007, representing a growth rate of 130%, of which 12, 8, 2 and 1 Super stores were located in Beijing, Taiwan, Chengdu and Shanghai respectively. The significant increase in the number of Super stores provided the basis for the growth of sales in 2008;

3) Fostered the establishment of a total of 310 franchised stores in Zhejiang, Jiangsu, Guangdong and Tianjin to build up the scale of operation;

4) Established a total of 350 chain outlets, of which 40 were own-operated stores and 310 were franchised stores, and this reaffirmed our leading position in the PRC automotive aftermarket chain services sector.

During the period under review, Autolife adhered to its 5-year strategic plan, made progress towards becoming the market leader and laid the groundwork for long-term development in the future.

Prospect

Although the macro economic environment in 2008 may not be favourable, NFA had taken various effective initiatives in 2007 and it is believed that a significant increase in profit margin will be witnessed in 2008. In addition, leveraging on its capacity as a tier-one supplier of a number of the leading car manufacturers in the PRC as well as further investment, NFA will endeavor to enlarge its market share in the PRC automotive OEM market in 2008.

With the finalization of the network of regional headquarters, the adoption of the business model of leveraging the operation of Super stores and extending the chain outlets coverage, Autolife is expected to achieve a turnaround in 2008. The number of Autolife's own-operated Super stores and the total number of chain stores will mount up to 40 and 400 respectively in 2010.

Appreciation

I would like to take this opportunity to extend my sincere gratitude to all shareholders, staff and parties who show concern to us for their continuing support.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The key aspect of the manufacturing business of the Company is the innovative production of Auto Green Lighting and automotive electronic and power-related parts and accessories, while the provision of professional automotive aftermarket services is the key element of the Group's service business.

For the year ended 31 December 2007, the Group's consolidated turnover amounted to approximately RMB763,451,000, representing a growth of 43% from the corresponding period in 2006. Profit attributable to shareholders was approximately RMB17,849,000 (of which approximately RMB15,214,000 was related to the effect of the fair value gain on the revaluation of the derivation component of the convertible bond.) and earnings per share were RMB4.11 fen. The manufacturing business of the Group, under the name of NFA, accounted for approximately RMB577,441,000 of the consolidated turnover, representing a growth of approximately 21% from the corresponding period in 2006, while the consolidated turnover of the Group's retail chain services, under the name of AUTOLIFE, amounted to approximately RMB186,010,000, representing a growth of approximately 231% from the corresponding period in 2006.

Autolife accounted for 24% for the Group's overall turnover, approximately 13 percentage points increase from that of 2006 and such growth has laid strong foundation for the Group to become a leading chain retailer in the PRC automotive aftermarket services sector.

Considering the Group's rapid growth which will require significant amount of capital, no interim dividend was paid during the year. The Board does not recommend the payment of a final dividend for the year ended 31 December 2007.

The Board proposes a bonus issue of one new share of the Company (the "Share") of HK$0.10 each and credited as fully paid for every forty issued Shares held as shown on the register of member of the Company on 4 June 2008. A sum standing to the credit of the share premium account will be capitalized and applied in paying up the nominal value of the new Shares in full. The issuance of bonus shares will be conditional upon the relevant resolution being approved on the forthcoming annual general meeting, and the approval for the listing of, and permission to deal with, the new Shares being granted by the listing committee of the Stock Exchange. Such new Shares shall rank pari passu with the existing issued Shares in all aspect, except that such new Shares shall not entitle their holders to receive the proposed bonus shares.

Review of Business Progress

Manufacturing Auto Green Lighting and automotive electronic and power-related parts and accessories – NFA

In 2007, the export-oriented NFA faced exceptional pressure and challenges under the general market condition arising from continuous and exceptional raw material price hike and substantial appreciation of Renminbi.

However, NFA has implemented a series of effective solutions, the results of which will be fully reflected in 2008. In spite of the unfavorable situation, NFA persisted in its strategic plan to enlarge its share in the PRC automotive parts and accessories market and shift from the AM market to the OEM market and has diverted itself from producing a complex array of products to focusing on automotive electronic and Green Lighting products.

In response to such difficulties and challenges, the management adopted the following solutions and encouraging results have been achieved:

1. Emphasized on the development of the PRC car manufacturer customers and seized the opportunities presented by the booming PRC automotive industry by leveraging on its success in becoming the tier-one supplier of a number of the leading PRC car manufacturers:

   1) *Became a tier-one supplier of FAW-Volkswagen*

      In October 2007, NFA entered into a inverters supply contract with FAW-Volkswagen. Given the rapid expansion of the PRC automotive market and that inverters were expected to become a standard equipment of high- and mid-end vehicles, this supply contract was strategically vital for NFA to enlarge its market share in the automotive converter OEM market.

   2) *Became a tier-one supplier of another renowned PRC car assembly company*

      In November 2007, NFA's inverters were accepted by another renowned car assembly company in the PRC.

2. Optimized its product lines and resources allocation in order to raise the gross profit margin by 3% to 5%:

   1) NFA persisted the development of HID ballasts which have higher profit margin. The research and development of the fourth generation HID ballast products has been substantially completed in 2007, while large-scale commercial production is expected to commence in 2008. This will act as a stimulant to NFA's expansion in the HID products in the OEM and aftermarket segments.

      Furthermore, in order to strengthen the competitiveness of NFA's products, research and development department of NFA took the initiative to refine the other three major product lines, namely automotive inverters, chargers and power packs. In-depth research and analysis were conducted with respect to the appearances, structural designs, features, packages and raw materials, with a view to offering products and packages that have competitive prices and serve the requirements of the end users.

2) The production of products with lower profit margins was relocated to the Shandong plant, which significantly optimized resources allocation as Shandong Province enjoys advantages in terms of low labor costs and preferential tax treatment. The Group has set forth a plan to relocate the production lines of power packs and jump start products, which command lower profit margins, to Shandong in order to optimize profit margin as much as possible. It is expected that, upon the execution of this strategy, the profit margins of these products will increase by 4% to 5%.

3. Enlarged the share of “direct export” products to further enhance the gross profit margin by 5% to 8%:

In 2007, NFA increased its investment in expanding the volume of direct export products. During the period under review, NFA has commenced direct export of products to large overseas chain stores and by-passing importers, and the profit margin of such products was 5% to 8% higher than that of the products sold to importers.

In order to guarantee on-time delivery, high quality and low prices of products as well as to manage potential risks, large overseas chain stores generally impose relatively more stringent requirements on the capability of their suppliers and set higher entry barriers. Moreover, the Group has to excel itself in terms of product’s performance, appearance, package design and costing in front of severe competition from overseas intermediate importers.

During the period under review, the manufacturing business of the Group has demonstrated the following capabilities which were necessary for conducting and expanding direct export:

1) NFA has been recognized as a well-known IDM manufacturer;

2) NFA has set up a sales office in North America which hires local sales representatives to provide timely before- and after-sales services to its customers;

3) NFA has access to sufficient warehouse space in order to store inventories required to supply its customers with adequate products in a timely manner. In addition, further storage area in the PRC was expected to be available in June 2008;

4) NFA has negotiated with various international renowned brand owners in respect of brand concessions with an intention to leverage on the strength of their well-known brands in implementing the direct export strategy effectively.

4. Increased the overall price of export products by 8% to 10% and adjusted the quotation policy in order to maintain profit margin:

   At the end of 2007, NFA increased the prices of its export products in general to offset the impact of Renminbi exchange rate appreciation on its gross margin. According to international industry practices, price increases usually come after sending advance notice to respective customers. Such price increase has not taken effect in the period under review but will be reflected in 2008 and make significant contribution to the Group's gross profit in 2008.

   In addition, to mitigate the impact of Renminbi exchange rate appreciation and immense fluctuation in raw material prices on the gross profit for 2008, NFA has effectively adjusted its pricing strategy. Such adjustments included:

   1) Providing individual and immediate quotation to customers for parts and accessory products that are subject to price fluctuation;

   2) Shortening the effective period of quotations as far as possible;

   3) Quoting prices in currency other than US dollar that does not experience material depreciation;

   4) Stating in the quotation that if the price of any major raw material rises to a certain level, NFA shall have the right to raise price within the effective period of the quotation, and the new price shall be applied retrospectively.

5. Established a production base in Shanghai to enhance production efficiency and quality by about 15%:

   At the beginning of 2007, NFA started planning the construction of a new plant which was expected to commence operation in 2008. Upon the deployment of this new plant and the new equipment thereof, production will be highly automated. Higher production efficiency and product quality will be achieved.

   During the period under review, despite the continuation of the unfavourable internal and external environments NFA's manufacturing business, through the above initiatives, was capable of capturing the enormous opportunities provided by the fast growing PRC car industry, structurally alleviated the impact of the external adverse factors, such as Renminbi exchange rate appreciation, on the manufacturing industry, and laid a firm foundation for healthy growth in the future.

The Automotive Aftermarket Service Business – Autolife

The key element of Autolife is the provision of professional automotive aftermarket services. Since its establishment in 2002 in Shanghai, Autolife has gained experience from years of hard work, exploration and market study, and changed its development strategies from extending its market shares to creating the brand value, and shifted the emphasis from quantity to quality with respect to its sales outlet establishment. The Group took further steps to close down poorly managed and unprofitable outlets in 2007 and affirmed the operation of Super stores as its most suitable, sustainable and profitable business model. The original operating model of chain outlets with four types of stores, namely Super, Creative, Express and Beauty stores, were streamlined into two major categories, namely Super stores and Convenient Stores.

- Super stores – large-scale one-stop service outlets with an area of over 1,000 square meter that provide trendy products as well as quality and tailor-made one-stop services to customers, including accessories without service, accessories with service, clean and beauty as well as light maintenance;

- Convenient stores – small convenient store with an area of 50 to 700 square meter that provide mainly convenient and quick services to consumers, including clean and beauty light maintenance.

Super stores and Convenient stores were established as O&O (own-operate) and franchised stores respectively, which together set forth the optimal business model for Autolife that catered to the current market. In addition, the Super stores, as the major channel, and the Convenient Stores, as the supportive network, complemented each other and gave impetus to Autolife.

During the period under review, Autolife achieved the following milestones:

1. Completed establishment of regional headquarters in the key first-tier municipalities.

   Based in Shanghai, the economic center of the PRC, NFA has built up strategic networks in the key first-tier municipalities. By the end of 2007, NFA has established regional headquarters in Shanghai, Beijing, Chengdu and Taiwan.

   - Beijing Headquarter – Beijing, the political and cultural center of the PRC, has the highest passenger car accumulation. This headquarter was established in May 2007 by acquiring Beijing Aiyihang Auto Services Ltd., which has access to the largest customer retention in Beijing as well as track record of steady growth;

- Taiwan Headquarter – Being a wealthy region in China, Taiwan ranked second in terms of passenger car accumulation. The regional headquarter in Taiwan was established at the end of 2006 by acquiring Richahaus in Taiwan. It possesses decades of experience in the industry and therefore has the highest profitability among Taiwanese competitors. At the end of 2007, Richahaus became a new major source of profit for Autolife as it operated 8 Super stores in Taipei and the network expansion will accelerate as the economy of Taiwan is blooming;

- Chengdu Headquarter – Chengdu is the gate to Southwestern China and has the third highest passenger car accumulation. This headquarter was established in 2006 and the first and the second O&O (own-operated) Super stores were opened in 2006 and 2007 respectively. This made us the first automotive aftermarket enterprise which operated two Super stores in Chengdu;

- Shanghai Headquarter – Shanghai, the economic center of the PRC, has the fourth highest passenger car accumulation in the PRC. The headquarter was established in 2002 and has set up 78 outlets in Shanghai at the end of 2007, achieving 93% coverage across the city, which was the highest among its peer.

The establishment of regional headquarters offered support to local chain networks and improved the efficiency of network expansion and business support.

2. The growth rate of the number of O&O (own-operated) Super stores reached 130% and provided the basis for growth of sales in 2008.

   - The first Super store in Shanghai region, namely Wuzhong shop 新焦點汽車生活時尚館, was opened in September 2006. After a year of operation, this Super store has exhibited a replicable and profitable business model that featured pleasant products display, excellent services and effective management;

   - Autolife successfully acquired Beijing Aiyihang Auto Service Ltd in May 2007 and incorporated the 9 O&O (own-operated) Super stores into the Autolife's network;

   - 成都新焦點 opened the second O&O (own-operated) Super store, i.e. Jinsha shop, in June 2007;

   - Beijing Aiyihang established 3 O&O (own-operated) Super stores in the second half of 2007.

At the end of 2007, Autolife operated a total of 23 Super stores, representing an increase of 130%, or 10 stores, as compared with 2006.

3. Fostered the establishment of a total of 310 franchised stores to build up the scale of operation.

   With the efforts of the regional headquarters, Autolife promoted the model of self-owned Convenient stores and fostered the development of franchised stores in the satellite cities. In view of the uniqueness of the industry, while the relevant policies and regulations still require modification and perfection, the Group was moving one step at a time in the formation and management of the franchise system by firstly allowing franchisees to operate independently, then consolidating the purchasing function, and finally resuming overall management. In 2007, the Group has started to implement consolidated purchasing management over the franchise stores in order to cease unrestrained operation in the first phase of development.

   By the end of 2007, Autolife has established 310 franchise stores in first-tier cities and regions such as Beijing, Shanghai, Zhejiang, Guangdong, Tianjin, Nanjing, Jiangsu and Chengdu, of which 20 are Super stores and 310 are Convenient stores.

4. Established a total of 350 chain outlets, of which 40 were O&O (own-operated) stores and 310 were franchised stores, and this reaffirmed our leading position in the PRC automotive aftermarket chain services sector.

   Leveraging on the pre-dominant retention of outlets and years of experience, Autolife possesses the following development strengths:

   - Enjoys extensive customer retention in first-tier cities that pave the way for business development;

   - consolidated purchasing power which in turn strengthened negotiation power; and

   - accumulated years of experience that illustrates a diversified and mature franchise business model.

5. Having our own professional training institute that nurture and secure abundant supply of talent for the Group in the long-term.

   In 2007, the Group's 上海華靚職業技術學校, being a professional certification body recognized by the Shanghai City government, organized training programs for new workers from other cities on behalf of the Shanghai city government. It has nurtured a large pool of well trained technicians for the community and the industry and acts as the Group's source of talent.

6. Acquired Beijing Aiyihang; further expand the commodities purchasing function; and enhance the integrated competitiveness.

During the period under review, the Group adhered to its stated network expansion strategy and concentrated on the acquisition of operators of outstanding Super stores in the target regions with an aim to incorporating the acquired Super stores and swiftly establishing well organized regional networks by subordinating them to the newly set up regional headquarters which carry out effective management over the expansion plans and business support to the outlets by replicating the proven effective business support and extending the strategic cooperation.

Given the success in the establishment of Taiwan headquarter by acquiring Richahaus, the Group further acquired Beijing Aiyihang in March 2007. Aiyihang, being the leading automotive aftermarket chain store operator in Beijing, operates 9 Super stores in Beijing and had over ten years of experience in managing Super stores. Beijing currently has over 2 million privately owned passenger cars, making it the largest among the PRC cities in terms of passenger car accumulation. Being the capital city of the PRC, Beijing has a more mature market as compared with the other cities. Being the political and cultural center also demands high quality of services. The acquisition of 51% equity interest of Aiyihang held significant strategic value to the Group in developing its chain service business and the fulfillment of its strategic goal.

Prospect

Although the macro economic environment in 2008 may not be favourable, NFA had taken various effective initiatives in 2007 and it is believed that a significant increase in profit margin will be witnessed in 2008.

The automotive market of the PRC is blossoming as the sales volume of cars amounted to 8.79 million in 2007 and is expected to reach 10 million by 2008. Leveraging on its capacity as a tier-one supplier of a number of the leading car manufacturers in the PRC as well as further investment, NFA will endeavor to seize the opportunity and enlarge its market share in the PRC automotive OEM market in 2008. Meanwhile, the Group will better utilize this business platform to supply other products in its product range to the tier-one car manufacturers in the PRC through the established sales channels with an objective to enlarging NFA's scale of operation.

With the finalization of the network of regional headquarters, the adoption of the business model of Super stores and the extended chain outlets coverage, Autolife is expected to achieve a turnaround in 2008.

Under the stimulus of the growing PRC automotive market, the automotive aftermarket will prosper. The number of privately owned cars in the PRC reached 46 million in 2007 and is expected to hit 56 million in 2008. As the leader of the automotive chain service industry, Autolife will capture the opportunities presented by the ever growing market size and expands its business accordingly. It is our plan that the number of Autolife's O&O (own-operated) Super stores and the total number of chain outlets will mount up to 40 and 400 respectively.

Review of operation

During the period under review, turnover increased by 43% to approximately RMB763,451,000, gross profit, operating profit and profit attributable to shareholders all recorded significant increase. Gross profit increased by 89% to approximately RMB140,384,000, operating profit increased to approximately RMB15,947,000, (2006: restated RMB4,698,000) while profit attributable to shareholders increased to approximately RMB17,849,000 (2006: restated loss approximately RMB3,089,000).

Gross profit

Gross profit margin of sales of the Group was approximately 18% (the corresponding year of 2006: 14%), representing an increase of 4 percentage points. The reason for the increase of gross profit margin was the increase in the proportion of the Group's business attributable to the service sector since the acquisition of the Taiwan and Beijing subsidiaries which has a much higher margin. The service sector accounted for 24% of total sales in 2007 compared to 11% in 2006.

During the year, the global prices of lead and copper increase by 100% and 30% respectively compared to 2006 prices; the RMB/USD exchange rate has increase by 6.9% since the beginning of the year. These factors have put downward pressure on the gross profit of the Group. In response to these factors, the Group has reorganized its product mix, develops and expands the "direct export" business and change the contract terms with customers to allow for changes in relation to the fluctuation of prices of raw materials and exchange rates. These measures should help stabilize the 2008 gross profit level to that of 2007.

Other gains

The Group recorded other gains of approximately RMB16,198,000 (2006: approximately RMB14,591,000).

Expenditures

Total selling and marketing expenses and administrative expenses amounted to approximately RMB140,635,000 (2006: approximately RMB84,253,000), of which selling and marketing expenses amounted to approximately RMB70,348,000 (2006: approximately RMB33,892,000); and administrative expenses amounted to approximately RMB70,287,000 (2006: approximately RMB50,361,000).

The significant increase in selling and marketing expenses was the result of the acquisition of the largest automotive aftermarket service chain network operator in Taiwan – Richahaus Co., Ltd.; and automotive aftermarket service chain network operator in Beijing – Beijing Aiyihang Auto Services Ltd. The Group believes that the increase in profit attributable to the service sector is a clear indicator that the increase in the selling and marketing expenses has been justified.

The increase in administrative expenses was in line with the increase in the size of the Group.

Operating profit

Operating profit was approximately RMB15,947,000 (2006: restated profit of approximately RMB4,698,000), representing an increase of 239% from the last year.

Finance cost and tax

Net finance cost was approximately RMB8,732,000 (2006: approximately RMB2,238,000). The increase was cause by the issuance of US$12,000,000 convertible bond during the year with related finance cost of approximately RMB7,853,000.

Income tax expense was approximately RMB1,067,000 (2006: approximately RMB4,201,000). The decrease was primarily attributable to the overprovision of income tax for previous year.

Profit attributable to shareholders

Profit attributable to shareholders was approximately RMB17,849,000 (2006: restated loss approximately RMB3,089,000).

Financial conditions and liquidity

The Group maintained its stable financial status during the period. As at 31 December 2007, the Group had adequate cash and bank balance of approximately RMB135,532,000.

As at 31 December 2007, current assets of the Group maintained at a healthy level of approximately RMB445,764,000 (2006: approximately RMB289,210,000) with a liquidity ratio of 1.58 (2006: 1.35). Gearing ratio calculated by dividing total liabilities by total assets increased from 52.6% during 2006 to 57.4%.

As at 31 December 2007, total bank borrowings were approximately RMB102,423,000, which are secured by a mix of certain buildings and land, certain leasehold land and land use rights of the Group and personal guarantees from a director of a subsidiary and her husband, corporate guarantees of the Group entities, personal guarantee from Mr. Hung Wei Pi and bank deposits.

Leveraging on its bank deposits, cash and bank facilities, the Group maintains a strong and healthy liquidity status, and has sufficient financial resources to meet its requirement for working capital, capital expenditure and future investment.

During the year, the Group incurred an investment of approximately RMB44,017,000 (2006: approximately RMB68,370,000) for the addition of machinery and equipment, and increase in such items arising from acquisition, construction of new plants and renovation of leased properties.

Use of proceeds

The Group offered and placed 100,000,000 new Shares in February 2005. The net proceeds raised after the relevant listing expenses were approximately HK$74,700,000.

Use of proceeds in the manufacturing business: for the year ended 31 December 2007, approximately RMB31,462,000 were used for the development and construction of new factory and production line.

Use of proceeds in the chain store business: for the year ended 31 December 2007, approximately RMB12,664,000 was used for the expansion of the retail chain stores.

Approximately RMB3,166,000 was used for operating expenses within the Group.

Exchange risk

During the period under review, approximately 70% of sales and 20% of raw material purchases were conducted with overseas customers and mainly settled in USD. In response, the Group has signed a forward contract of group exchange settlement with the Bank of China. The Group has enhanced the sales in the PRC market; further heightened the proportion of overseas procurement and strict control over costs and expenses to mitigate the impact of such exchange rate movement. Meanwhile, the Group will also leverage on its strong bargaining power and established relationships with customers and suppliers to transfer to them the additional costs arising from movements in exchange rates. The Group has no material exposure to foreign exchange risks.

Employees and remuneration policy

As at 31 December 2007, the Group employed 3,394 full-time employees, of which 393 were managerial staff and 310 were dedicated to the research and development as well as the related work of 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 governments. Employee remuneration packages are structured and reviewed by reference to market terms and individual merits. Outstanding employees of the Group will be granted discretionary bonus and share options as incentives. As at 31 December 2007, 33 employees have been granted share options. It is the Group's plan to grant more options to a larger proportion of staff out of the 15,380,000 share options available, thereby further reinforcing the sense of belonging and responsibility to the Company.

Executive Directors

Mr. Hung Wei-Pi, John *(Chairman)*

Mr. Hung, aged 47, is one of the founders and the chairman and president of the Company. He is primarily responsible for the management of the board of Directors and formulation of the future development strategies and planning of the Group.

He graduated from Chung Yuan Christian University (台灣中原大學) with a bachelor's degree in commerce in 1982. Prior to establishing Shanghai New Focus Auto Parts Co., Ltd. ("NFA Parts"), Mr. Hung was the founder and general manager of New Focus Line Limited. In March 1994, Mr. Hung established NFA Parts. He assumed the positions of both the director and general manager and has actively participated in NFA Parts' daily operations. In 2001, Mr. Hung established Shanghai New Focus Auto Repair Services Co., Ltd. ("NFA Service"). Mr. Hung is the brother of Ms. Hung Ying-lien and the brother-in-law of Mr. Wu Kwan-Hong.

Mr. Wu Kwan-Hong

Mr. Wu, aged 47, is an executive Director and he is responsible for the overall business development and operational management of the manufacturing business of the Group.

He graduated from Taiwan Feng Chia University (台灣逢甲大學) with a bachelor's degree in banking insurance in 1984. Prior to joining the Group, Mr. Wu was the manager in the areas of warehousing management and procurement of New Focus Line Limited from 1990 to 1998. He formally joined NFA Parts as vice general manager in April 1998, and has participated in business planning and management. He is the spouse of Ms. Hung Ying-Lien and the brother-in-law of Mr. Hung Wei-Pi, John.

Ms. Hung Ying-Lien

Ms. Hung, aged 42, is an executive Director and vice-president of the Group and she is responsible for the overall business development and operational management of the chain stores business.

She graduated from Taiwan Fu Jen Catholic University (台灣輔仁大學) with a bachelor's degree in accountancy in 1988. She has extensive experience in the retail and wholesale service sector and in the finance field. Prior to joining the Group, Ms. Hung had been working for various positions, in a hypermarket chain stores in Taiwan from 1991 to 2001 in the areas of wholesaling operations, human resources management, products management, inventory logistics and financial management. Ms. Hung joined the Group in July 2001. She is currently in charge of the operation of NFA Service. She is the sister of Mr. Hung Wei-Pi, John and the spouse of Mr. Wu Kwan-Hong.

Mr. Lu Yuan Cheng

Mr. Lu, aged 47, is an executive Director and the chief technology officer of the manufacturing business of the Group. He is responsible for the research and development of new technologies and products.

Mr. Lu graduated from the Light Sources and Illumination Engineering Department of Shanghai Fudan University with a master's degree in 1993. He is a member of Shanghai Vacuum Society and council member of the Professional Transportation Lightings and Optical Signals Committee (交通運輸照明和光信號專業委員會) of China Illuminating Engineering Society. He also takes up certain research and teaching works for the China Eastern Technology University and has extensive cooperative relationship in the technical field with various academies in Shanghai. Mr. Lu is involved in the development of certain projects supported by the Shanghai Spark Programe (上海星火計劃) and Torch Programe (火炬計劃). In particular, the HID development project has passed expert assessment and received subsidy from the

Ministry of Education of the PRC. 15 patents are registered for the products developed. Mr. Lu joined NFA Parts in 1996.

Mr. Douglas Charles Stuart Fresco
Mr. Fresco, aged 63, is an executive Director and one of the founders of the Group.

He has extensive experience in the distribution of automotive products. He is one of the founders of Custom Accessories Asia Limited ("Custom Accessories") in 1982 in Hong Kong, which is engaged in the wholesale and distribution of automotive accessories for the US and European aftermarkets. Since the establishment of NFA Parts in March 1994, Mr. Fresco has been responsible for expanding the overseas market for the Group's products. He also acts as one of the Company's authorised representatives in Hong Kong.

Mr. Norman L. Matthew
Mr. Matthew, aged 56, is an executive Director and one of the founders of the Group.

He graduated from the law school of the Loyola University in the US with a degree of Juris Doctor. He joined Custom Accessories in 1983. Mr. Matthew has over 20 years of experience in the distribution of automotive products. Since the establishment of NFA Parts in March 1994, Mr. Matthew has been responsible for exploring overseas market opportunities and strategic partnership with a particular emphasis on the US market.

Non-executive Director

Mr. Low Hsiao-ping
Mr. Low, aged 54, is an non-executive Director. He graduated from the NihonBunka University (日本文化大學) and Kuwasuwa Kenkyujo (桑澤研究所). Mr. Low has joined Qiu's Group (邱氏集團) since 1981 and is currently a general manager of Yung Han Financial Consultant Co., Ltd. in Taiwan (永漢理財顧問有限公司), Chuang Wen Co, Ltd. in Taiwan (創文股份有限公司), Tianjin Yongli Jianji International Trade Co., Ltd. (天津永立建機國際貿易有限公司) and a director-general of Yung Han Short-term Tutorial Course in Taiwan (永漢語文短期補習班總幹事) and a council member of Yung Han Golf Course in Taiwan (永漢高爾夫理事). He joined the Group in April 2006.

Mr. Li Jung Hsing
Mr. Li, aged 54, is a graduate of National Taiwan Ocean University. He has held previous positions as Special Assistant to Chairman of Trust-Mart China, Vice-President of A-Best Hypermarket China, Commercial Director of Makro Taiwan and Managing Director of MINIT Group South East Asia (covering Hong Kong, Singapore, Taiwan and Thailand). He joined the Group in May 2007.

Ms. Irene Shih
Ms. Shih, aged 41, is a graduate of Columbia University in the United States ("US") with a master's degree in Economics. From 1997 to 2005, she worked at China Development Industrial Bank and focused on communications and semiconductor investments. She has 11 years of venture capital experience in over 20 investment cases in the US and China. She joined the Group in May 2007

Independent non-executive Directors

Mr. Du Haibo
Mr. Du, aged 38, is an independent non-executive Director. He graduated from Zhengzhou University (鄭州大學) in 1989. Mr. Du graduated from 中歐國際工商管理學院 in 2005 and obtained a EMBA degree. He has 17 years of professional experience in accounting and auditing and is a senior auditor, senior accountant. He has obtained the professional qualification as an registered accountant, registered tax agent and land valuer. Mr. Du was the vice-chairman of Lingbao County Auditors (靈寶縣審計師事務所) and Henan C.P.A. (河南審計事務所). He is the legal representative of Henan Zheng Yong C.P.A. Limited (河南正永會計師事務所有限公司) and an independent non-executive director of two listed companies in the PRC, namely, 河南太龍制藥股份有限公司 listed on the Shanghai Stock Exchange and Henan Shuanghui Investment & Development Company Limited listed on the Shenzhen Stock Exchange. Mr. Du joined the Group in February 2005.

Mr. Zhou Tai-Ming

Mr. Zhou, aged 68, is an independent non-executive Director. He graduated from Fudan University (復旦大學) with a degree in electrical physics in 1964 and has become a professor there in the department of physics since 1996. He was appointed as a member of the expert team of "electrical appliances in lightings" under the Science and Technology Committee (科學技術委員會) of the PRC Light Industry Ministry (中華人民共和國輕工業部) in 1990, the officer of the Professional Transportation Lightings and Optical Signals Committee of China Illuminating Engineering Society in 2000, and the consultant of the Shanghai Government Sourcing Administration Office (上海市政府採購辦公室) in 2003. Mr. Zhou joined the Group in February 2005.

Mr. Uang Chii-Maw

Mr. Uang, aged 57, is an independent non-executive Director. He graduated from the University of Pennsylvania with a doctorate degree in electrical engineering. He is a professor of electronics at I-Shou University in Taiwan and is an expert in optics and microcontroller, specialising in structural design of computer system, disposal of optoelectric signals and design of mechatronic system. Mr. Uang has been the adviser of several high technology companies. He joined the Group in February 2005.

Senior Management

Mr. Ma Fei

Mr. Ma, aged 36, is a vice president of the Group primarily responsible for acquisitions and mergers and external investment.

He graduated from Fudan University with a doctorate degree in economics. He had held various medium to senior management positions in Huadong branch of Sinopec Sales Ltd. (中國石化銷售華東公司), Shanghai Branch of Changjing Securities Investment Banking Department (長江證券公司投資銀行上海分部) and Shanghai Ai Jian Investment Company Limited (愛建信託投資公司). Mr. Ma is familiar with the environment and practices of the capital market of the PRC and participated in various successful acquisition projects of listed companies. He was an independent non-executive Director of the Group from February to June 2005 and has been a vice general manager of the Group since July 2005.

Mr. Wang Tao

Mr. Wang, aged 40, is the chief financial controller of the Group.

He graduated from Fudan University with a master's degree in business administration. He has nearly ten years of professional experience in accounting, auditing, financial consultancy and control. He is a senior financial expert recognised by the Shanghai Municipal Government and a registered member of the CICPA. Prior to joining the Group, Mr. Wang was the financial controller of Shanghai Automobile Air-conditioner Factory (上海汽車空調器廠). He joined the Group in July 2005.

Mr. Ronie Yun Chung Cheng

Mr. Cheng, aged 35, is the qualified accountant and company secretary of the Group.

He graduated from the University of Warwick with a bachelor's degree in accounting and financial analysis. Prior to joining the Group, Mr. Cheng has 6 years experience in public practice accounting in the UK and in Hong Kong. Mr. Cheng also has 5 years of experience in fund management. Mr. Cheng is an associate of the Institution of Chartered Accountant of England and Wales. He joined the Group in May 2006.

Introduction

The Board of Directors (the "Board'" or the "Directors") believes that good corporate governance practices are an essential element in guiding the growth and management of the business of the Group. Since the listing of the shares of the Company on 28 February 2005 and subject to the deviations disclosed in this report, the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "Code") by establishing a formal and transparent procedure to protect and maximize the interests of shareholders.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions of Directors no less exacting than the required standard set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by directors (the "Code"). To ensure the Directors' dealings in the securities of the Company are conducted in accordance with the Model Code and the 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 under review.

Board of Directors

The Board currently comprises six executive Directors and six non-executive Directors, of which three of them are independent:

Executive Directors

Mr. Hung Wei-Pi, John
Mr. Wu Kwan-Hong
Ms. Hung Ying-Lien
Mr. Lu Yuan Cheng
Mr. Douglas Charles Stuart Fresco
Mr. Norman L. Matthew

Non-executive Directors

Mr. Low Hsiao-Ping
Mr. Li Jung Hsing
Ms. Irene Shih

Independent non-executive Directors

Mr. Du Haibo
Mr. Zhou Tai-Ming
Mr. Uang Chii-Maw

Matters which are reserved to be discussed and approved by the Board include the following:

- corporate strategy
- annual and interim results
- risk management
- major acquisitions disposals and capital transactions
- other significant operational and financial matters

Under A.2.1 of the Code, "the roles of chairman and chief executive officer should be separate and should not be performed by the same individual". 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.

Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations. Each executive Director is delegated individual responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The independent non-executive Directors will bring independent views to the Board and share their knowledge and experience with the other members of the Board. Apart from the letters of appointment appointing the non-executive Directors each for a term of three years, none of them has any form of service contract with the Company or any of its subsidiaries.

The Board has implemented appropriate measures and internal control procedures to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity. The senior management personnel are obliged to supply the Board with adequate information in a timely manner to enable the Board to make informed decisions. Each of the Directors has a right to obtain such records of the Company as are necessary to enable them to make informed decisions. Biographical details of the Directors as well as relationships among members of the Board are set out under the section headed "Profiles of the Directors and senior management" in this annual report.

The names of the Directors and individual attendance of each Director at each regular board meeting during the year are as follows:

Executive Directors	**Attendance**
Mr. Hung Wei-Pi, John *(Chairman and Chief executive officer)*	4/4
Mr. Wu Kwan-Hong	4/4
Ms. Hung Ying-Lien	4/4
Mr. Lu Yuan Cheng	4/4
Mr. Douglas Charles Stuart Fresco	4/4
Mr. Norman L. Matthew	4/4
Non-executive Directors	
Mr. Low Hsiao-Ping	1/4
Mr. Li Jung Hsing (appointed on 16 May 2007)	1/4
Ms. Irene Shih (appointed on 16 May 2007)	1/4
Independent Non-executive Directors	
Mr. Du Haibo	4/4
Mr. Zhou Tai-Ming	4/4
Mr. Uang Chii-Maw	4/4

Apart from the regular board meetings during the Year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items in advance of each of the board meetings and minutes of meetings afterwards.

Remuneration, Examination and Nomination Committee

The remuneration committee of the Company was established on 13 February 2005 with written terms of reference as suggested under the provisions of the Code. The Remuneration Committee, which has changed its name as Remuneration, Examination and Nomination Committee on 4 December 2005, was established with written terms of reference suggested under the code provisions of the Code and it consists of five members, namely Mr. Hung Wei-Pi, John, Ms. Hung Ying-Lien, and three Independent Non-executive Directors, Mr.

Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw, all of whom are independent non-executive Directors. The chairman of the Remuneration, Examination and Nomination Committee is Mr. Hung Wei-Pi, John. The principal duties of the Remuneration, Examination and Nomination Committee include recommendation of appropriate persons to the Board in selection of directors and senior management, and the evaluation of the performance and making of recommendations on the remuneration package of the Directors and the senior management and the evaluation and making of recommendations on the Share Option Scheme and other employee benefit arrangements.

Remuneration, Examination and Nomination Committee shall convene meetings at least once a year, and to formulate the remuneration policy for Directors and Senior Management and Remuneration, Examination and Nomination Committee will ensure the remuneration determined are corresponding to the duties and responsibilities and in line with normal market rules. Remuneration, Examination and Nomination Committee shall further ensure that neither directors nor any of their associates involve in determining their respective compensation.

Details of the attendance of the Remuneration, Examination and Nomination Committee meetings during the period under review are as follows:

Members	**Attendance**
Mr. Hung Wei-Pi, John	1/1
Ms. Hung Ying-Lien	1/1
Mr. Du Haibo	1/1
Mr. Zhou Tai-Ming	1/1
Mr. Uang Chii-Maw	1/1

The Remuneration, Examination and Nomination Committee had considered and reviewed the existing terms of service contracts of the executive Directors and appointment letters of the non-executive Directors. The Remuneration, Examination and Nomination Committee considers that the existing terms of service contracts of the executive Directors and appointment letters of the non-executive Directors and independent non-executive Directors are fair and reasonable.

All Directors are appointed for a fixed term. The articles of association of the Company required that one-third of the Directors (including executive and non-executive Directors) shall retire each year. The Directors to retire each year shall be those appointed by the Board during that year and those who have been longest in office since their election or re-election. A retiring director is eligible for re-election.

Auditor's remuneration

Shu Lun Pan Horwath Hong Kong CPA Limited (the "Auditor") has been appointed as the Group's external auditor to replace BDO McCabe Lo Limited to provide service to the Group. During the year, the fees paid/payable to the Auditor in respect of their audit services amounted to approximately RMB1,300,000. In addition, the Company engaged the Auditor to perform certain agreed upon procedures in relation to its financial statements during the year. Other than that, the Auditor did not provide other non-audit services.

Audit Committee

The audit committee (the "Audit Committee") has three members, namely Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw. Mr. Du Haibo has been appointed as the chairman of the Audit Committee. The duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee meets at least twice a year. A special meeting may be called at the discretion of the Audit Committee or the request of the Board to review significant internal control or financial issues. The functions of Audit Committee are reviewing important accounting policies and supervising the preparation of financial reports of the Group, monitoring the performance of both the internal and external auditors, reviewing and examining the effectiveness of the Group's financial reporting procedure and internal controls, ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board.

Details of the attendance of the Audit Committee meetings during the period are as follows:

Members	Attendance
Mr. Du Haibo	4/4
Mr. Zhou Tai-Ming	4/4
Mr. Uang Chii-Maw	4/4

The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2007 and the audited annual results for the year ended 31 December 2007, and was of the view that the preparation of such results were in compliance with the relevant accounting standards and requirements as well as disclosure requirements.

Strategy, Investment and Financing Decision Making Committee

The Strategy, Investment and Financing Decision Making Committee of the Company (the "Strategy, Investment and Financing Decision Making Committee") consist of six members, namely Mr. Hung Wei-Pi, John, Mr. Wu Kwan-Hong, Ms. Hung Ying-Lien, Mr. Lu Yuan Cheng, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw. Mr. Hung Wei-Pi, John was appointed chairman of the Strategy, Investment and Financing Decision Making Committee. The duties of the Strategy, Investment and Financing Decision Making Committee include formulating and revising the Group's future development strategies, making procedures and enhancing the effectiveness and quality of important decision making procedures. The Strategy, Investment and Financing Decision Making Committee shall convene meetings subject to important investment and financing matters.

During the year, the Group was not involved in any corporate action that requires the involvement of the Strategy, Investment and Financing Decision Marking Committee.

Directors' and Auditor's Responsibilities for the Consolidated Financial Statements

The Directors' responsibilities for the accounts and the responsibilities of the external auditor to the shareholders are set out on page 35 to 36.

Internal Control

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meetings periodically to discuss financial, operational and risk management control.

Investors Relations

The Company has disclosed all necessary information to the shareholders in compliance with Listing Rules. Meetings are held with the investors periodically. The Company also replied the enquires from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

Auditor

During the year, the performance of the Auditor has been reviewed and the Company has proposed to reappoint the Auditor.

The directors ("Directors") of New Focus Auto Tech Holdings Limited (the "Company") are pleased to present their annual report for the year ended 31 December 2007 (the "Year") and the audited consolidated financial statements ("Financial Statements") of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

Group Reorganisation, Subsidiaries and Basis of Presentation

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. Pursuant to the group reorganisation (the "Reorganisation") as detailed in section 4 headed "Corporate Reorganisation" in Appendix VI to the prospectus dated 17 February 2005 (the "Prospectus") of the Company in preparation of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of other companies comprising the Group on 13 February 2005.

Principal Activities

The Group is principally engaged in the manufacturing and sales of electronic and power-related automotive parts and accessories, and the provision of automobile repair, maintenance and restyling services and the retail distribution of merchandise through its service chain stores network in the Greater China region.

Details of the principal activities of the subsidiaries of the Company are set out in note 19 to the Financial Statements.

Results and Dividends

The consolidated results of the Group for the Year are set out in the consolidated income statement on page 37. An analysis of turnover and segment results for the Year by geographical regions and business segments is set out in note 5 to the Financial Statements.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007.

The Board recommends a bonus issue of one new share of HK$0.10 each credited as fully paid for every forty issued shares of the Company ("Shares") held on the register of members of the Company on 4 June 2008. An amount standing to the credit of the share premium account of the Company will be capitalized and applied in making payment in full, at par, for the new shares. The issue of bonus shares is conditional upon the passing of the relevant resolutions at the Annual General Meeting, and the Listing Committee of the Stock Exchange granting approval to the listing of and permission to deal in the new shares. Such new shares will not, however, rank for the proposed bonus issue but will in all other respects rank pari passu with the existing issued Shares.

Property, Plant and Equipment

Details of the movements of property, plant and equipment of the Group during the Year are set out in note 14 to the Financial Statements.

Investment Properties

Details of the movements of investment properties of the Group during the Year are set out in note 16 to the Financial Statements.

Share Capital

Details of the issued share capital of the Company and its movements during the year along with the relevant explanations are set out in note 28 to the Financial Statements.

Reserves

Movements of reserves of the Group and the Company on a consolidated basis are set out in note 29 to the Financial Statements.

Distributable Reserves

Under the Companies Law of the Cayman Islands, share premium amounting to approximately RMB101,985,000 is distributable to shareholders, subject to the condition that immediately following the date on which the distribution of dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2007, the Company had distributable reserve available for distribution to Shareholders amounting to approximately RMB179,891,000.

Closure of Register of Members

The register of members will be closed from Monday, 2 June 2008 to Wednesday, 4 June 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed bonus issue, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Friday, 30 May 2008.

Directors

The Directors who held office during the year and up to the date of this report were:

Executive Directors

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

Non-executive Directors

Low Hsiao-Ping
Li Jung Hsing
Irene Shih

Directors *(Continued)*

Independent non-executive Directors
Du Haibo
Zhou Tai-Ming
Uang Chii-Maw

Biographical details of the Directors are set out in the section headed "Profiles of the Directors and senior management" in this annual report.

In accordance with Article 87(1) of the Company's articles of association, Mr. Wu Kwan-Hong, Ms. Hung Ying-Lien, Mr. Du Haibo and Mr. Uaug Chii Mao will retire by rotation at the forthcoming annual general meeting of the Company. All such Directors being eligible, offer themselves for re-election.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence. The Company considers that all of its independent non-executive Directors are independent.

Director's Service Contracts

Each of Mr. Hung Wei-Pi, John, Mr. Wu Kwan-Hong, Ms. Hung Ying-Lien, Mr. Lu Yuan Cheng, Mr. Douglas Charles Stuart Fresco and Mr. Norman L. Matthew, being the executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 13 February 2005. Each of the executive Directors has entered into a new services contract for a second term of three years commencing 13 February 2008, subject to retirement by rotation in accordance with the articles of association of the Company.

Pursuant to the respective letters of appointment of the non-executive Directors, namely, Mr. Low Hsiao-Ping, Mr. Li Jung Hsing and Ms. Irene Shih and the independent non-executive Directors, namely, Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw, each of them is reappointed for a term of three years commencing 13 February 2008 subject to retirement by rotation in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors had entered into service contracts with the Company which were not determinable by the Company within one year without compensation (other than statutory compensation).

Directors' Interests in Contracts

Save as disclosed in the section headed "Connected Transactions" in this report, none of the Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the Year.

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 operation. Eligible participants of the Scheme include the Directors, employees, suppliers, customers and business or strategic alliance partners of the Group. The Scheme became effective on 28 February 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme is 40,000,000 shares, representing 10% of the shares of the Company in issue as at the date of listing of the Company and as at the date of this annual report, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issued and to be issued under share options to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, are subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determined by the Directors, save that such a period shall not be more than 10 years from the date of grant of the share options subject to the provisions for early termination as set out in the Scheme. Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum holding period or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of (i) the nominal value of a share of the Company on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As at 31 December 2007, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 15,380,000 shares. The total number of shares available for issue under the Scheme (excluding options already granted) is 15,380,000 shares, representing approximately 3.49% of the total issued share capital of the Company on that date.

Share Option Scheme _(Continued)_

As at 31 December 2007, details of options granted under the Scheme are as follows:

Name of option holder	Date of grant	Exercise period	Exercise price (per share)	Closing price of share on date of grant (per share)	Number of shares subject to options outstanding as at 1 January 2007	Number of shares subject to options lapsed/ cancelled as at 1 January 2007	Number of options exercised since 1 January 2007	Number of shares subject to outstanding options as at 31 December 2007
Mr. Wu Kwan-Hong *Executive Director*	28 February 2005	1 January 2006 to 12 February 2015 *(Note 1)*	HK$0.94	HK$0.94	3,400,000	–	–	3,400,000
Ms. Hung Ying-Lien *Executive Director*	28 February 2005	1 January 2006 to 12 February 2015 *(Note 1)*	HK$0.94	HK$0.94	3,400,000	–	–	3,400,000
Mr. Lu Yuan Cheng *Executive Director*	28 February 2005	1 January 2006 to 12 February 2015 *(Note 1)*	HK$0.94	HK$0.94	3,250,000	–	–	3,250,000
Continuous contract employees in aggregate	28 February 2005	From 1 January 2006 *(Note 2)*	HK$0.94	HK$0.94	5,430,000	840,000	60,000	4,530,000
Continuous contract employees in aggregate	5 July 2005	From 1 January 2006 *(Note 2)*	HK$1.01	HK$1.00	1,090,000	260,000	30,000	800,000
Total					16,570,000	1,100,000	90,000	15,380,000

Notes:

1. None of the share option was exercised during the period from 1 January 2007 to 31 December 2007 and the remaining share options are exercisable during the period from 1 January 2007 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.

2. Share options granted to other employees are exercisable within periods ranging from 1 year to 9 years subject to such performance targets or conditions as determined by the Board.

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

As at 31 December 2007, the interests or short positions of each of the Directors and chief executives of the Company in any 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 (the "SFO")), which were required to be recorded in the register maintained by the Company under Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he is taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers in 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) *(Note 1)*	Percentage of issued shares
Mr. Hung Wei-Pi, John	Interest in a controlled company *(Note 2)*	172,817,600(L)	39.23%
Mr. Douglas Charles Stuart Fresco	Interest in a controlled company *(Note 3)*	53,856,200(L)	12.22%
Ms. Hung Ying Lien	Personal	373,800(L)	0.08%
Mr. Lu Yuan Cheng	Personal	775,400(L)	0.18%
Mr. Norman L. Mathew	Personal	18,014,000(L)	4.09%
Mr. Wu Kwang Hong	Personal	501,400(L)	0.11%

Notes:

1. The letter "L" denotes a long position in the shares.

2. These shares are registered in the name of and beneficially owned by Sharp Concept Industrial Limited, the entire issued share capital of which is 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. 52,283,600 shares are registered in the name of and beneficially owned by Golden Century Industrial Limited, the entire issued share capital of which is 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. The remaining 1,572,600 shares are registered in the name of Mr. Douglas Charles Stuart Fresco.

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

(b) *Interests in the underlying shares of the Company through equity derivatives*

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 31 December 2007 were as follows:

Name	Nature of interest	Number of underlying shares in respect of options granted	Exercise period	Price for grant	Exercise price	Percentage of issued share capital of the Company (%)
Mr. Wu Kwan-Hong	Beneficial owner	3,400,000(L)	1 January 2007 to 12 February 2015	HK$10.00 (for all)	HK$0.94 (per share)	0.77%
Ms. Hung Ying-Lien	Beneficial owner	3,400,000(L)	1 January 2007 to 12 February 2015	HK$10.00 (for all)	HK$0.94 (per share)	0.77%
Mr. Lu Yuan Cheng	Beneficial owner	3,250,000(L)	1 January 2007 to 12 February 2015	HK$10.00 (for all)	HK$0.94 (per share)	0.74%

Notes:

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

(ii) The associated corporation

As at 31 December 2007, to the knowledge of the Company, 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 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 in the Listing Rules.

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

As at 31 December 2007, the Directors were not aware of any disclosure of interests or short positions of the persons, other than Directors and chief executives of the Company, in the shares and underlying shares of the Company, as required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or the interests of persons directly or indirectly holding 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 members of the Group were as follows:

Name	Capacity/Nature of interest	Number of shares in which interested (other than under equity derivatives) *(Note 1)*	Number of shares in which interested under equity derivatives	Total number of shares	Percentage of issued shares
Sharp Concept Industrial Limited	Beneficial owner	172,817,600(L)	Nil	172,817,600	39.23%
Ms. Jin Xiao-Yan	Family interest *(Note 2)*	172,817,600(L)	Nil	172,817,600	39.23%
Mr. Douglas Charles Stuart Fresco	Family interest *(Note 3)*	53,856,000(L)	Nil	53,856,000	12.22%
Golden Century Industrial Limited	Beneficial owner *(Note 3)*	52,283,600(L)	Nil	52,283,600	11.88%
Ms. Linda Fresco	Family interest *(Note 3)*	53,856,000(L)	Nil	53,856,000	12.22%

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 Mr. Douglas Charles Stuart Fresco and by Sharp Concept Industrial Limited which in turn is wholly and beneficially owned by Mr. Hung Wei-Pi, John.

3. 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 in turn is wholly and beneficiary owned by Mr. Douglas Charles Stuart Fresco. The difference between Mr. Douglas Charles Stuart Fresco's share holding and the share holding by Golden Century Industrial Limited represents the shares held by Mr. Douglas Charles Stuart Fresco personally.

Save as disclosed above, the Directors are not aware of any person, other than the Directors and chief executive 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 members of the Group as at 31 December 2007.

Arrangements to Purchase Shares or Debentures

Save as disclosed above and under the section headed "Share Option Scheme", at no time during the Year 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, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

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

There were no purchases, sales or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the Year.

Continuing Connected Transactions

During 2007, the following continuing connected transactions were carried out by the Company and its subsidiaries pursuant to Rule 14A.34 of the Listing Rules of the Hong Kong Stock Exchange. These continuing connected transactions were subject to reporting and announcement requirements but were exempt from independent shareholders' approval requirements under the Listing Rules.

(1) *Custom Accessories Sales Agreement*

On 13 February 2005, New Focus Auto Parts Co. Limited (上海紐福克斯汽車配件有限公司) ("NFAP") and New Focus Light and Power (Shanghai) Limited (紐福克斯光電科技(上海)有限公司) ("NFA L&P"), both being wholly-owned subsidiaries of the Company, entered into a sales agreement ("C&A Agreement") with Custom Accessories Limited ("C&A"), which is 50% owned by Mr. Douglas Fresco (a substantial shareholder and Director of the Company) and his wife, 48% owned by Mr. Norman Matthew (a Director of the Company) and his family members and 2% by independent third party. C&A is therefore a connected person of the Company within the meaning of the Listing Rules. Under the C&A Agreement, NFAP and NFA L&P were to supply products to C&A. The prices were determined with reference to market process and on the basis that the terms and those prices would not be less favourable to the Company/Group than the terms offered to other independent third parties on similar products. The C&A Agreement had expired on 31 December 2006. A new contract covering the period from 1 January 2007 to 30 April 2008 with the same terms of and among the same parties to the C&A Agreement was executed and the expiry date of which is 30 April 2008.

For the year ended 31 December 2007, the sales of products to C&A by NFAP and NFA L&P amounted to approximately RMB4,525,000.

(2) *L&P Longsheng Agreement*

NFA L&P entered into a sales agreement ("L&P Longsheng Agreement") with Shangdong New Focus Auto Longsheng Part Co. Ltd. ("Longsheng"), an indirect 51% owned subsidiary of the Company with one of its directors being its substantial shareholder holding 49% interest, is a connected person of the Company within the meaning of the Listing Rules. Pursuant to which, NFA L&P agreed to sell products to Longsheng for a period from the 1 January 2007 of the L&P Longsheng Agreement to 30 April 2008. The prices were determined with reference to market process and on the basis that the terms and those prices would not be less favourable to the Company/Group than the terms offered to other independent third parties on similar products.

For the year ended 31 December 2007, the sales of product to Longsheng by NFA L&P amounted to approximately RMB6,023,000.

Continuing Connected Transactions *(Continued)*

(3) Longsheng Purchase Agreement

On 19 October 2006, NFA L&P entered into a purchase agreement ("Longsheng Purchase Agreement") with Longsheng pursuant to which NFA L&P agreed to purchase certain automotive parts and accessories from Longsheng for its manufacturing operation for a period from 19 October 2006 to 31 July 2009. Longsheng is a connected person of the Company under the Listing Rules, The purchase amount under the Longsheng Purchase Agreement is subject to an annual cap of HK$10,000,000.

Details of this transaction were disclosed in the announcement of the Company dated 20 October 2006.

For the year ended 31 December 2007, the total purchases of goods under the Longsheng Purchase Agreement by NFA L&P from Longsheng amounted to RMB4,854,000.

(4) NFA Purchase

NFAP entered into a purchase agreement ("NFAP Purchase Agreement") with Longsheng pursuant to which NFAP had purchased certain automotive parts and accessories, which requires for its manufacturing operation, from Longsheng ("NFAP Purchase") in year 2007.

At the time the Company prepared to conduct the NFAP Purchase in the year ended 31 December 2007, the Company anticipated that the total purchase amount of NFAP Purchase for the year ended 31 December 2007 would be less than HK$1,000,000. Thus the NFAP Purchase was expected to be a de minimis transaction under Rule 14A.33(3) of the Listing Rules and exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The Group became aware recently that the total purchase amount of the NFAP Purchase for the year ended 31 December 2007 was RMB1,321,281 (equivalent to approximately HK$1,484,585).

The Directors expect that NFAP will not continue to purchase such products from Longsheng in the near future.

Confirmation from auditor

The Board of Directors has received a comfort letter from the auditor of the Company with respect to the above continuing connected transactions and the letter stated that for the year 2007, the above continuing connected transactions

(1) have been approved by the Board of Directors;

(2) have been entered into in accordance with the terms of the agreements governing the transactions; and

(3) has not exceeded the cap amount announced by the Company and/or specified within the relevant agreements, where applicable.

Connected Transactions *(Continued)*

Confirmation of Independent Non-executive Directors

The Company's independent non-executive Directors have reviewed the above continuing connected transactions which were subject to reporting and announcement requirements, and confirmed that:

(1) the transactions were entered into in the ordinary and usual course of the business of the Company;

(2) the transactions were conducted either on normal commercial terms or on terms that are fair and reasonable so far as the independent shareholders are concerned;

(3) the transactions were entered into in accordance with the agreements governing those connected transactions; and

(4) the amounts of the transactions had not exceeded the cap amount announced by the Company and/or specified within the relevant agreements.

Major Customers and Suppliers

Sales of five largest customer account for 42% of the total revenue for the year ended 31 December 2007, whereas the largest customer accounts for 17%. Purchases from the five largest suppliers were less than 30% of the total purchases for the year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Public Float

As at the date of this annual report, based on public information available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float, being 25% of the issued share capital of the Company as required under the Listing Rules.

Auditor

The consolidated financial statements of the Group for the year ended 31 December 2007 have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited who retire and, being eligible, offer themselves for re-appointment.

During the year, BDO McCabe Lo Limited resigned and Shu Lun Pan Horwath Hong Kong CPA Limited was appointed auditor of the Company. A resolution will be proposed at the forthcoming annual meeting of the Company to re-appoint Shu Lun Pan Horwath Hong Kong CPA Limited as auditor of the Company.

On behalf of the Board
Hung Wei-Pi, John
Chairman

Hong Kong, 23 April 2008

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF 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)

We have audited the consolidated financial statements of New Focus Auto Tech Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 123, which comprise the consolidated and Company balance sheets as at 31 December 2007, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2.2 to the financial statements. The auditor's report dated 16 May 2007 on the Group's consolidated financial statements for the year ended 31 December 2006 included a qualified opinion and the matters which gave rise to the qualification are resolved and property dealt with in the Group's consolidated financial statements for the year ended 31 December 2007.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants
Chan Kam Wing, Clement
Practising Certificate number P02038

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

23 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Turnover	*5*	**763,451**	533,302
Cost of sales		**(623,067)**	(458,942)
Gross profit		**140,384**	74,360
Other revenue and gains	*6*	**16,198**	14,591
Distribution costs		**(70,348)**	(33,892)
Administrative expenses		**(70,287)**	(50,361)
Operating profit		**15,947**	4,698
Finance costs, net	*7*	**(8,732)**	(2,238)
Fair value gain on the derivative component of convertible bond	*26*	**15,214**	–
Profit before taxation	*8*	**22,429**	2,460
Income tax	*10*	**(1,067)**	(4,201)
Profit/(loss) for the year		**21,362**	(1,741)
Attributable to:			
Equity holders of the Company	*11*	**17,849**	(3,089)
Minority interests		**3,513**	1,348
		21,362	(1,741)
Dividend	*12*	**–**	–
Earnings/(loss) per share:	*13*		
– Basic		**RMB4.11 fen**	RMB(0.73 fen)
– Diluted		**RMB1.35 fen**	N/A

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000 (Restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*14*	**106,521**	96,742
Leasehold land and land use rights	*15*	**21,086**	21,665
Investment properties	*16*	**25,286**	14,419
Goodwill	*17*	**43,161**	2,749
Other intangible assets	*18*	**9,310**	10,381
Other financial assets	*20(a)*	**2,611**	6,851
Deferred tax assets	*27*	**128**	195
		208,103	153,002
Current assets			
Trading securities	*20(b)*	**737**	–
Inventories	*21*	**126,803**	85,105
Trade receivables	*22*	**119,950**	87,887
Deposits, prepayments and other receivables	*20(b)*	**58,921**	47,648
Amounts due from related companies	*23(a)*	**92**	1,481
Tax recoverable		**387**	–
Pledged time deposits	*32*	**3,342**	1,148
Cash and cash equivalents	*32*	**135,532**	65,941
		445,764	289,210
Current liabilities			
Bank borrowings, secured	*24*	**85,929**	23,355
Trade payables	*25*	**149,183**	115,373
Accruals and other payables		**43,916**	35,979
Amounts due to directors	*23(b)*	**1,388**	15,049
Amounts due to related parties	*23(b)*	**1,504**	23,207
Tax payable		**–**	1,011
		281,920	213,974
Net current assets		**163,844**	75,236
Total assets less current liabilities carried forward		**371,947**	228,238

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Total assets less current liabilities brought forward		**371,947**	228,238
Non-current liabilities			
Bank borrowings, secured	*24*	**16,494**	17,999
Convertible bond	*26*	**75,998**	–
Deferred tax liabilities	*27*	**1,071**	769
		93,563	18,768
Net assets		**278,384**	209,470
CAPITAL AND RESERVES			
Share capital	*28*	**46,394**	42,987
Reserves	*29(i)*	**200,323**	157,186
Equity attributable to equity holders of the Company		**246,717**	200,173
Minority interests		**31,667**	9,297
Total equity		**278,384**	209,470

These financial statements were approved and authorised for issue by the board of directors on 23 April 2008.

Mr. Hung Wei-Pi, John	**Ms. Hung Ying-Lien**
Director	*Director*

The accompanying notes form part of these financial statements.

BALANCE SHEET

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*14*	**104**	95
Investments in subsidiaries	*19*	**164,066**	131,717
Loan to a subsidiary	*19*	**39,186**	66,048
		203,356	197,860
Current assets			
Deposits and prepayments		**309**	424
Amounts due from subsidiaries	*19*	**92,462**	9,583
Dividend receivable		**203**	–
Cash and cash equivalents	*32*	**12,474**	848
		105,448	10,855
Current liabilities			
Accruals and other payables		**5,618**	1,938
Amount due to a director	*23(b)*	**5**	–
Amounts due to subsidiaries	*19*	**474**	4,302
		6,097	6,240
Net current assets		**99,351**	4,615
Total assets less current liabilities carried forward		**302,707**	202,475

BALANCE SHEET

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Total assets less current liabilities brought forward		**302,707**	202,475
Non-current liability			
Convertible bond	*26*	**75,998**	–
Net assets		**226,709**	202,475
CAPITAL AND RESERVES			
Share capital	*28*	**46,394**	42,987
Reserves	*29(ii)*	**180,315**	159,488
Total equity		**226,709**	202,475

These financial statements were approved and authorised for issue by the board of directors on 23 April 2008.

Mr. Hung Wei-Pi, John
Director

Ms. Hung Ying-Lien
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital RMB'000 *(note 28)*	Capital reserves RMB'000 *(note 29(i))*	Retained profits RMB'000 *(note 29(i))*	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2006	42,400	96,936	92,333	231,669	–	231,669
Exchange realignment and total expenses recognised directly in equity	–	(921)	–	(921)	–	(921)
Loss for the year (restated)	–	–	(3,089)	(3,089)	1,348	(1,741)
Total income and expenses for the year	–	(921)	(3,089)	(4,010)	1,348	(2,662)
Recognition of equity-settled share-based payment	–	965	–	965	–	965
Transfer of reserves	–	2,727	(2,727)	–	–	–
Realisation on disposal of investment properties	–	(557)	–	(557)	–	(557)
2005 final dividend paid	–	–	(33,433)	(33,433)	–	(33,433)
Issue of shares on exercise of share options	587	4,952	–	5,539	–	5,539
Minority interest arising on acquisition of subsidiaries	–	–	–	–	7,949	7,949
Balance at 31 December 2006 (restated)	42,987	104,102	53,084	200,173	9,297	209,470

	Note	Share capital RMB'000 *(note 28)*	Capital reserves RMB'000 *(note 29(i))*	Retained profits RMB'000 *(note 29(i))*	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2007:							
As previously reported		42,987	104,102	70,391	217,480	9,297	226,777
Prior year adjustment *(note 2.2(a))*		–	–	(17,307)	(17,307)	–	(17,307)
Balance at 1 January 2007 (restated)		42,987	104,102	53,084	200,173	9,297	209,470
Fair value adjustment upon transfer of property, plant and equipment to investment properties	*14*	–	602	–	602	–	602
Exchange realignment		–	(3,052)	–	(3,052)	–	(3,052)
Total income and expenses recognised directly in equity		–	(2,450)	–	(2,450)	–	(2,450)
Profit for the year		–	–	17,849	17,849	3,513	21,362
Total income and expenses for the year		–	(2,450)	17,849	15,399	3,513	18,912
Lapse of share options		–	(575)	575	–	–	–
Issue of shares on exercise of share options		9	73	–	82	–	82
Transfer of reserves		–	2,432	(2,432)	–	–	–
Issue of shares for acquisition of a subsidiary	*31(a)*	1,350	29,713	–	31,063	–	31,063
Bonus issue		2,048	(2,048)	–	–	–	–
Contribution from minority owner of a subsidiary		–	–	–	–	11,944	11,944
Minority interest arising on acquisition of a subsidiary	*31(a)*	–	–	–	–	6,913	6,913
Balance at 31 December 2007		46,394	131,247	69,076	246,717	31,667	278,384

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Operating activities			
Profit before taxation		**22,429**	2,460
Adjustments for:			
Write-back of provision for obsolete inventories		**(240)**	–
Allowance for doubtful debts		**339**	–
Amortisation of leasehold land and land use rights		**579**	265
Loss on disposal of leasehold land and land use rights		**–**	2,043
Loss on disposal of investment properties		**–**	234
Impairment loss on property, plant and equipment		**–**	735
Depreciation of property, plant and equipment		**22,856**	12,267
Fair value gain on the derivative component of convertible bond		**(15,214)**	–
Direct transaction costs for the derivative component of convertible bond		**834**	–
Gain on disposal of property, plant and equipment		**–**	(6,989)
Gain on disposal of a subsidiary	*30*	**(953)**	–
Amortisation of other intangible assets		**397**	300
Equity-settled share-based payment expenses		**–**	965
Fair value gain on trading securities		**(470)**	–
Fair value gain on investment properties		**(2,515)**	–
Transfer from equity on disposal of investment properties		**–**	(557)
Exchange differences		**(4,160)**	(934)
Imputed interest income		**(111)**	–
Interest income on bank deposits		**(3,598)**	(959)
Other finance costs		**12,058**	2,238
Operating cash flows before working capital changes		**32,231**	12,068
Decrease/(increase) in other financial assets		**1,851**	(6,851)
Increase in inventories		**(26,482)**	(6,206)
Increase in trade receivables		**(31,865)**	(26,012)
Increase in prepayments, deposits and other receivables		**(6,206)**	(21,766)
Decrease in amounts due from directors		**–**	5
Decrease/(increase) in amounts due from related parties		**279**	(1,413)
Increase in trade payables		**23,399**	55,081
Increase/(decrease) in accruals and other payables		**795**	(15,237)
Increase in amounts due to related companies		**–**	15,047
Cash (used in)/generated from operations		**(5,998)**	4,716
Income tax paid		**(2,105)**	(4,644)
Interest paid		**(4,205)**	(2,238)
Net cash used in operating activities		**(12,308)**	(2,166)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Investing activities			
Purchase of intangible assets		**–**	(17)
(Increase)/decrease in pledged time deposits		**(2,194)**	18,852
Purchase of property, plant and equipment		**(30,631)**	(33,102)
Proceeds from disposal of property, plant and equipment		**843**	15,740
Purchase of leasehold land and land use rights		**–**	(6,204)
Acquisitions of subsidiaries and businesses	*31(a) & (b)*	**(9,032)**	(24,484)
Proceeds from disposal of interest in a subsidiary	*30*	**(662)**	–
Additional cash consideration paid for the acquisition of a subsidiary		**(755)**	–
Proceeds from disposal of investment properties		**–**	6,332
Payment for earnest money deposit		**(3,000)**	–
Purchase of trading securities		**(267)**	–
Interest received		**3,598**	959
Net cash used in investing activities		**(42,100)**	(21,924)
Financing activities			
Contributions from minority equity owners		**11,944**	7,550
Proceeds from issue of convertible bond, net of transaction costs		**89,612**	–
Proceeds from new bank loans		**63,057**	22,900
Repayment of bank loans		**(27,390)**	(10,051)
Repayment to directors		**(13,661)**	–
(Repayment to)/advance from related parties		**(21,703)**	23,207
Proceeds from issue of shares		**82**	5,539
Dividends paid		**–**	(33,730)
Net cash generated from financing activities		**101,941**	15,415
Net increase/(decrease) in cash and cash equivalents		**47,533**	(8,675)
Cash and cash equivalents at beginning of year		**65,941**	74,616
Effect of foreign exchange rate changes		**(344)**	–
Cash and cash equivalents at end of year		**113,130**	65,941
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		**135,532**	65,941
Bank overdrafts		**(22,402)**	–
		113,130	65,941

The accompanying notes form part of these financial statements.

1. ORGANISATION AND OPERATIONS

The Company was incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and its registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. Its principal place of business is in Shanghai, the People's Republic of China (the "PRC").

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and sales of electronic and power-related automotive parts and accessories and the provision of automobile repair, maintenance and restyling services and retail distribution of merchandise goods through its service chain stores network in the Greater China Region. Further details of the Company's subsidiaries are set out in note 19 to the financial statements.

2.1 ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendment "Capital Disclosures" has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

(Expressed in Renminbi)

2.1 ADOPTION OF NEW AND REVISED STANDARDS *(Continued)*

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

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKFRS 2 Amendment	Share-based payment-vesting conditions and cancellation	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) – Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) – Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

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 their initial application.

2.2 PRIOR YEAR ADJUSTMENTS

The auditor's report dated 16 May 2007 on the consolidated financial statements of the Group for the year ended 31 December 2006 was qualified by the previous auditor BDO McCabe Lo Limited in respect of a limitation of scope of work on the balances of inventories and accrued purchases as at 31 December 2006. The matters giving rise to the qualification are resolved and properly dealt with in the consolidated financial statements of the Group for the year ended 31 December 2007 as follows:

(a) During the year ended 31 December 2007, the directors of the Company obtained additional information regarding 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, finished goods and merchandise goods and understatement of trade payables of the Group as at 31 December 2006. In restating the consolidated financial statements of the Group to correct this fundamental error, a prior year adjustment has been made. The effect is to reduce the consolidated profit for the year ended 31 December 2006 by approximately RMB17,307,000, to reduce the consolidated retained profits and net assets of the Group as at 31 December 2006 by approximately RMB17,307,000, to reduce the inventories of the Group as at 31 December 2006 by approximately RMB12,439,000 and to increase the trade payables of the Group as at 31 December 2006 by approximately RMB4,868,000. There is no material tax effect in respect of the adjustments.

(b) During the year ended 31 December 2007, the directors of the Company obtained additional information regarding the Group's accrued purchases of approximately RMB9,400,000 included in trade payables as at 31 December 2006 and considered that there was an overstatement of accrued purchases and inventories of the Group as at 31 December 2006. In restating the consolidated financial statements of the Group to correct this fundamental error, a prior year adjustment has been made. The effect is to reduce the trade payables and inventories of the Group as at 31 December 2006 by approximately RMB2,000,000. There is no material tax effect in respect of the adjustments.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of financial statements

These consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, trading securities and derivative component of convertible bond which are carried at fair value.

(c) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(d) Business combinations

Acquisition of subsidiaries and business is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Business combinations *(Continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised and is subsequently measured in accordance with the accounting policies set out in note 3(c) above.

(e) Subsidiaries

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation of these assets commences when the assets are ready for their intended use.

The historical cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is charged so as to write off the cost of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Freehold land	Not depreciated
Buildings	5%
Leasehold improvements	Over the remaining term of the lease but not exceeding 10 years
Plant and machinery	10% to 33%
Motor vehicles	20%
Office equipment, furniture and fixtures	20% to 33%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at their costs, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in fair value of investment properties are included in profit or loss for the period in which they arise.

(i) Intangible assets

Intangible assets are initially recognised at cost. Subsequently, intangible assets with indefinite useful lives are carried at cost less any impairment losses and intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The principal annual rates of intangible assets with definite useful lives are as follows:

Trademarks	6.6% to 10%
Franchise contracts	10%

(j) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of tangible and intangible assets excluding goodwill *(Continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(k) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued using a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. During the year, the Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial asset. These financial assets are subsequently accounted for as follows, depending on their classification:

(i) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

(ii) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iii) Available-for-sale financial assets

Investments in securities which do not fall into any of the above categories are classified as available-for-sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale financial assets are recognised in profit or loss when the Group's right to receive the dividends is established.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial assets *(Continued)*

(iii) Available-for-sale financial assets (Continued)

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

(iv) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For the Group's loans and receivables, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment losses is determined and recognised as follows:

For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial assets *(Continued)*

(iv) Impairment of financial assets (Continued)

For trade and other current receivables and other financial assets carried at amortised cost, if any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which has been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial assets *(Continued)*

(vi) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(n) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(iii) Convertible bond

Convertible bond issued by the Company is regarded as a hybrid instrument. Derivatives embedded in the host debt contracts is treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. The conversion option is classified as equity component only if the option can be converted by exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. In the case that the conversion options is not settled by the exchange of a fixed amount of cash or another financial asset for fixed number of equity instrument, the conversion component is an embedded derivative.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Financial liabilities and equity instrument issued by the Group *(Continued)*

(iii) Convertible bond (Continued)

At the date of issue, the conversion option derivative and holder redemption option (collectively the "derivative component") and liability component are recognised at its fair value.

In subsequent periods, the liability component of the convertible bond is carried at amoritsed cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative component in proportion to the allocation of the proceeds. Transaction costs relating to the derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

(iv) Other financial liabilities

Other financial liabilities of the Group, including bank borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(v) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(p) Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Provisions *(Continued)*

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(r) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Taxation *(Continued)*

(ii) Deferred tax (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Renminbi ("RMB") which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Foreign currencies *(Continued)*

Exchange differences are recognised in profit or loss in the period in which they arise except for:

– exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

– exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

– exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the exchange reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in RMB using exchange rates prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation or the underlying assets are disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(t) Employees' benefits

(i) Short term benefits

Salaries, annual bonuses, paid annual leaves and other allowances are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

(ii) Defined contribution pension obligations

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees. The Group has no further payment obligations once the contributions have been paid.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve) based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the reserve.

At the time when the share options are exercised, the amount previously recognised in the share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profit.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of other equity-settled share-based payments.

(v) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(w) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and exclude value added tax or other sales related taxes.

(i) Revenue from the sale of products is recognised when the group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivable is reasonably assured.

(ii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(iii) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease term.

(iv) Revenue for providing services is recognised to the extent of services rendered and according to the terms of the agreement.

(v) Grants from the government are recognised at their fair value when there is reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

(y) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled with 12 months.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivates when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgments in applying accounting policies

The following is the critical judgement that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect of the amounts recognised in financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(b) Key sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(ii) Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences; and

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

(iii) Fair value of derivative component of convertible bond

As explained in note 26 to the financial statements, the directors use their judgment in selecting an appropriate valuation technique for derivative component of convertible bond not quoted in an active market. Should the estimates including the early exercise behaviour and the relevant parameters of the valuation model be changed, there would be material changes in the amount of the fair value gain recognised in profit or loss in respect of the derivative component of the convertible bond.

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management will reassess the estimations at each balance sheet date.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(v) Impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables. This estimate is based on the credit history of its customers and the current market condition. Management will reassess the provision at each balance sheet date.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the sales value of goods supplied and services provided to customers, and is analysed as follows:

	2007 RMB'000	2006 RMB'000 (Restated)
Sale of goods	**577,441**	475,694
Service income	**186,010**	57,608
	763,451	533,302

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format – business segments

The Group operates in two business segments, the manufacture and sales of automobile accessories, and the provision of automobile repair, maintenance and restyling services. Set out below is an analysis of the segment revenue, results, assets, liabilities and capital expenditure information.

2007

	Manufacture and sales of automobile accessories	Provision of automobile repair, maintenance and restyling services	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE				
External sales	577,441	186,010	–	763,451
Inter-segment sales	14,483	575	(15,058)	–
External other income	6,574	6,286	–	12,860
Inter-segment other income/ (expenses)	401	(826)	425	–
Total revenue	598,899	192,045	(14,633)	776,311
RESULTS	33,881	(4,813)	–	29,068
Unallocated other income				3,338
Unallocated costs				(16,459)
Operating profit				15,947
Finance costs, net				(8,732)
Fair value gain on the derivative component of convertible bond				15,214
Profit before taxation				22,429
Income tax				(1,067)
Profit for the year				21,362
BALANCE SHEET				
Segment assets	364,523	181,022	–	545,545
Unallocated corporate assets				108,322
Total assets				653,867
Segment liabilities	225,139	66,103	–	291,242
Unallocated corporate liabilities				84,241
Total liabilities				375,483
OTHER INFORMATION				
Capital expenditure	14,347	16,239	–	30,586
Unallocated capital expenditure				45
Total capital expenditure				30,631
Depreciation and amortisation charge	9,739	12,877	–	22,616
Unallocated depreciation and amortisation charge				1,216
Total depreciation and amortisation charge				23,832

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

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

2006 (Restated)

	Manufacture and sales of automobile accessories	Provision of automobile repair, maintenance and restyling services	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE				
External sales	477,131	56,171	–	533,302
Inter-segment sales	2,353	1,437	(3,790)	–
External other income	1,297	1,450	–	2,747
Inter-segment other income	50	–	(50)	–
	480,831	59,058	(3,840)	536,049
RESULT	20,399	(14,597)		5,802
Unallocated other income				11,844
Unallocated costs				(12,948)
Operating profit				4,698
Finance costs, net				(2,238)
Profit before taxation				2,460
Income tax				(4,201)
Loss for the year				(1,741)
BALANCE SHEET				
Segment assets	285,891	139,468		425,359
Unallocated corporate assets				16,853
Total assets				442,212
Segment liabilities	155,920	59,352		215,272
Unallocated corporate liabilities				17,470
Total liabilities				232,742
OTHER INFORMATION				
Capital expenditure	33,133	50,649		83,782
Depreciation and amortisation charge	9,491	3,307		12,798
Unallocated depreciation and amortisation charge				34
Total depreciation and amortisation charge				12,832

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Secondary reporting format – geographical segments

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

	2007 RMB'000	2006 RMB'000 (Restated)
Segment revenue		
North America	**343,683**	324,960
Europe	**48,452**	60,194
Asia Pacific	**29,073**	59,863
Greater China (including Taiwan)	**341,973**	88,152
Africa	**270**	133
Total	**763,451**	533,302

No geographical segment information regarding the Group's assets and capital expenditure is presented as all of the Group's assets are located in the PRC.

There are no inter-segment sales between the geographical segments for the year ended 31 December 2007 (2006: Nil).

6. OTHER REVENUE AND GAINS

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Gross rentals from investment properties		**1,233**	1,211
Interest income from bank deposits		**3,598**	959
Imputed interest income from non-current earnest money deposit	*20(a)*	**111**	–
Gain on disposal of property, plant and equipment		**–**	6,989
Loss on disposal of leasehold land and land use rights		**–**	(2,043)
Increase in fair value of investment properties	*16*	**2,515**	–
Tax refund on capitalised profit#		**748**	4,300
Gain on disposal of subsidiary	*30*	**953**	–
Gain on disposal of investment properties		**–**	323
Gain on change in fair value of trading securities		**470**	–
Income for provision of training services		**973**	–
Sale of scrap inventories		**922**	–
Government subsidies ##		**530**	437
Others		**4,145**	2,415
		16,198	14,591

\# Tax refund by local government for the Group's re-investment in the PRC subsidiaries by capitalisation of profits.

\## Compensation income from local governments for taxes paid by the PRC subsidiaries.

7. FINANCE COSTS, NET

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Interest expense:			
Bank borrowings wholly repayable within five years		**2,991**	1,742
Bank borrowings wholly repayable after five years		**561**	106
Interest on amount due to a director	*23(b)*	**653**	390
Interest expense on convertible bond	*26*	**7,853**	–
Direct transaction costs for the derivative component of convertible bond		**834**	–
Exchange gain on convertible bond	*26*	**(4,160)**	–
		8,732	2,238

8. PROFIT BEFORE TAXATION

	2007 RMB'000	2006 RMB'000 (Restated)
Profit before taxation is arrived at after charging/(crediting):		
Net foreign exchange losses	**1,428**	3,126
Cost of inventories	**502,274**	422,811
Cost of services	**121,033**	36,211
Write-back of provision for obsolete inventories	**(240)**	(80)
Depreciation of property, plant and equipment	**22,856**	12,267
Amortisation of:		
Leasehold land and land use rights	**579**	265
Other intangible assets	**397**	300
Total depreciation and amortisation expenses	**23,832**	12,832
Impairment losses on:		
Trade and other receivables	**339**	278
Property, plant and equipment	**–**	735
Research and development costs	**8,125**	6,508
Direct operating expenses arising on rental-earning investment properties	**331**	59
Auditor's remuneration	**1,300**	1,513
Employee benefit expenses (including directors' remuneration *(note 9(a))*:		
Salaries and allowances	**50,673**	49,716
Pension fund contributions and equity-settled share-based payments	**1,329**	5,845
Other benefits	**9,588**	6,638
	61,590	**62,199**

Note: Cost of inventories includes approximately RMB51,642,000 (2006: RMB56,137,000) relating to staff costs, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

The directors' remuneration for the years ended 31 December 2007 and 2006 is set out below:

2007

Name of director	Fees	Salaries, other allowances and equity-settled share-based payment	Total
	RMB'000	RMB'000	RMB'000
Executive directors			
Hung Wei-Pi, John	–	2,286	2,286
Wu Kwan-Hong	–	968	968
Hung Ying-Lien	–	786	786
Lu Yuan Cheng	–	417	417
Douglas Charles Stuart Fresco (Mr. Fresco)	–	59	59
Norman L. Matthew (Mr. Matthew)	–	59	59
Non-executive directors			
Low Hsiao Ping	–	60	60
Irene Shih(i)	–	38	38
Li Jing-Hsing(i)	–	38	38
Independent non-executive directors			
Zhou Tai-Ming	60	–	60
Du Haibo	60	–	60
Uang Chii-Maw	60	–	60
	180	4,711	4,891

(i) Appointed on 16 May 2007.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Directors' remuneration *(Continued)*

2006 (Restated)

Name of director	Fees	Salaries, other allowances and equity-settled share-based payment	Total
	RMB'000	RMB'000	RMB'000
Executive directors			
Hung Wei-Pi, John	–	1,649	1,649
Wu Kwan-Hong	–	962	962
Hung Ying-Lien	–	769	769
Lu Yuan Cheng	–	360	360
Douglas Charles Stuart Fresco (Mr. Fresco)	–	62	62
Norman L. Matthew (Mr. Matthew)	–	62	62
Non-executive directors			
Horng Jian-Bie	–	42	42
Low Hsiao Ping	–	20	20
Independent non-executive directors			
Du Haibo	60	–	60
Zhou Tai-Ming	60	–	60
Uang Chii-Maw	60	–	60
	180	3,926	4,106

No discretionary bonuses, inducement fees, employer's contribution to pension scheme or compensation for loss of office as directors were given to any of the directors during the year ended 31 December 2007 (2006: Nil).

None of the directors has waived or agreed to waive any emolument paid by the Group during the year ended 31 December 2007 (2006: Nil).

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2007 included four (2006: four) directors whose emoluments are reflected in the analysis presented in note 9(a) above. The emoluments paid or payable to the remaining one (2006: one) non-director highest paid employee is as follows:

	2007 RMB'000	2006 RMB'000 (Restated)
Basic salaries and other allowances	**240**	637

10. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2007 RMB'000	2006 RMB'000 (Restated)
Current tax – PRC		
– Provision for the year	**3,148**	4,368
– Over-provision in respect of prior years	**(2,441)**	–
	707	4,368
Deferred taxation *(note 27)*		
– attributable to the origination and reversal of temporary differences, net	**360**	(167)
	1,067	4,201

10. INCOME TAX *(Continued)*

(b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong for the year ended 31 December 2007 (2006: Nil). Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant jurisdictions. Basis of taxation for principal subsidiaries is set out as below:

(i) *Shanghai New Focus Auto Parts Co., Ltd. ("NFA Parts")*

For the years ended 31 December 2006 and 2007, NFA Parts qualifies as an Export Oriented Enterprise and was therefore exempted from PRC local corporate income tax ("CIT") and entitled to a 50% reduction in applicable national CIT rate of 24%. Accordingly, CIT was provided at a rate of 12% for the year ended 31 December 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 CIT and is subject to an applicable national CIT rate of 24%. In accordance with the approval from the relevant tax authorities, NF Light & Power is entitled to two years exemption from CIT followed by three years of 50% reduction in CIT rate 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 brought forward from previous years, and hence NF Light & Power is entitled to enjoy 50% reduction in national CIT rate for the years ended 31 December 2006 and 2007. Accordingly, CIT was provided at 12% for the year ended 31 December 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 CIT rate of 33%. For the years ended 31 December 2006 and 2007, NFA Service was in a loss-making position, and accordingly, no income tax has been provided for the years.

(iv) *New Focus Richahaus Co. Ltd. ("NF Richahaus")*

NF Richahaus is incorporated in Taiwan and is subject to applicable domestic income tax rate of 25%. For the year ended 31 December 2007, NF Richahaus's tax losses brought forward from previous years exceeded the estimated assessable profit for the year. For the year ended 31 December 2006, it did not have taxable profit. Accordingly, no income tax has been provided for the years.

10. INCOME TAX *(Continued)*

(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, and NF Longsheng is exempted from local CIT and is subject to applicable national CIT rate of 24%. In accordance with the approval from the relevant tax authorities, NF Longsheng is entitled to two years exemption from CIT followed by three years of 50% reduction in CIT. The year ended 31 December 2006 is the first profit-making year net of losses carried forward. Accordingly, no CIT was provided for the years.

(vi) *Beijing Aiyihang Auto Service Ltd. ("Aiyihang")*
As a domestic enterprise, Aiyihang is subject to an applicable CIT rate of 33% for the year.

(c) The taxation charge for the year can be reconciled to the accounting profit as follows:

	2007 **RMB'000**	2006 RMB'000 (Restated)
Profit before taxation	**22,429**	2,406
Taxation calculated at domestic applicable tax rate of 27%	**6,056**	650
Tax effect of non-taxable income	**(2,811)**	–
Utilisation of tax losses previously not recognised as deferred tax assets	**(695)**	–
Unrecognised tax losses	**4,788**	5,398
Effect of preferential tax treatments and tax exemptions	**(4,835)**	(2,168)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,005**	21
Over-provision in respect of prior years	**(2,441)**	–
Others	**–**	300
Income tax for the year	**1,067**	4,201

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company includes a loss of approximately RMB6,911,000 (2006: a profit of approximately RMB15,466,000) (note 29(ii)) which has been dealt with in the financial statements of the Company.

12. DIVIDEND

The board does not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil). No interim dividend was paid in the year ended 31 December 2007 (2006: Nil)

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the year attributable to the equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the bonus issue during the year. Basic loss per share for the year ended 31 December 2006 is restated to take into effect the bonus issue of shares during the year ended 31 December 2007.

The calculation of diluted earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to the equity holders of the Company, adjusted to add the interest on convertible bond, the exchange gain on convertible bond and the fair value gain on the derivative component of convertible bond. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2007	2006
	RMB'000	RMB'000
		(Restated)
Earnings/(loss):		
Profit/(loss) attributable to the equity holders of the Company, used in the basic earnings/(loss) per share calculation	**17,849**	(3,089)
Add: Interest on convertible bond	**7,853**	–
Less: Exchange gain relating to convertible bond	**(4,160)**	–
Less: Fair value gain on the derivative component of convertible bond	**(15,214)**	–
Profit/(loss) attributable to the equity holders of the Company as adjusted for the effect of convertible bond	**6,328**	(3,089)

13. EARNINGS/(LOSS) PER SHARE *(Continued)*

	Number of shares	
	2007	2006 (Restated)
Shares		
Weighted average number of ordinary shares for basic earnings/(loss) per share calculation	**433,972,000**	424,547,000
Effect of dilution		
– weighted average number of ordinary shares:		
Share options	**8,469,000**	197,000#
Convertible bond	**27,254,000**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**469,695,000**	424,744,000#

Because the diluted loss per share amount is reduced when taking share options into account, the share options have an anti-dilutive effect on the basic loss per share for the year ended 31 December 2006. Accordingly no restated diluted loss per share is presented for the year ended 31 December 2006.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Note	Construction in progress RMB'000	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment, furniture and fixtures RMB'000	Total RMB'000
Opening net carrying amount as at 1 January 2007 (restated)		9,790	37,602	9,926	23,330	5,776	10,318	96,742
Additions		6,034	369	9,562	8,525	1,451	4,690	30,631
Reclassifications		(261)	(391)	391	261	–	–	–
Transfer to investment properties	*16*	(6,830)	(1,522)	–	–	–	–	(8,352)
Fair value adjustment upon transfer to investment properties		–	602	–	–	–	–	602
Acquisition of a subsidiary	*31(a)*	475	–	4,748	3,341	1,677	3,145	13,386
Disposals		–	(39)	(347)	(164)	(277)	(16)	(843)
Disposal of interest in a subsidiary	*30*	–	–	(423)	(228)	–	–	(651)
Depreciation charged for the year		–	(1,097)	(6,290)	(9,209)	(2,030)	(4,230)	(22,856)
Exchange realignment		–	(1,366)	(321)	(140)	–	(311)	(2,138)
Closing net carrying amount as at 31 December 2007		9,208	34,158	17,246	25,716	6,597	13,596	106,521

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Construction in progress RMB'000	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment, furniture and fixtures RMB'000	Total RMB'000
Opening net carrying amount as at 1 January 2006	2,614	13,460	3,848	20,092	4,484	5,614	50,112
Impairment loss (note 8)	–	–	–	(665)	–	(70)	(735)
Acquisitions of subsidiary/business	–	21,852	5,933	2,400	–	5,083	35,268
Reclassifications	–	353	(353)	(6)	282	(276)	–
Additions	7,302	8,017	3,221	9,681	2,840	2,041	33,102
Disposals	(126)	(4,692)	(1,871)	(1,009)	(580)	(473)	(8,751)
Depreciation charged for the year	–	(1,388)	(858)	(7,165)	(1,250)	(1,606)	(12,267)
Exchange realignment	–	–	6	2	–	5	13
Closing net carrying amount as at 31 December 2006	9,790	37,602	9,926	23,330	5,776	10,318	96,742
At 31 December 2007:							
Cost	9,208	38,172	24,731	52,285	10,871	23,098	158,365
Accumulated depreciation and impairment	–	(4,014)	(7,485)	(26,569)	(4,274)	(9,502)	(51,844)
Net carrying amount	9,208	34,158	17,246	25,716	6,597	13,596	106,521
At 31 December 2006:							
Cost	9,790	40,519	11,121	40,690	8,020	15,590	125,730
Accumulated depreciation and impairment	–	(2,917)	(1,195)	(17,360)	(2,244)	(5,272)	(28,988)
Net carrying amount	9,790	37,602	9,926	23,330	5,776	10,318	96,742

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Leasehold improvements RMB'000	Office equipment, furniture and fixtures RMB'000	Total RMB'000
Net carrying amount as at 1 January 2006	–	116	116
Depreciation	–	(21)	(21)
Net carrying amount as at 31 December 2006	–	95	95
Additions	45	–	45
Depreciation	(11)	(25)	(36)
Net carrying amount as at 31 December 2007	**34**	**70**	**104**
At 31 December 2007:			
Cost	45	108	153
Accumulated depreciation	(11)	(38)	(49)
Net carrying amount	34	70	104
At 31 December 2006:			
Cost	–	116	116
Accumulated depreciation	–	(21)	(21)
Net carrying amount	–	95	95

Freehold land and buildings of the Group are located outside Hong Kong. Freehold land and certain buildings of the Group were pledged to secure the bank borrowings of the Group as detailed in note 24 to the financial statements.

15. LEASEHOLD LAND AND LAND USE RIGHTS

The Group

	2007	2006
	RMB'000	RMB'000
		(Restated)
Net carrying amount:		
At beginning of year	**21,665**	17,769
Additions	**–**	6,204
Disposals	**–**	(2,043)
Amortisation for the year	**(579)**	(265)
At end of year	**21,086**	21,665
Cost	**22,587**	22,587
Accumulated amortisation	**(1,501)**	(922)
Net carrying amount	**21,086**	21,665

The Group's interests in leasehold land and land use rights were held outside Hong Kong under medium term leases.

Certain leasehold land and land use rights of the Group were pledged to secure the bank borrowings of the Group as detailed in note 24 to the financial statements.

16. INVESTMENT PROPERTIES

The Group

FAIR VALUE	Note	2007 RMB'000	2006 RMB'000 (Restated)
At beginning of year		**14,419**	20,985
Transfer from property, plant and equipment	*14*	**8,352**	–
Disposal		**–**	(6,566)
Fair value gain	*6*	**2,515**	–
At end of year		**25,286**	14,419

As at 31 December 2006 and 2007, the investment properties were revalued at approximately RMB14,419,000 and RMB25,286,000 respectively by Shanghai ZhongHua Real Estate Appraisal Co., Ltd., an independent professionally qualified valuer recognised by the relevant PRC association of valuers with recent experience in the location and category of property being valued, on an open market value basis. All investment properties of the Group are located outside Hong Kong.

The property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, are set out in notes 6 and 35 to the financial statements.

17. GOODWILL

The Group

	Note	RMB'000
Net carrying amount:		
At 1 January 2006		2,787
Arising on acquisition of a subsidiary	*31(a)*	102
Adjustment *(i)*		(140)
At 31 December 2006		2,749
Arising on acquisition of a subsidiary	*31(a)*	39,251
Attributable to disposal of interest in a subsidiary	*30*	(1,393)
Adjustment *(i)*		2,554
At 31 December 2007		**43,161**

(i) It represents the adjustments to the final consideration paid in respect of an acquisition of a subsidiary in the prior year, according to the related acquisition agreement.

17. GOODWILL *(Continued)*

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill is allocated as follows:

	2007	2006
	RMB'000	RMB'000
Provision of automobile repair, maintenance and restyling services	**43,161**	2,749

The recoverable amount of this CGU is determined based on value-in-use calculations. Theses calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations are as follows:

	2007	2006
	%	%
Gross margin	**50**	45
Growth rate	**–**	45
Discount rate	**12**	5.5

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with the forecasts generally adopted in the industry. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

The directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

Based on the above, the directors consider that there was no need for any impairment of goodwill.

18. *OTHER INTANGIBLE ASSETS*

The Group

	Note	**Trademarks** RMB'000	**Franchise contracts** RMB'000	**Total** RMB'000
Net carrying amount:				
At 1 January 2006		1,294	400	1,694
Addition		17	–	17
Acquisition of a business	*31(b)*	8,970	–	8,970
Amortisation for the year		(280)	(20)	(300)
At 31 December 2006		10,001	380	10,381
Disposal of interest in a subsidiary	*30*	–	(113)	(113)
Amortisation for the year		(130)	(267)	(397)
Exchange realignment		(561)	–	(561)
At 31 December 2007		9,310	–	9,310
At at 31 December 2007:				
Cost		9,726	–	9,726
Accumulated amortisation		(416)	–	(416)
Net carrying amount		9,310	–	9,310
At at 31 December 2006:				
Cost		10,287	400	10,687
Accumulated amortisation		(286)	(20)	(306)
Net carrying amount		10,001	380	10,381

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

19. INTERESTS IN SUBSIDIARIES

The Company

	2007 RMB'000	2006 RMB'000
Unlisted shares/investments, at cost	**164,066**	131,717
Loan to a subsidiary *(note (ii))*	**39,186**	66,048
Amounts due from subsidiaries *(note (ii))*	**92,462**	9,583
Amounts due to subsidiaries *(note (ii))*	**(474)**	(4,302)
	295,240	203,046

Particulars of the Company's principal subsidiaries as at 31 December 2007 are as follows:–

Company name	Country/place and date of incorporation	Legal form of entities for those established in PRC	Registered capital/ share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/place of operation
Interests directly held:						
Perfect Progress Investments Limited ("Perfect Progress")	The British Virgin Islands 8 April 2002	–	US$50,000 Ordinary shares	US$500	100%	Investment holding Hong Kong
Interests indirectly held:						
Shanghai New Focus Auto Parts Co., Ltd. *(note (i))*	The PRC 1 March 1994	Wholly-owned foreign enterprise	US$1,100,000 Registered capital	US$1,100,000	100%	Manufacture and sale of automotive accessories The PRC
New Focus Light and Power Technology (Shanghai) Co., Ltd. *(note (i))*	The PRC 24 April 2001	Wholly-owned foreign enterprise	US$10,080,000 Registered capital	US$10,740,000	100%	Manufacture and sale of automotive accessories The PRC

(Expressed in Renminbi)

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Country/place and date of incorporation	Legal form of entities for those established in PRC	Registered capital/ share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/place of operation
Shanghai New Focus Auto Repair Services Co., Ltd. *(note (i))*	The PRC 21 December 2000	Limited liability company	RMB23,500,000 Registered capital	RMB23,500,000	100%	Automobile repair, maintenance and restyling services; sales of automotive products The PRC
Shanghai Likeliang Auto Service Co., Ltd.	The PRC 23 March 2005	Limited liability company	RMB1,000,000 Registered capital	RMB1,000,000	95%	Automobile repair, maintenance and restyling services; sales of automotive products The PRC
Shanghai Hualiang Vocational and Technical Training School *(note (i))*	The PRC March 2004	Civilian sponsored non-enterprise unit	RMB1,000,000 Registered capital	RMB1,000,000	100%	Automobile repair, maintenance and restyling services training The PRC
Xinjiaodian (Chengdu) Auto Maintain Co. Ltd.	The PRC 27 April 2005	Limited liability company	RMB5,784,870 Registered capital	RMB5,784,870	80%	Automobile repair, maintenance and restyling services; sales of automotive products The PRC
New Focus Richahaus Co. Ltd.	Taiwan 15 September 2006	–	NT160,000,000 Share capital	NT160,000,000	100%	Automobile repair maintenance and restyling services; sales of automotive products Taiwan

(Expressed in Renminbi)

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Country/place and date of incorporation	Legal form of entities for those established in PRC	Registered capital/ share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/place of operation
Shandong New Focus Longsheng Auto Parts Co. Ltd.	The PRC 26 April 2006	Limited liability company	US$2,484,000 Registered capital	US$2,484,000	51%	Manufacture and sale of automotive accessories The PRC
Beijing Aiyihang Auto Service Ltd.	The PRC September 1997	Limited liability company	RMB38,500,000 Registered capital	RMB38,500,000	51%	Automobile repair, maintenance and restyling services sales of automotive products; The PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

(i) The subsidiary is registered as a wholly-foreign-owned enterprise under the PRC law.

(ii) Loan to a subsidiary is unsecured and interest free for the year, which was interest bearing at Hong Kong dollars prime lending rate plus 3% for the year ended 31 December 2006. The loan to the subsidiary is in substance a part of the Company's interest in the subsidiary in the form of a quasi-equity loan. Amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

20. OTHER FINANCIAL ASSETS AND TRADING SECURITIES

The Group

(a) Other financial assets

The balance as at 31 December 2007 represented the present value of a non-current earnest money deposit of approximately RMB2,500,000 in connection with the Group's acquisition of 51% equity interest in Aiyihang during the year (note 31(a)) which is refundable in 2010 and the related imputed interest income of approximately RMB111,000 (note 6) earned during the year.

During the year, the Group has disposed of 85% equity interest in Shanghai Beforly Investment Management Limited ("Beforly") for a cash consideration of RMB850,000 (note 30). Accordingly, the Group's remaining 15% interest in Beforly is classified as an available-for-sale financial asset of the Group with nil initial cost.

Included in the balances as at 31 December 2006 were mainly a non-current other financial asset of RMB5,000,000 and a current prepayment of RMB1,400,000 paid to suppliers under two agreements for subcontracting arrangements:

(i) 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 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. During the year ended 31 December 2007, the amount was fully utilised by the Group.

(ii) According to another agreement, RMB1,400,000 was paid to a supplier for certain subcontracting services and the amount should be used to set off against future subcontracting service fee charged by the supplier and the remaining balance would be fully repaid by 12 May 2007. On 12 May 2007, the agreement was extended for ten months. During the year ended 31 December 2007, the amount was fully utilised by the Group.

(b) Trading securities

The balance represented investments in equity securities that were listed in the PRC, and were stated at fair value based on quoted market prices as at the balance sheet date.

21. INVENTORIES

The Group

	2007 RMB'000	2006 RMB'000 (Restated)
Raw materials	**38,371**	22,869
Work-in-progress	**25,102**	21,456
Finished goods	**25,963**	9,977
Merchandise goods	**37,911**	31,587
	127,347	85,889
Less: provision for obsolete inventories	**(544)**	(784)
	126,803	85,105

22. TRADE RECEIVABLES

The Group

	2007 RMB'000	2006 RMB'000 (Restated)
Trade receivables	**121,617**	89,215
Less: allowance for doubtful debts	**(1,667)**	(1,328)
	119,950	87,887

(i) The average credit period to the Group's trade debtors is 30 days.

22. TRADE RECEIVABLES *(Continued)*

(ii) The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

The Group

	2007	2006
	RMB'000	RMB'000
		(Restated)
At beginning of year	**1,328**	1,050
Impairment loss recognised *(note 8)*	**339**	278
At end of year	**1,667**	1,328

At 31 December 2007, the Group's trade receivables of RMB18,187,000 (2006: RMB4,056,000) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, an allowance for doubtful debts of RMB1,667,000 (2006: RMB1,328,000) is made. The Group does not held any collateral over these balances.

Except for the above, no allowance has been made for estimated irrecoverable amounts from the sale of goods and provision of services.

(iii) The ageing analysis of trade receivables is as follows:

The Group

	2007	2006
	RMB'000	RMB'000
		(Restated)
Current to 30 days	**46,194**	38,164
31 to 60 days	**41,329**	39,326
61 to 90 days	**15,907**	7,669
Over 90 days	**18,187**	4,056
	121,617	89,215
Less: Allowance for doubtful debts	**(1,667)**	(1,328)
	119,950	87,887

22. *TRADE RECEIVABLES (Continued)*

(iv) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

The Group

	2007	2006
	RMB'000	RMB'000
		(Restated)
Neither past due nor impaired	**46,194**	38,164
Less than 1 months past due	**41,329**	39,326
1 to 2 months past due	**15,907**	7,669
	57,236	46,995
	103,430	85,159

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

23. AMOUNTS DUE FROM/TO RELATED PARTIES AND DIRECTORS

The Group

(a) Amounts due from related parties

Loans to officers, which are disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance are as follows:–

Included in the amounts due from related parties was mainly an amount of approximately RMB92,000 (2006: RMB320,000) due from Custom Accessories Asia Limited ("Custom Accessories"). Majority interests of Custom Accessories are mainly held by Mr Fresco and his wife, 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.

		2007	2006
		RMB'000	RMB'000
			(Restated)
Custom Accessories	Balance at 1 January	**320**	68
	Balance at 31 December	**92**	320
	Maximum amount outstanding during the year	**2,042**	1,087

Amount due from Custom Accessories arises from trading activities with ageing from current to 30 days. All amounts due from related parties are unsecured, interest-free and repayable on demand.

There was no amount due but unpaid, nor any allowance for doubtful debt made against the principal amounts at 31 December 2006 and 2007.

(b) Amounts due to directors and related parties

The amounts due to directors and related parties as at 31 December 2007 are unsecured, interest-free and repayable on demand.

As at 31 December 2006, the balances were unsecured, interest-free and repayable on demand, except for an amount due to a director of approximately RMB15,047,000 being interest bearing at 6% per annum which was fully settled during the year ended 31 December 2007.

24. BANK BORROWINGS, SECURED

The Group

	2007	2006
	RMB'000	RMB'000
		(Restated)
Bank overdrafts	**22,402**	–
Bank loans	**80,021**	41,354
	102,423	41,354
The borrowings are repayable as follows:		
On demand or within one year	**85,929**	23,355
After one year but within two years	**1,065**	–
After two years but within five years	**2,260**	4,456
After five years	**13,169**	13,543
	102,423	41,354
Amount due within one year included in current liabilities	**(85,929)**	(23,355)
Amount included in non-current liabilities	**16,494**	17,999

The bank facilities are secured by (i) the Group's freehold land and buildings with an aggregate net carrying value of approximately RMB28,188,0000 as at 31 December 2007 (2006: RMB29,013,000); (ii) the Group's leasehold land and land use rights of approximately RMB5,893,000 as at 31 December 2007 (2006: Nil); (iii) personal guarantees from a director of the Company, and a director of a subsidiary and her husband; (iv) pledged time deposits, and (v) corporate guarantees of the Company and NFA Parts.

The bank loans bear interest rates ranging from 2.6% to 4.4% (2006: 2.8% to 7.14%) and are due for repayment ranging from 2008 to 2016 (2006: 2007 to 2015). The bank overdrafts are repayable on demand and bear interest at the lending rate stipulated by the People's Bank of China applicable to the 6-month loan period, with 10% mark-down.

At 31 December 2007, the Group had available RMB5,242,000 (2006: RMB53,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

25. TRADE PAYABLES

The ageing analysis of the trade payables of the Group is as follows:

The Group

	2007	2006
	RMB'000	RMB'000 (Restated)
Current to 30 days	**65,992**	81,078
31 to 60 days	**37,753**	16,197
61 to 90 days	**22,677**	15,656
Over 90 days	**22,761**	2,442
	149,183	115,373

The average credit period for the Group's trade creditors is 60 days.

26. CONVERTIBLE BOND

The Group and the Company

On 16 May 2007, the Company issued US$12,000,000 redeemable convertible bond. The bond carries coupon interest rate of 5.2% per annum, which is payable semi-annually in arrears. The bond is convertible into ordinary shares of the Company at an initial conversion price of HK$2.07 per conversion share (subject to adjustments in accordance with the terms of the convertible bond) at any time during the period commencing from the date of issue of convertible bond.

Unless previously redeemed, repurchased and cancelled or converted, any outstanding convertible bond shall be redeemed, plus any accrued and unpaid interest, on the third anniversary of the issue date of the convertible bond.

The Company has no right to make early redemption without the consent of bondholder or its designated affiliates.

The convertible bond is denominated in United States dollar ("US$") which is different from the functional currency of the Company, the bond issuing entity. As such, the exercise of conversion option would not result in settlement by the exchange of a fixed amount of cash for a fixed number of shares of the Company. The embedded derivative of conversion option is therefore accounted for as a financial liability. The proceeds from the issue of the convertible bond of US$12,000,000 (approximately equivalent to RMB91,897,000) have been split into liability and derivative components. On issue of the convertible bond, the fair value of the derivative component is determined using an option pricing model and this amount is carried as a derivative component of the liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issue date and any subsequent changes in fair value of the derivative component as at the balance sheet date are recognised in the consolidated income statement.

26. CONVERTIBLE BOND *(Continued)*

The movements of the liability component and derivative component of the convertible bond during the year ended 31 December 2007 are as follows:

	Liability component of convertible bond RMB'000	Derivative component of convertible bond RMB'000	Total RMB'000
At the issuance date	61,312	30,585	91,897
Direct transaction costs	(1,451)	–	(1,451)
Effective interest expense recognised and not yet paid *(note 7)*	7,853	–	7,853
Fair value gain	–	(15,214)	(15,214)
Unrealised exchange realignment gain	(2,592)	(1,568)	(4,160)
At 31 December 2007	65,122	13,803	78,925
Amount due within one year (interest payable included in accruals and other payables)	(2,927)	–	(2,927)
Amount classified as non-current liabilities	62,195	13,803	75,998

Interest on the convertible bond is calculated using the effective interest method by applying the effective interest rate of 19.5% per annum.

The fair value of the derivative component of the convertible bond is determined taking into account the valuation performed by RHL Appraisal Ltd using the Binomial Model with the major inputs as at 16 May 2007 and 31 December 2007 as follows:

	16 May 2007	**31 December 2007**
Share price	HK$2.24	**HK$1.66**
Exercise price	HK$2.07	**HK$2.07**
Volatility	44.77%	**44.29%**
Risk free rate	3.94%	**2.68%**

During the year, there was a significant decrease in the share price of the Company, and accordingly, the fair value of the derivative component of the convertible bond decreased, resulting in a fair value gain of approximately RMB15,214,000.

27. DEFERRED TAX

The Group

The movement in deferred tax assets/(liabilities) during the year is as follows:

Deferred tax assets:

	Inventory provision RMB'000	Provision on warranty RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2006	26	6	–	32
Credited to income statement *(note 10)*	–	–	167	167
Exchange realignment	–	–	(4)	(4)
At 31 December 2006	26	6	163	195
Charged to income statement *(note 10)*	–	–	(58)	(58)
Exchange realignment	–	–	(9)	(9)
At 31 December 2007	**26**	**6**	**96**	**128**

In accordance with the PRC tax law, tax losses may be carried forward against future taxable income for a period of five years. As at 31 December 2007, the Group had tax losses carried forward of approximately RMB42,374,000 (2006: RMB28,423,000). As at 31 December 2007, the Group did not recognise any deferred tax asset arising from such tax losses as management is of the view that it was not probable that such benefits of tax losses would be realised before they expire.

The Group and the Company had no other significant unrecognised deferred tax at the balance sheet date (2006: Nil).

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. Further, on 6 December 2007, the State Council released the implementation rules to the New Tax Law.

According to the New Tax Law, from 1 January 2008, the standard CIT rate for enterprises in the PRC will be reduced from 33% to 25%.

27. DEFERRED TAX *(Continued)*

The Group *(Continued)*

Deferred tax liabilities:

	Fair value gains on investment properties RMB'000	Accrued subsidy income RMB'000	Total RMB'000
At 1 January 2006 and 31 December 2006	(577)	(192)	(769)
Charged to income statement *(note 10)*	(302)	–	(302)
At 31 December 2007	(879)	(192)	(1,071)

28. SHARE CAPITAL

	2007			2006		
	Number of shares	**Amount**	**Amount**	Number of shares	Amount	Amount
	'000	**HK$'000**	**RMB'000**	'000	HK$'000	RMB'000
Authorised:						
Ordinary shares of HK$0.1 each	**2,000,000**	**200,000**	**200,000**	2,000,000	200,000	200,000
Issued and fully paid:						
At beginning of year	**405,835**	**40,584**	**42,987**	400,000	40,000	42,400
Issue of shares on exercise of share options *(note (i))*	**90**	**9**	**9**	5,835	584	587
Bonus issue *(note (ii))*	**20,979**	**2,097**	**2,048**	–	–	–
Issue of shares on acquisition of a subsidiary *(note 31(a))*	**13,660**	**1,366**	**1,350**	–	–	–
At end of year	**440,564**	**44,056**	**46,394**	405,835	40,584	42,987

Note:

(i) In March and May 2007, 90,000 share options were exercised to subscribe for 90,000 ordinary shares of the Company of HK$0.1 each at a consideration of RMB82,000 of which RMB9,000 was credited to share capital and the remaining balance of RMB73,000 was credited to the share premium account and RMB12,000 has been transferred from the share options reserve (included in others reserve) to the share premium account.

(ii) The Company issued one bonus share of HK$0.10 each credited as fully paid for every twenty issued shares held on the register of members of the Company on 18 June 2007. An amount standing to the credit of the share premium account of the Company was capitalised and applied in making payment in full, at par, for the new shares. Such bonus shares rank pari passu with the existing issued shares.

29. RESERVES

(i) Reserves of the Group

	Share premium account RMB'000 (Note a)	Statutory reserve fund RMB'000 (Note b)	Reorganisation reserve RMB'000 (Note c)	Enterprise expansion fund RMB'000 (Note d)	Retained profits RMB'000	Others, including share options reserve RMB'000 (Note e)	Exchange reserve RMB'000 (Note f)	Total RMB'000
Balance as at 1 January 2006	69,283	19,869	2,738	2,756	92,333	2,290	–	189,269
2005 final dividends paid	–	–	–	–	(33,433)	–	–	(33,433)
Exchange realignment	–	–	–	–	–	–	(921)	(921)
Realisation on disposal of investment properties	–	–	–	–	–	(557)	–	(557)
Transfer of reserves	–	2,727	–	–	(2,727)	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	–	965	–	965
Loss for the year (restated)	–	–	–	–	(3,089)	–	–	(3,089)
Issue of new shares on exercise of share options	4,952	–	–	–	–	–	–	4,952
At 31 December 2006 (restated)	74,235	22,596	2,738	2,756	53,084	2,698	(921)	157,186
Issue of shares for acquisition of a subsidiary (note 31(a))	29,713	–	–	–	–	–	–	29,713
Issue of shares on exercise of share options	85	–	–	–	–	(12)	–	73
Fair value adjustment upon transfer of property, plant and equipment to investment properties	–	–	–	–	–	602	–	602
Lapse of share options	–	–	–	–	575	(575)	–	–
Profit for the year	–	–	–	–	17,849	–	–	17,849
Transfer of reserves	–	2,432	–	–	(2,432)	–	–	–
Bonus issue	(2,048)	–	–	–	–	–	–	(2,048)
Exchange realignment	–	–	–	–	–	–	(3,052)	(3,052)
At 31 December 2007	101,985	25,028	2,738	2,756	69,076	2,713	(3,973)	200,323

Note:

(a) The balance represents the excess of consideration received for issue of shares over the corresponding par value of the issued shares. The application of the share premium account is governed by the applicable laws of the Cayman Islands.

(b) NFA Parts and NF Light & Power are wholly-foreign-owned enterprises established in the PRC and hence are required to transfer no less than 10% of the profit after taxation, as determined in accordance with the applicable PRC accounting standards, to statutory reserve fund until the fund aggregates to 50% of their registered capital.

The statutory reserve fund can only be used, upon approval by the board of directors, to offset accumulated losses or increase capital.

29. RESERVES *(Continued)*

(i) Reserves of the Group *(Continued)*

(c) The reorganisation reserve of the Group represents:

(i) the difference of RMB8,263,000 between the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation and the nominal value of Perfect Progress's shares issued in exchange therefor;

(ii) in 2001, Custom Accessories, the former investor of NF Light & Power, contributed capital of RMB19,959,000;

(iii) as part of the reorganisation and pursuant to the share transfer agreement dated 3 June 2002, which became effective on 20 June 2002 according to the Certificate of Approval issued by the Shanghai People's Government (the "Certificate of Approval"), Mr Hung Wei-Pi, John, the only shareholder of Sharp Concept Industrial Limited which holds 60% ownership of Perfect Progress, purchased 10% of the equity interest of NFA Parts (the "Transferring Interests") from the original local shareholder of NFA Parts at RMB2,800,000. Pursuant to the share transfer agreement dated 4 December 2002, which became effective on 12 December 2002 according to the Certificate of Approval, Perfect Progress acquired the Transferring Interests from Mr Hung Wei-Pi, John, in consideration of the allotment and issue of 40 shares of US$1.00 each in Perfect Progress to Sharp Concept Industrial Limited. The difference of RMB6,312,000 between the nominal value of the shares of Perfect Progress and the Transferring Interests' share of the fair value of NFA Parts on acquisition pursuant to the Reorganisation is accounted for as reorganisation reserve of the Group;

(iv) on 13 February 2005, an aggregate of 90 shares were allotted and issued by the Company in exchange for the 100% of share interest in Perfect Progress. The difference of RMB4,000 between the nominal value of the shares of issued by the Company and the transferring interest's share of the fair value of Perfect Progress pursuant to the reorganisation is accounted for as reorganisation reserve of the Group; and

(v) on 13 February 2005, the directors of the Company were authorised to capitalise HK$29,999,990 towards paying up in full at par 299,999,900 shares for allotment.

(d) Enterprise expansion fund

In accordance with the Company Law of the PRC and the Articles of Association of a subsidiary, the subsidiary shall appropriate five percent of its annual statutory net profit (after offsetting any prior years' losses) to enterprise expansion fund.

(e) Share options reserve

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company and other parties recognised in accordance with the accounting policy in note 3(u).

(f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in note 3(s).

29. RESERVES *(Continued)*

(ii) Reserves of the Company

	Share premium RMB'000	Contributed surplus RMB'000	Others, including share options reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2006	69,283	99,917	46	2,292	171,538
2005 final dividend paid	–	(15,675)	–	(17,758)	(33,433)
Profit for the year	–	–	–	15,466	15,466
Recognition of share-based payment	–	–	965	–	965
Issue of new shares on exercise of share options	4,952	–	–	–	4,952
Balance at 31 December 2006	74,235	84,242	1,011	–	159,488
Issue of shares for acquisition of a subsidiary *(note 31(a))*	29,713	–	–	–	29,713
Issue of shares on exercise of share options	85	–	(12)	–	73
Lapse of share options	–	–	(575)	575	–
Loss for the year	–	–	–	(6,911)	(6,911)
Bonus issue	(2,048)	–	–	–	(2,048)
Balance at 31 December 2007	101,985	84,242	424	(6,336)	180,315

30. DISPOSAL OF INTEREST IN A SUBSIDIARY

On 13 November 2007, the Group disposed of 85% equity interest in its subsidiary, Shanghai Beforly Investment Management Limited.

The net assets of Shanghai Beforly Investment Management Limited at the date of disposal were as follows:

	Note	2007 RMB'000
Net assets disposed of:		
Property, plant and equipment	*14*	**651**
Intangible assets	*18*	**113**
Inventories		**584**
Trade and other receivables		**385**
Amount due from a related company		**1,110**
Bank and cash balances		**1,512**
Trade and other payables		**(5,851)**
		(1,496)
Attributable goodwill	*17*	**1,393**
		(103)
Gain on disposal	*6*	**953**
Cash consideration received	*20(a)*	**850**
Net cash outflow arising on disposal:		
Cash consideration received		**850**
Bank balances and cash disposed of		**(1,512)**
		(662)

The subsidiary disposed of during the year contributed approximately RMB2,320,000 (2006: RMB5,078,000) to the Group's turnover and resulted a loss of approximately RMB209,000 (2006: RMB822,000) to the Group's results.

31. BUSINESS COMBINATIONS

(a) Acquisitions of subsidiaries

On 31 March 2006, the Group acquired 80% of the equity of Xinjiaodian (Chengdu) Auto Maintain Co., Ltd. ("Xinjiaodian Cheungdu") from Seven Fortune Group Limited. Xinjiaodian Chengdu is engaged in providing automotive service, namely clean and beauty, and car maintenance services in PRC.

In April 2007, the Group acquired 51% equity interest in Aiyihang from Mr. Xing Aiyi for a total consideration of RMB44.3 million, of which RMB13.3 million was satisfied in cash and RMB31.0 million was satisfied by the issue of 13,660,442 shares of HK$0.1 each of the Company. Aiyihang is engaged in providing automotive service, namely repair, maintenance and restyling services, and sales of automotive products in PRC. As a result, amounts of approximately RMB1,350,000 and RMB29,713,000 were credited to share capital and share premium account respectively. In addition, the Group also placed an earnest money deposit of RMB3,000,000 with the vender, which is unsecured, interest free and is unconditionally refundable in 2010. Accordingly, the amount is classified as a non-current asset and has been discounted into its present value of approximately RMB2,500,000 (note 20(a)) and the remaining balance of RMB500,000 is considered as an additional cost of acquisition.

Details of net assts acquired and goodwill arising therefrom are as follows:

	Note	**2007** **RMB'000**	2006 RMB'000
Purchase consideration:			
Cash paid		**13,282**	1,497
Issue of shares of the Company	*28 & 29*	**31,063**	–
Cost directly attributable to the acquisition		**1,601**	–
Effect of discounting the non-current deposit placed for the acquisition		**500**	–
Fair value of net assets acquired – shown as below		**(7,195)**	(1,395)
Goodwill	*17*	**39,251**	102

The directors believe that the acquisition would create synergy and strengthen the competitiveness of the Group's automotive service business.

31. BUSINESS COMBINATIONS *(Continued)*

(a) Acquisitions of subsidiaries *(Continued)*

The Group had no presence in Beijing before the acquisition of equity interest in Aiyihang, the city with the most private passenger cars in the PRC. Aiyihang, on the other hand, has been operating in the city with well established network and reputation It has been the Group's plan to have establishment in Beijing and Shanghai, the two most influential cities in the PRC. Given the vast differences in the level of economic development and consumer behaviors and preference in different cities in the PRC, entry into the Beijing market through acquisition of Aiyihang, a company already operating there, would be the most efficient and effective way in terms of both time and costs.

Besides, the acquisition provided the Group with the opportunity to improve its knowledge on the PRC's automobile services industry through the cooperation with Aiyihang, a competitor in the market, and to better understand its strengths and weaknesses in its operation.

The acquisition also helped to improve the overall strengths of the Group. The Group would have more chain stores providing automobile services, most of which are medium-sized stores.

31. BUSINESS COMBINATIONS *(Continued)*

(a) Acquisitions of subsidiaries *(Continued)*

The net assets acquired in the acquisitions are as follows:

		Fair value of net assets acquired	
		2007	2006
	Note	**RMB'000**	RMB'000
Property, plant and equipment	*14*	**13,386**	737
Inventories		**9,160**	636
Trade receivables		**994**	–
Deposits, prepayments and other receivables		**6,395**	13
Cash and cash equivalents		**5,851**	404
Bank loan		**(3,000)**	–
Trade payables		**(11,651)**	–
Accruals and other payables		**(7,027)**	(46)
Net assets acquired		**14,108**	1,744
Less: Minority interests		**(6,913)**	(349)
Fair value of net assets acquired		**7,195**	1,395
Purchase consideration settled in cash		**13,282**	1,497
Cash paid for the cost directly attributable to the acquisition		**1,601**	–
Cash and cash equivalents in the subsidiary acquired		**(5,851)**	(404)
Cash outflow on acquisition		**9,032**	1,093

31. BUSINESS COMBINATIONS *(Continued)*

(a) Acquisitions of subsidiaries *(Continued)*

The carrying amount of the acquirees' assets and liabilities approximates the fair value of the assets and liabilities acquired.

Since the acquisition in 2006, Xinjiaodian Chengdu contributed approximately RMB1.3 million to the Group's turnover and a loss of approximately RMB1.2 million to the Group's results for the prior year.

Had the acquisition taken place at the beginning of 2006, Xinjiaodian Chengdu would have contributed to the turnover of the Group and a loss of the Group for the prior year by the amounts of approximately RMB1.8 million and a loss of approximately RMB1.6 million respectively.

Since the acquisition in 2007, Aiyihang contributed approximately RMB45 million to the Group's turnover and a profit of approximately RMB3 million to the Group's results for the current year.

Had the acquisition taken place at the beginning of the year, Aiyihang would have contributed to the turnover of the Group and the profit of the Group for the year by the amounts of approximately RMB57 million and a profit of approximately RMB3 million respectively.

(b) Acquisition of a business

On 30 September 2006, the Group acquired the business of NF Richahaus which engaged in operating chain stores, primarily superstore, providing automobile repair, maintenance and restyling services and sales of automotive products in Taiwan.

Details of net assets acquired are as follows:

	2006 RMB'000
Purchase consideration:	
Cash paid	23,391
Fair value of net assets acquired – shown as below	(23,391)
Goodwill	–

31. BUSINESS COMBINATIONS *(Continued)*

(b) Acquisition of a business *(Continued)*

The net assets acquired in the acquisition are as follows:

	Note	**Fair value of net assets acquired** 2006 RMB'000
Intangible assets	*18*	8,970
Property, plant and equipment	*14*	34,531
Prepayments		7,603
Inventories		20,194
Bank borrowings		(18,577)
Trade payables		(26,869)
Accruals and other payables		(2,461)
Net assets acquired		23,391
Purchase consideration settled in cash and cash outflow on acquisition		23,391

The carrying amount of the acquiree's assets and liabilities approximates the fair value of the assets and liabilities acquired.

Since its acquisition, NF Richahaus contributed approximately RMB16.5 million to the Group's turnover and a loss of approximately RMB0.7 million to the Group's result for the prior year.

32. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy financial institutions with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged time deposits approximate their fair values.

The Group

	2007	2006
	RMB'000	RMB'000
		(Restated)
Cash and cash equivalents were denominated in:		
RMB	**61,984**	29,570
US$	**70,254**	20,182
HK$	**1,184**	1,725
EUR	**133**	178
TWD	**1,955**	14,274
GBP	**14**	–
YEN	**8**	12
	135,532	65,941

The Company

As at 31 December 2007, most of the cash and cash equivalents of the Company were denominated in United States dollar. As at 31 December 2006, all of the cash and cash equivalents of the Company were denominated in Hong Kong dollar.

33. MATERIAL NON-CASH TRANSACTIONS

(a) During the year, non-current subcontracting prepayment and current subcontracting prepayment of approximately RMB5,000,000 and RMB1,400,000 respectively were utilised by the Group (note 20(a)).

(b) Additional consideration for acquisition of a subsidiary of approximately RMB1,799,000 has not been paid by the Group and was included in accruals and other payables of the Group as at 31 December 2007.

34. COMMITMENTS

Capital commitments outstanding at the balance sheet date not provided for in the financial statements were as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Construction of buildings, contracted but not provided for	**29,468**	–	**–**	–

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Significant leasing arrangements in respect of land and buildings classified as being held under operating leases are described in notes 14 and 15 to the financial statements.

	2007	2006
	RMB'000	RMB'000
Minimum lease payments under operating leases recognised as an expense in the year	**21,784**	8,224

At the balance sheet date, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:–

	2007	2006
	RMB'000	RMB'000
Within one year	**20,542**	12,021
After one year but within five years	**66,947**	35,398
After five years	**12,659**	25,037
	100,148	72,456

35. OPERATING LEASE ARRANGEMENTS *(Continued)*

The Group as lessor

As at 31 December 2007, the Group leased out its investment properties under operating leases.

At the balance sheet date, the Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2007	2006
	RMB'000	RMB'000
Within one year	**638**	696

36. EQUITY-SETTLED SHARE-BASED PAYMENTS

The Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to employees who contribute to the success of the Group's operation.

On 28 February 2005, the Company granted share options of 23,780,000 granted to its employees. The exercise price of the granted options is equal to the closing price of the shares on the date of grant. There are 10 vesting periods ending on consecutive years from 31 December 2006 to 31 December 2014 and the period ending 12 February 2015. The options are exercisable starting from 1 January 2006 to 12 February 2015 subject to accomplishing performance targets or conditions, as determined by the board of directors of the Company.

On 5 July 2005, additional share options of 1,710,000 were granted to a consultant of the Company and employees at the average closing prices of five consecutive days before the grant date. The vesting period ends on 31 December 2008. The options are exercisable starting from 1 January 2006 to 31 December 2008 subject to accomplishing performance targets or conditions, as determined by the board of directors of the Company.

36. *EQUITY-SETTLED SHARE-BASED PAYMENTS* *(Continued)*

The number and weighted average exercise prices of the share options are as follows:

	Share options (in thousands)
At 1 January 2006	23,540
Exercised	(5,835)
Lapsed	(1,135)
At 31 December 2006	16,570
Exercised	(90)
Lapsed	(1,100)
At 31 December 2007	**15,380**

The weighted average exercise prices for the share options exercised and lapsed during the year were HK$0.963 (2006: HK$0.944) and HK$0.957 (2006: HK$0.956) respectively.

Share options outstanding at 31 December 2007 and 2006 have the following expiry date and exercise prices:

For the year 2007

		Share options		
Expiry date	**Exercise price HK$ per share**	**Granted to directors**	**Granted to employees**	**Total**
		’000	’000	’000
31 December 2008	0.94	–	1,060	1,060
31 December 2008	1.01	–	800	800
31 December 2010	0.94	–	3,470	3,470
12 February 2015	0.94	10,050	–	10,050
		10,050	5,330	15,380
Weighted average exercise price		0.94	0.95	0.94

36. EQUITY-SETTLED SHARE-BASED PAYMENTS *(Continued)*

For the year 2006

		Share options		
Expiry date	Exercise price HK$ per share	Granted to directors '000	Granted to employees '000	Total '000
31 December 2008	0.94	–	1,960	1,960
31 December 2008	1.01	–	1,090	1,090
31 December 2010	0.94	–	3,470	3,470
12 February 2015	0.94	10,050	–	10,050
		10,050	6,520	16,570
Weighted average exercise price		0.94	0.95	0.94

The significant inputs into the Black-Scholes option pricing model were share price of HK$0.94 at the grant date and HK$1.01 at the average closing prices of the five consecutive days before the grant date, exercise prices shown above, standard deviation of expected share price returns of 29.87%, expected life of options of 1.8 years to 10 years and annual risk-free interest rate of 1.81% to 3.83%.

37. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Except for disclosed in notes 7, 23 and 24 to the financial statements, details of transactions between the Group and other related parties are disclosed below.

(a) During the year and in the ordinary course of business, the Group had the following material transactions with related parties which are not members of the Group:

	2007 **RMB'000**	2006 RMB'000
Sales of goods to Custom Accessories	**4,525**	2,513
Purchases of property, plant and equipment from a minority shareholder of the Company's subsidiary	–	2,060
Other service income from related companies invested by certain officers of the Company's subsidiaries	–	618

Sales of goods were made at the Group's usual list prices, and purchases of property, plant and equipment were made at market price discounted to reflect the quantity of purchased and the relationships between the parties. Other service income is charged based on the actual costs incurred for provision of the services to the related parties.

(b) Members of key management during the year comprised only of the executive directors whose remuneration is set out in note 9(a) to the financial statements.

38. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the borrowings and convertible bond disclosed in notes 24 and 26 respectively, cash and cash equivalents and pledged time deposits in note 32 and equity attributable to equity holders of the Company, comprising share capital, reserves and retained earnings as disclosed in notes 28 and 29(i) respectively.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 10-20% determined as the proportion of net debt to equity. Based on the management's recommendations, the Group expects to increase its gearing ratio closer to 25% through the issue of new debt and the payment of dividends.

The gearing ratio at the year end was as follows:

	2007 **RMB'000**	2006 RMB'000
Debts	**178,421**	41,354
Cash and cash equivalents and pledged time deposits	**(138,874)**	(67,089)
Net debt	**39,547**	(25,735)
Equity	**278,384**	209,470
Net debt to equity ratio	**14.2%**	N/A

39. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk. The Group is also exposed to equity price risk mainly arising from its own equity share price.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Normally, the Group does not obtain collateral from customers.

Investments are normally only in liquid securities quoted on a recognised stock exchange.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 31% (2006: 20%) and 75% (2006: 53%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the manufacture and sales of automobile accessories business segment.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 22 to the financial statements.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

The Group

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
2007						
Bank borrowings	**102,423**	**111,939**	**87,704**	**1,560**	**3,580**	**19,095**
Convertible bond	**75,998**	**100,947**	**7,379**	**4,541**	**89,027**	**–**
Trade and other payables and amounts due to directors and related parties	**195,991**	**195,991**	**195,991**	**–**	**–**	**–**
Total	**374,412**	**408,877**	**291,074**	**6,101**	**92,607**	**19,095**
2006						
Bank borrowings	41,354	50,519	24,271	–	6,384	19,864
Trade and other payables and amounts due to directors and related parties	189,608	189,608	189,608	–	–	–
Total	230,962	240,127	213,879	–	6,384	19,864

39. *FINANCIAL RISK MANAGEMENT (Continued)*

(b) Liquidity risk *(Continued)*

The Company

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
2007						
Convertible bond	**75,998**	**100,947**	**7,379**	**4,541**	**89,027**	**–**
Other payables and amount due to a director	**6,097**	**6,097**	**6,097**	**–**	**–**	**–**
Total	**82,095**	**107,044**	**13,476**	**4,541**	**89,027**	**–**
2006						
Other payables and amount due to a director	6,240	6,240	6,240	–	–	–
Total	6,240	6,240	6,240	–	–	–

(c) Interest rate risk

The Group's and the Company's fair value interest-rate risk mainly arises from bank loans and convertible bond as disclosed in notes 24 and 26 to the financial statements. Bank loans and convertible bond were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group and the Company have no significant cash flow interest-rate risk as there are no significant borrowings which bear floating interest rates for a significant period of time during the year. The Group and the Company have not used any financial instruments to hedge potential fluctuations in interest rates.

The interest rates and terms of repayment of the Group's and the Company's borrowings are disclosed in notes 24 and 26 to the financial statements.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US$.

The Group and the Company are also exposed to foreign currency exchange risk arising from the cash and cash equivalents and convertible bond denominated in US$.

The following table details the Group's and the Company exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group

	2007	2006
	US$	US$
Trade and other receivables	**11,360**	7,841
Cash and cash equivalents	**9,654**	2,585
Convertible bond and interest payable	**(10,443)**	–
Overall net exposure	**10,571**	10,426

The Company

	2007	2006
	US$	US$
Cash and cash equivalents	**1,687**	–
Convertible bond and interest payable	**(10,443)**	–
Overall net exposure	**(8,756)**	–

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Currency risk *(Continued)*

The following table indicates the approximate change in the Group's profit for the year and retained profits and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the RMB strengthens against the relevant currency. For a weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	2007			2006 (Restated)		
The Group	**Increase in foreign exchange rate**	**Effect on profit for the year and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase in foreign exchange rate	Effect on profit for the year and retained profits RMB'000	Effect on other components of equity RMB'000
US$	**7%**	**(5,385)**	**–**	7%	(5,311)	–

	2007			2006 (Restated)		
The Company	**Increase in foreign exchange rate**	**Effect on profit for the year and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase in foreign exchange rate	Effect on profit for the year and retained profits RMB'000	Effect on other components of equity RMB'000
US$	**7%**	**4,460**	**–**	7%	–	–

39. *FINANCIAL RISK MANAGEMENT* *(Continued)*

(d) Currency risk *(Continued)*

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit/(loss) for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

(e) Price risk

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own ordinary shares underlie the fair value of derivative component of convertible bond as further disclosed in note 26 to the financial statements.

As the Group's exposure of price risk for its trading securities is not significant, no sensitivity analysis is presented therefor.

If the price of the Company's shares had been 5% higher/lower, profit for the year ended 31 December 2007 would decrease/increase by approximately RMB1,265,000 and RMB2,241,000 for the Group as a result of the changes in fair value of derivative component of convertible bond.

In management's opinion, the sensitivity analysis above is unrepresentative of the price risk in derivative financial liability as the year end exposure does not reflect the exposure during the year.

(f) Fair values

All financial instruments of the Group and Company are carried at amounts not materially different from their fair values as at 31 December 2006 and 2007 except that the fair value of the liability component of convertible bond, with a carrying amount of approximately RMB65,122,000 as at 31 December 2007, was approximately RMB79,421,000.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Fair values estimation

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments of the Group set out in notes 20(b), 24 and 26.

(i) Trading securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Interest-bearing bank borrowings and liability component of convertible bond

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Derivative component of convertible bond

The estimate of fair value of the conversion option embedded in convertible bond is measured using an option pricing model.

40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007	2006
	RMB'000	RMB'000
Financial assets		
Fair value through profit or loss – held for trading	**737**	–
Loans and receivables (including cash and bank balances)	**320,448**	204,105
Financial liabilities		
Financial liabilities measured at amortised cost	**360,609**	230,962
Derivative component of convertible bond at fair value	**13,803**	–

41. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

The Company

	2007	2006
	RMB'000	RMB'000
Guarantee given to a bank in connection with facilities granted to a subsidiary	**35,148**	23,424

As at 31 December 2007, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB31,291,000 (2006: RMB23,424,000).

42. SIGNIFICANT NON-ADJUSTING POST BALANCE SHEET EVENT

The board recommended a bonus issue of one new share of HK$0.10 each credited as fully paid for every forty issued shares held on the register of members of the Company on 4 June 2008. An amount standing to the credit of the share premium account of the Company will be capitalised and applied in making payment in full, at par, for the new shares. The issue of bonus shares is conditional upon the passing of the relevant resolutions at the annual general meeting, and the listing committee of the Stock Exchange granting approval to the listing of and permission to deal in the new shares. Such new shares will not, however, rank for the proposed bonus issue but will in all other respects rank pari passu with the existing issued shares.

43. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, certain prior year adjustments have been made to correct fundamental errors. In addition certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified and adjusted as appropriate, is set out below:

RESULTS

	1.1.2007 to 31.12.2007 RMB'000	1.1.2006 to 31.12.2006 RMB'000 (Restated)	1.1.2005 to 31.12.2005 RMB'000	1.1.2004 to 31.12.2004 RMB'000	1.1.2003 to 31.12.2003 RMB'000
Turnover	**763,451**	533,302	507,471	356,729	296,908
Profit before taxation	**22,429**	2,460	65,542	49,918	51,385
Income tax	**(1,067)**	(4,201)	(9,924)	(37)	(2,065)
Profit/(loss) for the year	**21,362**	(1,741)	55,618	49,881	49,347
Attributable to:					
Equity holders of the Company	**17,849**	(3,089)	55,618	50,327	49,320
Minority interests	**3,513**	1,348	–	(446)	27
	21,362	(1,741)	55,618	49,881	49,347

ASSETS AND LIABILITIES

	31.12.2007 RMB'000	31.12.2006 RMB'000 (Restated)	31.12.2005 RMB'000	31.12.2004 RMB'000	31.12.2003 RMB'000
Total assets	**653,867**	442,212	325,910	201,993	200,308
Total liabilities	**(375,483)**	(232,742)	(94,241)	(83,296)	(100,355)
	278,384	209,470	231,669	118,697	99,953