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 2010

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

Directors

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

Non-executive Directors
Low Hsiao-Ping
Hsu Ming Chyuan

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

Company Secretary

Liu Xiao Hua

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111 Cayman Islands

Principal Place of Business in Hong Kong

Unit 1201, Hollywood Plaza
610 Nathan Road
Kowloon
Hong Kong

Auditors

BDO Limited
25/F., Wing On Centre
111 Connaught Road Central
Hong Kong

Legal Advisers

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

Principal Share Registrar and Transfer Office

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

Computershare Hong Kong Investor Services Limited
Shops 1712-1716,
17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

360

Website

http://www.nfa360.com

CHAIRMAN'S STATEMENT

On behalf of the Board, it is my honor to take this opportunity to express my sincere gratitude to all our shareholders, customers and parties who have long been supportive of the Group and to present the operating results of the Group for 2010 and its future prospect for 2011.

Market Review and Group Profile

The global economy gradually recovered and worldwide market demand for automobiles, automobile related electronic products and aftermarket services gradually rebounded in 2010. Riding on the growth trend in 2009, total automotive sales in China grew by 32% to approximately 18 million in 2010, compared to approximately 13.6 million in 2009, putting once again China in the top position in the world. Car count even surpassed 90 million, resulting in China being ranked the second around the globe.

In addition, the PRC government concluded the conference on the 12th Five-Year Plan with boosting domestic consumption and development of inland cities as the priority focuses and average overall GDP growth rate of 7% for the next five years as the main theme. Actual GDP of certain third- and fourth-tier cities are anticipated to grow progressively at a pace of over 10% year-on-year, the wealth gap will be minimised and poverty will be eliminated. On the back of China being the world's largest automobile consumer in 2009, coupled with the gradual increase in disposable income per capita and the growing consumption for automobile maintenance for the sake of safety in China, it is expected that rapid growth will be maintained for automotive sales and the aftermarket related service industry in the PRC market.

The Group focused on the construction of automotive chain service network in the Greater China region (the Group's service business) as well as the production of innovative and environmentally friendly automotive lighting and automotive electronic power products (the Group's manufacturing business), with an aim to provide the automobile end-consumers market with products and services with premium performance-price ratio. Being the world's largest country in terms of automotive sales and the second largest in terms of car count, the Greater China market offered indefinite development potential for products and services of the Group. In light of past failures of world-class automotive aftermarket competitors in China and the fact that more than 100,000 domestic operators are small in scale and unstandardised, New Focus Group has absolute advantage in the huge market with only mild competition and thus focuses on network construction and promotion of its own brands. At present, the Group is a leader in the automotive aftermarket chain service network sector in the Greater China region, enjoying the largest market share. It is also the only large-scale operator who could break through provincial boundaries and the only standardised operator listed in Taiwan and Hong Kong in the industry, and has completed its strategic layout in the five major economic circles in China.

Despite the government's implementation of measures to limit automotive sales in certain regions, such as Beijing, market analysts anticipate that such a move will have a favourable impact on the Group as the Company will be able to secure leases at prime locations at rental costs 30%-50% lower than last year due to a drastic decline in the number of automobile sellers but unchanged demand for automobile related services, thereby enhancing the Group's operating profit in the Beijing area. As car count in China is going to increase significantly year-on-year, car count in China is expected to reach 250 million in 2020, which will be well ahead of other countries in the world. Under such development trend, the Group's chain service network is heading for a promising prospect in terms of market size in China.

Business Review

Looking back on the previous year, the management team of Autolife (representing the Group's service business) continued to increase the number of B2C Service Centers and expanded its market coverage and market share through effective organic growth. In addition, we successfully extended our foothold and explored the business model of B2B Mega Store in third- and fourth-tier cities including four provinces, namely Jiangsu, Zhejiang, Jilin and Liaoning. These B2B Mega Stores sold automobile related products to as many as 11,000 local commercial customers, such as automobile sellers, automobile repair factories and auto care operators, through its distribution network and provided product technology introduction and strategic marketing, which enabled the Group to gain relatively higher customer loyalty and net profit.

For the year ended 31 December 2010, the number of service centers of our service business increased by 9, totalling 51 service centers. In June and October 2010, the Group acquired Autoboom and Xin Tian Cheng, the largest and most influential operators in the auto accessories circulation industries in Jiangsu, Zhejiang and Northeastern China. Autoboom and Xin Tian Cheng established 9 B2B Mega Stores in Jiangsu, Zhejiang and Northeastern China, spreading across cities such as Changchun, Shenyang, Anshan, Dalian, Hangzhou, Suzhou, Nanjing, Ningbo and Wenzhou.

After as many as nine years of exploration and experience, our service business has gradually replaced our manufacturing business as the major business and source of revenue of the Group. Operating revenue of the service business was RMB263,414,000 in 2009 and RMB518,778,000 in 2010, representing a growth of 96.9%. Net profit was RMB8,501,000 in 2009 and RMB25,791,000 in 2010, representing a growth of 203.4%.

Benefiting from the economic recovery in North America, operating revenue derived from export of NFA (representing the Group's manufacturing business) also recorded considerable growth compared to the corresponding period of 2009. The Group will continue to implement its strategies on expanding direct sales to the market and the promotion of its own brands with an aim to enhance the profitability of its exported products.

Overall Results and Dividend Policy

For the year ended 31 December 2010, the consolidated turnover of the Group amounted to approximately RMB1,076,842,000, representing an increase of approximately 67.6% as compared to the corresponding period of 2009. Gross profit was approximately RMB304,231,000, representing a growth of about 64.8% as compared to the corresponding period of 2009. Operating profit was approximately RMB67,316,000, representing a growth of approximately 94.9% as compared to the corresponding period of 2009. Profit attributable to shareholders was approximately RMB34,129,000, up about 196% as compared to the corresponding period of 2009. Earnings per share were RMB6.18 fen.

The consolidated turnover of Autolife amounted to approximately RMB518,778,000, representing a growth of approximately 96.9% as compared to the corresponding period of 2009. Gross profit was approximately RMB180,146,000, representing a growth of approximately 69.1% as compared to the corresponding period of 2009, while gross profit margin was about 34.7%, a decrease of approximately 5.7 percentage points over 2009. Operating profit was approximately RMB35,153,000, a rise of 185.5% over 2009. Net profit was approximately RMB25,791,000, representing a growth of approximately 203.4% over 2009.

The consolidated turnover of NFA amounted to approximately RMB558,064,000, representing an increase of approximately 47.3% as compared to the corresponding period of 2009. Gross profit was approximately RMB124,085,000, representing a growth of 58.9% as compared to the corresponding period of 2009. Operating profit was approximately RMB43,235,000, up 35.8% compared to 2009. Net profit was approximately RMB32,966,000, representing a growth of approximately 48.7% compared to the corresponding period of 2009.

2011 will be the first year for the Group's 3rd Five-Year Plan and a critical year for implementation of the Group's strategic plan. To ensure organic growth and the achievement of merger and acquisition targets of the Group's service business in 2011, for better shareholder's return in the long run, the Board considers that a sufficient amount of cash should be retained for expansion of the business scale of the Group. Hence the Board has recommended that no dividends be paid for the year.

Future Prospects

With a view to tapping into development opportunities, ensuring rapid growth of the Group in line with the automobile consumption market in China and maintaining its leading position in terms of market share, the Group will leverage upon its operational capabilities on multi-dimensional expansion of self-operated stores, mergers and acquisitions and consolidations so as to expand and optimise its effective strategic layout in the five major economic circles in the PRC market on an ongoing basis, maximise its competitive strength and facilitate sustainable and considerable growth of its operating revenue and profit. The operating strategies to be implemented by the Group in 2011 are as follows:

1. Swiftly increase the number of B2C Service Centers in Taiwan, Beijing, Shenzhen, Shanghai and Chengdu through organic growth and mergers and acquisitions and by extending our footprint into the Jiangsu, Zhejiang and Fujian markets. It is expected that 27 new service centers will be established in 2011, among which 17 will be established through organic growth, making a total of 78 service centers serving over 1.5 million end-customers. The number of customers is expected to grow by approximately 50%. Currently, the four major businesses provided by B2C Service Centers are quick repair and maintenance, decoration and modification, auto cosmetics and sales of auto amenities. New business lines with high gross profit, such as automotive insurance agency and painting, will be expanded further to other provinces in 2011 upon their successful trial operations in Beijing in 2010.

2. Establishing 19 new B2B Mega Stores through organic growth and mergers and acquisitions, making a total of 28 stores covering major cities, including Jilin, Liaoning, Jiangsu, Zhejiang, Hubei, Hunan, Yunnan, Fujian, Sichuan and Shanxi, across ten provinces in China and serving over 25,000 commercial customers, representing a growth of over 100% in the number of customers we serve. Currently, major products offered by B2B Mega Stores are auto video, audio and electronic products, cleaning and cosmetics products and seasonal products. Corresponding technical, marketing and training support will also be provided to customers. Tyres, motor oil and batteries will also be available in the near future.

3. Officially implementing the centralised purchasing strategy leveraging upon the significant increase in the number of B2C Service Centers and B2B Mega Stores. This initiative will fully capitalise on our advantage in terms of resources consolidation, so as to lower the procurement costs of the Group's subsidiaries engaged in the service business by about 5% and enhance their profit. The Group will strengthen promotion of its own brand products and secure distributorship of renowned foreign and domestic automobile related products in China through our wide and strong operation network, so as to exercise control over the pricing of core products. Our own brands include NFA, VOT, 格瑞斯 and 東方神塾.

4. Making substantial investment in IT integration of the Group. Though investment will be larger than the results produced in the initial stage, in the long run, the integrated IT system will be constructive to the efficient and effective information exchange for operational decision-making of the Group's subsidiaries engaged in the service business and the Group itself, and strengthen risk management and enhance economic efficiency of the Group.

5. Focusing on management and consolidation of Group. The Group will replicate the advantage on resources and the obvious profitable business model of the operation team of Aiyihang in Beijing to three major regions, namely, Beijing, Shanghai and Chengdu, and introduce efficient and systematic indicator management to the retail business (B2C Service Center) with relatively lower operating profit in those regions, with an aim to optimising profitability, establishing mutual support between group companies and enhancing the Group's overall profit.

6. Increasing the ratio of sales of its own brand products and maintaining stable growth in both operating revenue and net profit by leveraging upon the strong product R&D capabilities and marketing network and strategies of the manufacturing business of the Group.

In view of the operating strategies mentioned above, the Company's operation team is fully confident in our development in 2011. Lastly, I would like to take this opportunity to express my sincere gratitude to all shareholders, staff and parties who care about the Group for their continuing support to the Group.

Overview

The Group focuses on the operation of automotive aftermarket chain services network in the Greater China region, and adopts a unified vertically integrated business model in the innovative production of automotive electronic power products, covering specialised research and development, production and manufacturing and brand building.

Results Highlights

Revenue

For the year ended 31 December 2010, the Group recorded a consolidated turnover of approximately RMB1,076,842,000.

The consolidated turnover of Autolife (representing the Group's automotive aftermarket service business) amounted to approximately RMB518,778,000, representing an increase of approximately 96.9% as compared to the corresponding period of 2009. In 2010, Autolife took its first step into the B2B Mega Store model and successfully established a foothold in first- to third-tier cities including Jilin, Liaoning, Jiangsu and Zhejiang, with 9 B2B Mega Stores serving 11,000 commercial customers currently. Meanwhile, the number of B2C Service Centers of Autolife, committed to serving end-customers, also grew rapidly from 42 in 2009 to 51 in 2010, further reinforcing its top position in the Greater China region.

The consolidated turnover of NFA (representing the Group's manufacturing business) amounted to approximately RMB558,064,000, representing an increase of approximately 47.3% as compared to the corresponding period of 2009. Under the favourable backdrop of the global economic recovery and China being the world's largest automobile manufacturer and seller, NFA delivered remarkable results in both its international and domestic markets.

After as many as nine years of exploration and experience, our service business has gradually replaced our manufacturing business as the major business and source of revenue of the Group. During the period under review, service business accounted for 48% of the Group's consolidated turnover, representing an increase of 7 percentage points as compared to 2009. Adjustments in this major business operation exemplified the Group's precise knowledge on the macro market and its future development plans, as well as the Group's ongoing efforts in implementing its future development plans.

Gross Profit and Gross Margin

The consolidated gross profit of the Group was approximately RMB304,231,000 in 2010, up 64.8% as compared to the corresponding period of 2009. Gross margin decreased from 28.7% in 2009 to approximately 28.3% in 2010.

The gross profit of Autolife was approximately RMB180,146,000, representing an increase of approximately 69.1% as compared to that of 2009, while its gross margin was approximately 34.7%, representing a decrease of approximately 5.7 percentage points as compared to the corresponding period of 2009.

The gross profit of NFA was approximately RMB124,085,000, representing an increase of approximately 58.9% as compared to that of 2009, while its gross margin was approximately 22.2%, representing a growth of 1.6 percentage points as compared to the corresponding period of 2009.

Expenses

Sales and marketing expenses for the period were approximately RMB171,678,000 (corresponding period of 2009: RMB101,421,000), representing a growth of approximately 69.3%. The increase was mainly attributable to:

1. the increase in marketing expenses due to the mergers and acquisitions of companies in Shenzhen, Liaoning and Zhejiang by Autolife.

2. the increase in store expenses due to the expansion of direct overseas sales channels by NFA.

3. the increase in sales and marketing expenses due to enhancement in results of Autolife and NFA.

The administrative expenses for the period were approximately RMB85,781,000 (corresponding period of 2009: RMB57,870,000), representing a growth of 48.2% as compared to the corresponding period of 2009. The growth in expenses was mainly due to:

1. the increase in administrative expenses due to the mergers and acquisitions of companies in Shenzhen, Liaoning and Zhejiang by Autolife.

2. the increase in research and administrative expenses due to the active increase in investment in R&D by NFA.

3. the increase in administrative expenses due to strengthening of supply chain and IT integration by the Group.

Operating profit

The operating profit of the Group was approximately RMB67,316,000 (corresponding period of 2009: RMB34,546,000), representing an increase of approximately 94.9% as compared to the corresponding period of 2009.

Among which, the operating profit of NFA was RMB43,235,000 (corresponding period of 2009: RMB31,842,000), representing an increase of 35.8% over the corresponding period of 2009. The operating profit of Autolife was approximately RMB35,153,000 (corresponding period of 2009: RMB12,311,000), representing a surge of 185.5% as compared to the corresponding period of 2009.

Finance costs

Net finance costs amounted to approximately RMB5,495,000 (corresponding period of 2009: RMB9,909,000), down 44.5% from 2009.

Taxation

Income tax expenses were approximately RMB14,183,000 (corresponding period of 2009: RMB7,496,000), representing a growth of approximately 89.2%, which was mainly due to the following:

The increase in income tax expenses due to significant increase in operating profit of Autolife and NFA.

Profit attributable to owners of the Company

Profit attributable to owners of the Company was approximately RMB34,129,000 (2009: approximately RMB11,533,000), up approximately 196%. Earnings per share were approximately RMB6.18 fen (2009: RMB2.45 fen).

Financial status and liquidity

For the period under review, the Group has maintained a stable financial status and the liquidity of assets of the Group remained healthy.

For the year ended 31 December 2010, the Group recorded the cash flow used in operating activities of approximately RMB1,169,000. For the year ended 31 December 2009, the Group recorded the cash flow generated from operating activities of approximately RMB57,643,000.

The fixed assets were approximately RMB706,695,000 as at 31 December 2010 (31 December 2009: approximately RMB321,265,000).

The net current assets were approximately RMB38,447,000 as at 31 December 2010 (31 December 2009: approximately RMB157,612,000), with a liquidity ratio of approximately 1.06 (31 December 2009: approximately 1.76).

Gearing ratio calculated by dividing total liabilities by total assets was approximately 50.8% as at 31 December 2010 (31 December 2009: approximately 35.3%). As at 31 December 2010, the total bank borrowings of the Company were approximately RMB263,287,000 (31 December 2009: approximately RMB42,412,000).

The Group maintains strong and sufficient cash flow, bank deposits and banking facilities to finance its daily operation, capital expenditure as well as merger and acquisition activities and future investment opportunities for further expansion to the domestic market of the Greater China region.

Financial guarantees and pledge of assets

As at 31 December 2010, the net book values of investment properties, property, plant and equipment and leasehold land and land use rights pledged as securities for the Group's bank borrowings totalled approximately RMB119,921,000 (31 December 2009: approximately RMB108,719,000).

Material acquisitions and disposals of subsidiaries and associated companies

On 17 June 2010, the Company entered into an equity transfer agreement with the shareholders of Liaoning Xin Tian Cheng Industrial Co., Ltd.* (遼寧新天成實業有限公司), pursuant to which the Company successfully acquired a 51% equity interest in Liaoning Xin Tian Cheng Industrial Co., Ltd.* at a consideration of RMB100,980,000 (subject to adjustment). On 16 July 2010, the acquisition was completed.

On 26 August 2010, the Company entered into an equity transfer agreement with the shareholders of Zhejiang Autoboom Industrial Co., Ltd.* (浙江歐特隆實業有限公司), pursuant to which the Company successfully acquired a 51% equity interest in Zhejiang Autoboom Industrial Co., Ltd.* at a consideration of RMB134,860,000 (subject to adjustment). On 25 September 2010, the acquisition was completed.

As New Focus Richahaus Co. Ltd ("New Focus Richahaus"), a subsidiary of the Company, as at 30 June 2010, has achieved certain specified performance targets in terms of turnover and net profit respectively by the end of each of the specified periods, pursuant to the terms of the sale and purchase agreement in relation to the Group's acquisition of equity interest in New Focus Richahaus in prior years, Perfect Progress Investments Limited ("PPI"), a wholly-owned subsidiary of the Company, is obliged to pay two chief executives of New Focus Richahaus the relevant consideration which would be settled as to (i) NT$5,000,000 (equivalent to approximately HK$1,219,000) by way of cash; and (ii) NT$12,617,691 (equivalent to approximately HK$3,076,193) by way of issue of new shares in New Focus Richahaus.

On 16 August 2010, PPI entered into an agreement with the two chief executives of New Focus Richahaus pursuant to which the parties have agreed to amend the settlement terms of the above relevant consideration. Pursuant to the agreement, the relevant consideration in the aggregate amount of NT$17,617,691 (equivalent to approximately HK$4,295,193) would be paid by PPI to the two chief executives of New Focus Richahaus by way of cash. It was agreed under the agreement that the relevant consideration shall be used solely to satisfy funding required for the purchase of 7.68% of the existing issued share capital of New Focus Richahaus from PPI, by the two chief executives of New Focus Richahaus. Further details are set out in the Company's announcement dated 16 August 2010.

Significant investments

For the year ended 31 December 2010, the Group has no material investments.

Exchange risk

During the period under review, the settlement currency of the Group was mainly USD. In order to minimise foreign exchange risk, the Group fixed exchange rate with procurement contracts and adjusted the quotation policy, enabling the transfer of costs to both up and down streams, thus reducing the effects of fluctuations in exchange rate. Thus, the foreign exchange risk of the Group was minimised.

Contingent liabilities

As at 31 December 2010, the Group has no significant contingent liabilities.

Employees and remuneration policy

As at 31 December 2010, the Group employed a total of 3,650 full-time employees (31 December 2009: 3,282), of which 385 were managerial staff (31 December 2009: 341). In order to attract and retain the loyalty of the work force and managerial team, the Group intends to grant 15,260,000 share options to the staff by its share options available so as to further enhance the accountability and stability of the Group's employees. The remuneration package for the Group's employees includes wages, incentives (such as performance-based bonus) and allowances. The Group also provides social security insurance and benefits to its employees.

Business Review

Of the consolidated operating revenue of the Group, operating revenue from Autolife chain service business accounted for 48% of the total operating revenue in 2010, up from 41% in 2009, compared to the slight decrease in NFA manufacturing business, which accounted for 52% of the total operating revenue, down from 59% in 2009. This reflected the strong growth in automotive sales, car count and demand for related automotive aftermarket service in the Greater China region, making Autolife chain service business the operational hub and highlight of the Group in the coming year.

Automotive aftermarket chain retail business – Autolife

Autolife is committed to providing automotive aftermarket related services and product sales in the Greater China region. With a focus on the service center (B2C automobile users) chain business, it has completed its "Golden Cross" business layout in strategic locations in first- and second-tier cities, such as Beijing, Shanghai, Shenzhen, Taiwan and Chengdu in 2009. Given the threefold increase in automotive sales and car count from the previous year and the prolonged and vast development potential in inland cities, the Group stepped up its expansion in full gear to further enhance overall profit and to enlarge its business layout, and boomed in 2010. It acquired Xin Tian Cheng in Northeastern China and Autoboom in Jiangsu and Zhejiang, penetrated into third- and fourth-tier cities such as Changchun, Shenyang, Anshan, Dalian, Hangzhou, Suzhou, Nanjing, Ningbo and Wenzhou and achieved its business objective by adopting the major business model of serving local commercial customers (B2B Mega Store). As at 31 December 2010, Autolife had an aggregate of 9 B2B Mega Stores serving 11,000 commercial customers. Meanwhile, the Group further strengthened its effective strategic layout in the five major economic circles in China.

For the year ended 31 December 2010, the operating revenue of Autolife amounted to RMB518,778,000, up 96.9% over the corresponding period of 2009, and its operating profit amounted to RMB35,153,000, grew by 185.5% over the corresponding period of 2009. Explosive growth in both operating revenue and operating profit implied that Autolife, the chain service network of the Group, has expanded its presence. The effective layout in the five major economic circles and the strategic target to maintain its leading position in the automotive aftermarket in the Greater China region have been consolidated and paid off.

Autolife achieved the following milestones during the period:

the total number of self-operated stores of Autolife increased from 42 in 2009 to 60 in 2010. The rapid growth in the number of stores laid a solid foundation for continuous growth of sales and profit margin of the Group;

- In 2010, more service centers (B2C automobile users) were established in the Taiwan, Beijing, Shenzhen, Shanghai and Chengdu markets. 9 new service centers were established, making a total of 51 service centers serving more than 1 million end-customers and resulting in further consolidation of the Group's leading position in the automotive aftermarket chain service market in the Greater China Region.

- In 2010, average single store operating revenue per annum of the service centers (B2C automobile users) grew to RMB7 million, with average establishment costs lowered to RMB2.5 million and net profit margin increased to 6%.

- In 2010, automotive insurance agency service was introduced in and the new painting service business was extended to Beijing. Such highly profitable services are expected to be provided in service centers (B2C automobile users) in other provinces in 2011.

- Through mergers and acquisitions, the Group acquired 9 B2B Mega Stores to provide wholesale of auto video, audio and electronic products, cleaning and cosmetics products, seasonal products and other automotive products to local automobile sellers (4S), service centers and auto care, quick repair and maintenance stores. Valued-added services including product technology introduction, strategic marketing and staff training were also provided. Products such as tyres, motor oil and batteries will also be available in the near future to expand our scope of business.

- In 2010, average single store sales per annum of B2B Mega Stores reached RMB45 million, with average establishment cost of only RMB5 million and net profit margin of 6%.

Automobile green lighting and electronic power manufacturing business – NFA

Benefiting from the economic recovery in North America, orders from sales (retail) channels of the end-consumer market rebounded and operating revenue derived from export of NFA (representing the Group's manufacturing business) recorded considerable growth compared to the corresponding period of 2009. The Group will continue to implement its strategies on expanding direct sales to the market and the promotion of its own brands with high profit margin so as to enhance the profitability of its exported products.

Future Prospects

2011 will be the first year for the Group's new round of Five-Year Plan. Although measures were adopted to limit automotive consumption in certain cities in China and oil prices keep surging, demand for services related to car count is still expected to grow significantly, driven by the rising income per capita and gradual maturing of automobile maintenance business for the sake of safety in China. China is set to surpass the US to become the world's largest country in terms of car count in the coming 10 years. The Group considers that measures to limit automotive purchase in Beijing will have a favourable impact on the Company in respect of the expansion of the Group's presence. Given the drastic decline in the number of local automobile sellers (4S) in the market as a result of the purchase restriction, New Focus Beijing will benefit by securing leases at prime locations at rental costs 30%-50% lower than last year for the provision of related automobile services to satisfy local demand, further enhancing the overall operating profit of New Focus Beijing. Based on such favourable factors, the Group with maintain its leading position in the Greater China region by adopting the following means to effect efficient and rapid development and maximise its competitive strengths:

1. Expanding the service center (B2C Service Centers) business on an ongoing basis. In addition to the 17 new stores scheduled to be established in the original five major cities, another 10 stores will be established in Jiangsu, Zhejiang and Fuzhou through organic growth and mergers and acquisitions, making a total of 78 stores serving over 1.5 million end-customers, representing a growth of approximately 50% in the number of customers from 2010. New business lines, such as automotive insurance agency and the highly profitable painting project will be introduced to other provinces upon their successful trial operations in Beijing in 2010, with a view to enhancing the operating profit of each region.

2. Considerably expanding the B2B Mega Stores business of Autolife through mergers and acquisitions. For B2B Mega Stores, 14 new stores will be established in six major provinces and cities, including Shanxi, Fujian, Hubei, Hunan, Sichuan and Yunnan, in 2011. Together with the 5 stores to be established through organic growth of its own business, there will be a total of 28 mega stores serving over 25,000 commercial customers, representing a growth of over 100% in the number of customers from 2010. Business coverage will be expanded from four major provinces and cities in 2010 to ten major provinces and cities. More importantly, the commercial customer services (B2B Mega Store) of Autolife will bring various benefits to the business strategies of the Group in the future, such as an increase in the Group's purchase volume, creation of its own brands, establishment of a comprehensive logistics system and a supply chain for related product sales. Leveraging upon its wide customer base, quality targets will be identified for mergers and acquisition of the service business.

3. Enhancing the Group's bargaining power against product suppliers through the first centralised purchasing. All subsidiaries engaged in the service business will be joined for centralised purchasing so that the overall purchase volume of the service business of the Group will be increased significantly to RMB600 million in the coming year, thereby lowering costs and considerably increasing gross profit. This initiative will fully capitalise on our advantage in terms of resources, so as to lower the procurement costs of the Group's subsidiaries engaged in the service business by about 5%. We will also strengthen promotion of our own brand products and gradually by secure distributorship of foreign

and domestic automobile related products in the Greater China region through the wide and strong operation network of the Group, so as to exercise control over the pricing of core products. Product lines and market share are expected to grow simultaneously, and the ratio of our own brands will be increased to over 60%. Our own brands include NFA, VOT, 格瑞斯 and 東方神塾.

4. Making substantial investment in IT integration through cooperation and exchange between the Group and its holding companies. Upon completion, the integrated IT system will be constructive to the efficient and effective information exchange for operational decision-making of the Company's subsidiaries engaged in the service business and the Group itself. The Group will then be able to obtain accurate information for decision-making, enhance its procurement efficiency and get thorough understanding of merchandise information, as well as strengthen its risk management and enhance its economic efficiency.

5. In respect of chain service centers (B2C automobile users), the Group currently has three major brands, namely Richahaus (Autolife), Aiyihang (Autolife) and Yonglonghang (Autolife). The brands are well renowned with over ten years of history in their local automotive aftermarket and brand profile among consumers. The Group named the brands as Autolife and included them into its operation system. Focusing on management and consolidation, the Group will replicate the advantage on resources and the obvious profitable business model of the operational team of Aiyihang in Beijing to three major regions, namely, Beijing, Shanghai and Chengdu, and introduce efficient and systematic indicator management to the retail business (B2C Service Center) with relatively lower operating profit in those regions, with an aim to optimising profitability, establishing mutual support between group companies and enhancing the Group's overall profit.

6. Maintaining stable growth in both operating revenue and net profit whilst enhancing the profile of the Group's own brands in the Greater China region by leveraging upon the strong product R&D capabilities and marketing network of the manufacturing business of the Group to increase the ratio of sales of its own brand products.

Being the world's largest country in terms of automobile sales and the second largest in terms of car count, the Greater China market offers indefinite development potential for products and services of the Group. In light of past failures of world-class automotive aftermarket competitors in China and the fact that more than 100,000 domestic operators are small in scale and unstandardised, New Focus Group has absolute advantage in the huge market with only mild competition and thus focuses on network construction and promotion of its own brands. As such, the Company's operation team will excel with defined development direction in 2011 and is fully confident in achieving its targets.

Executive Directors

Mr. Hung Wei-Pi, John (Chairman)

Mr. Hung, aged 50, is one of the founders of the Group 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 currently. Mr. Hung has been the chairman since February 2005.

He graduated from Chung Yuan Christian University (台灣中原大學) with a bachelor's degree in commerce in 1982. Prior to the establishment of 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 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 50, is an executive Director and is responsible for the overall business development and operational management of the manufacturing business of the Group. Mr. Wu has been an executive Director since February 2005.

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 a manager in charge 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 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 45, is an executive Director, vice-president and chief financial controller of the Group and is currently responsible for financial budget and capital management of the Group. Ms. Hung Ying-Lien has been an executive Director since February 2005.

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 worked in various positions in a hypermarket chain stores in Taiwan from 1991 to 2001, responsible for wholesale operations, human resource management, product management, inventory logistics and financial management. Ms. Hung joined the Group in July 2001. She is currently in charge of the financial budget and capital management of the Group. 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 50, 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 has been an executive Director since February 2005.

Mr. Lu graduated from the Light Sources and Illumination Engineering Department of Shanghai Fudan University with a master degree of science 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 the China Illuminating Engineering Society. He also takes up certain scientific research and teaching tasks for the Physics Department of the East China University of Science and Technology and has extensive technical cooperation relationship with various academies in Shanghai. Mr. Lu has been involved in 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 66, is an executive Director and one of the founders of the Group. Mr. Fresco has been an executive Director since February 2005.

He has extensive experience in the distribution of automotive products. He is one of the founders of Custom Accessories Asia Limited ("Custom Accessories"), a company established in Hong Kong in 1982 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 the expansion of overseas market for the Group's products. He also acts as one of the Company's authorised representatives in Hong Kong.

Mr. Edward B. Matthew

Mr. Matthew, aged 55, is an executive Director and is responsible for exploration of overseas markets for the manufacturing business of the Group. Mr. Matthew was appointed an executive Director in August 2010.

He has served more than 25 years as a board member of Custom Accessories, a family held automotive accessories business in the US. Mr. Matthew is currently the executive director of Custom Accessories, and has been actively participated in the business since it was founded in 1974. In addition, Mr. Matthew is a practicing anesthesiologist with North Shore University Health System, a large multi-hospital system in the Chicago area, US. He is an Assistant Professor of Anesthesiology at the University of Chicago Medical School, is the former Chief of the Medical Staff at Highland Park Hospital in Highland Park Illinois, US, and is a former board member at Highland Park Hospital and North Shore University Health System.

Mr. Matthew received a Bachelor's Degree in Economics from the University of Michigan in Ann Arbor Michigan in 1978, and his Medical Degree from the University of Illinois in Chicago, Illinois in 1982. Mr. Matthew received his training in Anesthesiology at Northwestern University School of Medicine and he is certified by the American Board of Anesthesiology.

Non-executive Directors

Mr. Low Hsiao-Ping

Mr. Low, aged 57, is a 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 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), 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. Hsu Ming Chyuan

Mr. Hsu, aged 56, is a non-executive Director. He received a bachelor's degree in telecommunication engineering from the National Chao Tung University, Hsinchu, Taiwan and a master degree in computer and electronics engineering from the North Carolina State University, US. He is the co-founder of Elitegroup Computer Systems, APAQ Technology and Luxo Corporation, and has more than 25 years of experience in IT industry. He is currently a general manager of Pac-Link, gaining over 10 years of experience in the investment sector. Mr. Hsu joined the Group in March 2010.

Independent Non-executive Directors

Mr. Du Haibo

Mr. Du, aged 41, is an independent non-executive Director. He graduated from Zhengzhou University (鄭州大學) in 1989 and obtained an EMBA degree from China Europe International Business School (中歐國際工商管理學院) in 2005. He has 17 years of professional experience in accounting and auditing and is a senior auditor and senior accountant. He has obtained the professional qualifications as a certified accountant, registered tax expert 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, Henan Taloph Pharmaceutical Stock Co., Ltd. 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 71, is an independent non-executive Director. He graduated from Fudan University (復旦大學) with a bachelor's 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 the 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 60, 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

Ms. Wang Wenyun

Ms. Wang, aged 44, is the general manager of the service business of the Group and is responsible for the business development and operation management of the service business of the Group.

Ms. Wang graduated from the National Sun Yat-sen University (台灣國立中山大學) in 1990 and obtained an MBA degree from Fairleigh Dickinson University in 1994. Prior to joining the Group, Ms. Wang has served as investors relations manager, CFO and vice president of various renowned enterprises including Lite-On Technology Group Corporation, President International Development Corporation and GreenTree Inn Hotel Management Group. Ms. Wang has extensive knowledge in corporate mergers and acquisitions, finance management, corporate operation and listing preparation. She was also a visiting professor of East China Normal University. Ms. Wang joined the Group in June 2010.

Mr. Kong Yongzhang

Mr. Kong, aged 45, is the chief officer of the supply chain and marketing department of the service business of the Group and is responsible for the operation and management of the supply chain and marketing department of the service business of the Group.

He graduated from Ngee Ann Polytechnic with a bachelor's degree in 1988. Prior to joining the Group, Mr. Kong served as chief operation officer in China, general manager and chief operation officer in Asia in various renowned enterprises including Superior Multi-Packaging Limited in Singapore , SCA Packaging Singapore Pte Ltd and Sealed Air Packaging (China) Company Limited. Mr. Kong has over 15 years of management experience in multinational corporations and extensive knowledge in corporate operation and systematic management. Mr. Kong joined the Group in November 2010.

Mr. Chow Zhicheng

Mr. Chow, aged 48, is the vice general manager of the IT department of the Group and is responsible for the operation and management of the IT department of the Group.

He graduated from Chung Yuan Christian University in 1988 and obtained a master degree in data management from Pittsburg State University in 1992. Mr. Chow served in various high-tech multinational corporations to facilitate the construction of various data software and hardware systems, such as building and management of group multinational/multiregional data network, 7*24 large-scale data room, ERP, CRM, KM, KPI systems projects. Mr. Chow joined the Group in May 2010.

Mr. Liu Xiao Hua

Mr. Liu, aged 34, is the company secretary and authorised representative.

Mr. Liu obtained a master degree in law from East China University of Political Science and Law and is qualified as a lawyer in the PRC. Mr. Liu is an associate member of the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Liu joined the Company in February 2007 and was appointed as legal manager and assistant company secretary. He is also one of the authorised representatives of the Company in Hong Kong.

Introduction

The Board of Directors (the "Board" or the "Directors") believes that good corporate governance practice is the key to business growth and management of the Group. Since the listing of the shares of the Company on 28 February 2005, except 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 safeguard and maximise the return to shareholders.

Securities Transactions of Directors

The Company has adopted a code of conduct regarding securities transactions of Directors with terms no less exacting than the required standards set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by Directors (the "Model 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") under 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 enquiries to 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 five non-executive Directors with three of them being independent Directors:

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. Edward B. Matthew

Non-executive Directors
Mr. Low Hsiao-Ping
Mr. Hsu Ming Chyuan

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

Issues pending discussion and approval by the Board include the following:

- corporate strategies
- annual and interim results
- risk management
- major acquisitions, disposals and capital transactions
- other significant operational and financial issues

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

Major corporate issues 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 internal control and risk management system, and compliance with relevant statutory requirements and rules and regulations. Each executive Director should assume individual responsibilities 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 provide independent advice to the Board and share their knowledge and experience with the other members of the Board. Apart from the letters of appointment entered into by each non-executive Director with a term of three years, none of them has signed 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 pursuant to all applicable legal and regulatory requirements with prudence and integrity. The senior management are obliged to supply the Board with adequate information in a timely manner to enable the Board to make informed decisions in a timely manner. Each of the Directors is entitled to obtain such records of the Company as are necessary to enable them to make informed decisions. Biographical details of the Directors and their relationships 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 (deceased on 26 March 2010)	N/A
Mr. Edward B. Matthew (appointed on 26 August 2010)	2/4
Non-executive Directors	
Mr. Low Hsiao-Ping	4/4
Ms. Irene Shih (resigned on 30 March 2010)	N/A
Mr. Hsu Ming Chyuan (appointed on 30 March 2010)	3/4
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 set up on 13 February 2005 with written terms of reference formulated with reference to 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 formulated with reference to the code provisions of the Code. 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. 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 recommending appropriate candidates to the Board as Directors and senior management, assessing the performance of the Directors and the senior management and making recommendations on their remuneration package and evaluating and advising on the Share Option Scheme and other employee benefit arrangements.

The Remuneration, Examination and Nomination Committee shall convene a meeting at least once a year to formulate the remuneration policy for Directors and senior management of the Company. The Remuneration, Examination and Nomination Committee will ensure the remuneration determined are corresponding to the duties and responsibilities and in line with normal market practice. The Remuneration, Examination and Nomination Committee shall further ensure that neither Directors nor any of their associates are involved in the determination of 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 the service contracts of the executive Directors and letters of appointment of the non-executive Directors. The Remuneration, Examination and Nomination Committee believes that the service contracts of the executive Directors and letters of appointment of the non-executive Directors and independent non-executive Directors are fair and reasonable.

All Directors are appointed for a fixed term of three years. The articles of association of the Company requires that one-third of the Directors (including executive and non-executive Directors) 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.

Auditors' remuneration

During the year, the fees paid/payable to BDO Limited (the "Auditors") in respect of their audit services for the year 2010 amounted to approximately RMB1,017,000. In addition, the Company has engaged the Auditors to perform certain agreed upon procedures in relation to its financial statements during the year. Other than that, the Auditors 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 is the chairman of the Audit Committee. The duties of the Audit Committee include reviewing and supervising 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 material internal control or financial issues. The functions of Audit Committee are to review significant accounting policies and supervise the preparation of financial reports of the Group, monitor the performance of both the internal and external auditors, review and examine the effectiveness of the Group's financial reporting procedure and internal controls in order to ensure the compliance of the Group 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 under review are as follows:

Members	Attendance
Mr. Du Haibo	2/2
Mr. Zhou Tai-Ming	2/2
Mr. Uang Chii-Maw	2/2

The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2010 and the audited annual results for the year ended 31 December 2010, and is of the view that the preparation of such results has been in compliance with the relevant accounting standards and requirements and has made adequate disclosures.

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") consists 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 is the 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, carrying out procedures and enhancing the efficiency 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 has not been involved in any corporate action that requires the involvement of the Strategy, Investment and Financing Decision Marking Committee.

Directors' and Auditors' Responsibilities for the Consolidated Financial Statements

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on pages 33 and 34.

Internal Control

The Company has conducted regular review of its internal control system to ensure that the system is effectively operating, adequate and comprehensive. The Company convenes meetings periodically to discuss financial, operational and risk management control issues.

Investors Relations

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

Auditors

During the year, the performance of the Auditors has been reviewed by the Audit Committee and the Audit Committee recommended to the Board (which endorsed the view) that subject to shareholders' approval at the forthcoming annual general meeting the Auditors be re-appointed as the external auditors of the Company for 2011.

The Directors are pleased to present their annual report for the year ended 31 December 2010 (the "Year") and the audited consolidated financial statements (the "Financial Statements") of the Group for the year ended 31 December 2010.

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 for 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 focused on the construction of automotive chain service network in the Greater China region (the Group's service business) as well as the innovative production of environmentally friendly automotive lighting and automotive electronic power products (the Group's manufacturing business), with an aim to provide automobile consumers with products and services with premium performance-price ratio.

Details of the principal activities of the subsidiaries of the Company are set out in note 21 to the Financial Statements.

Results and Dividends

The consolidated results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 35. An analysis of turnover and segmental results for the Year by geographical and business segments is set out in note 6 to the Financial Statements.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

Property, Plant and Equipment

Details of the movements of property, plant and equipment of the Group during the Year are set out in note 16 to the Financial Statements.

Investment Properties

Details of the movements of investment properties of the Group during the Year are set out in note 18 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 reasons are set out in note 30 to the Financial Statements.

Reserves

Movements of reserves of the Group and the Company on a consolidated basis are set out in note 31 to the Financial Statements.

Distributable Reserves

Under the Companies Law of the Cayman Islands, share premium amounting to approximately RMB223,155,000 is distributable to shareholders, provided that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to settle its debts as they fall due in the ordinary course of business.

As at 31 December 2010, the reserve available for distribution to Shareholders of the Company amounted to approximately RMB260,639,000.

Closure of Register of Members

The register of members will be closed from 8 June 2011 to 10 June 2011 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to attend the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 7 June 2011.

Directors

The Directors who held office during the Year and up to the date of this annual 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 (deceased on 26 March 2010)
Edward B. Matthew (appointed on 26 August 2010)

Non-executive Directors
Low Hsiao-Ping
Irene Shih (resigned on 30 March 2010)
Hsu Ming Chyuan (appointed on 30 March 2010)

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

Directors *(Continued)*

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. Du Haibo, Mr. Uang Chii-Maw, Mr. Hung Wei-Pi, John and Mr. Lu Yuan Cheng will retire by rotation at the forthcoming annual general meeting of the Company. All such Directors being eligible, offer themselves for re-election. According to Article 86(2)(3) of the Company's articles of association, the Board appointed Mr. Edward B. Matthew as executive Director of the Company on 26 August 2010, subject to retirement at the forthcoming annual general meeting of the Company, upon which being eligible to offer himself 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 and Mr. Douglas Charles Stuart Fresco, being the executive Directors, has entered into a new service contract with the Company for another term of three years commencing from 13 February 2011, 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 Director Mr. Low Hsiao-Ping and the independent non-executive Directors, namely, Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw, each of them was reappointed for a term of three years commencing from 13 February 2011, subject to retirement by rotation in accordance with the articles of association of the Company.

Pursuant to the relevant letter of appointment, Mr. Edward B. Matthew, the executive Director, has entered into a service contract with the Company for a term of three years commencing from 26 August 2010, 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 are 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 "Continuing 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 share options granted and to be granted under the Scheme is 40,000,000 shares, representing 10% and 7.38% 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 respectively, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issued and may be issued under share options granted to each eligible participant in the Scheme (including both exercised and outstanding share 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, is subject to prior 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, in the 12-month period up to and including the date of the grant of share options 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' prior 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 Board, 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 a share 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 general meetings.

Share Option Scheme *(Continued)*

As at 31 December 2010, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 10,040,000 shares. The total number of shares available for issue under the Scheme (excluding share options already granted) is 17,580,000 shares, representing approximately 3.25% of the total issued share capital of the Company as at that date.

As at 31 December 2010, details of share 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 underlying shares subject to options outstanding as at 1 January 2010	Number of underlying shares subject to options lapsed/ cancelled since 1 January 2010	Number of options exercised since 1 January 2010	Number of underlying shares subject to options outstanding as at 31 December 2010
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	3,240,000	–	–	3,240,000
Continuous contractual employees in aggregate	28 February 2005	From 1 January 2006 *(Note 2)*	HK$0.94	HK$0.94	2,320,000	(2,320,000)	–	–
Total					12,360,000	(2,320,000)	–	10,040,000

Notes:

1. None of the share option was exercised during the period from 1 January 2010 to 31 December 2010 and the remaining share options are exercisable during the period from 1 January 2011 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 1 to 2 years subject to performance targets or conditions as determined by the Board.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2010, the interests and short positions of each of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 they are 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 interested (other than under equity derivatives) *(Note 1)*	Percentage of issued shares
Mr. Hung Wei-Pi, John	Interest in a controlled company *(Note 2)*	177,256,120(L)	32.72%
Mr. Douglas Charles Stuart Fresco	Interest in a controlled company *(Note 3)*	57,255,805(L)	10.57%
Ms. Hung Ying-Lien	Personal	383,145(L)	0.07%
Mr. Lu Yuan Cheng	Personal	805,035(L)	0.15%
Mr. Edward B. Matthew	Personal	21,922,350(L)	4.05%
Mr. Wu Kwan-Hong	Personal	513,935(L)	0.09%

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. 53,590,690 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 3,665,115 shares are registered in the name of Mr. Douglas Charles Stuart Fresco.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

(Continued)

(i) The Company *(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 2010 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)	0.63%
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)	0.63%
Mr. Lu Yuan Cheng	Beneficial owner	3,240,000(L)	1 January 2007 to 12 February 2015	HK$10.00 (for all)	HK$0.94 (per share)	0.60%

Notes:

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

(ii) The associated corporation

As at 31 December 2010, 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 or 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 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

So far as is known to the Directors and chief executives of the Company, as at 31 December 2010, the following persons (other than Directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company, which are required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of shares interested (other than under equity derivatives) *(Note 1)*	Number of shares interested under equity derivatives	Total number of shares	Percentage of issued shares
Sharp Concept Industrial Limited	Beneficial owner	177,256,120(L)	Nil	177,256,120	32.72%
Ms. Jin Xiao-Yan	Family interest *(Note 2)*	177,256,120(L)	Nil	177,256,120	32.72%
Mr. Douglas Charles Stuart Fresco	Family interest *(Note 3)*	57,255,805(L)	Nil	57,255,805	10.57%
Golden Century Industrial Limited	Beneficial owner *(Note 3)*	53,590,690(L)	Nil	53,590,690	9.89%

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, Ms. Jin is deemed to be interested in all the shares of the Company held by Mr. Hung Wei-Pi, John and by Sharp Concept Industrial Limited which in turn is wholly and beneficially owned by Mr. Hung Wei-Pi, John.

3. Golden Century Industrial Limited is wholly and beneficially owned by Mr. Douglas Charles Stuart Fresco. The difference between the shareholdings of Mr. Douglas Charles Stuart Fresco and Golden Century Industrial Limited represents the shares held by Mr. Douglas Charles Stuart Fresco personally.

Save as disclosed above, as at 31 December 2010, the Directors are not aware of any person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

During the period under review, the Company repurchased 4,492,000 ordinary shares of the Company on the Hong Kong Stock Exchange under the general mandate granted at the annual general meeting held on 3 June 2009. Save as disclosed, there were no purchases, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries during the Year.

The details of the purchase of shares by the Company during the Year under review are as follows:

Month	**Highest Price** (HK$)	**Lowest price** (HK$)	**Average price** (HK$)	**Number of shares repurchased**	**Aggregate consideration paid (excluding expenses)** (HK$)
January 2010	1.74	1.68	1.72	844,000	1,447,157
February 2010	1.90	1.78	1.85	2,416,000	4,464,677.35
April 2010	1.80	1.79	1.80	1,232,000	2,211,865

The Board considers that the purchase of shares by the Company leads to an enhancement of the net asset value per share of the Company and is in the best interest of the Company and its shareholders.

Continuing Connected Transaction

During 2010, the following continuing connected transaction was 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.

Custom Accessories Sales Agreement

On 23 April 2008, Shanghai New Focus Auto Parts Co., Ltd. (上海紐福克斯汽車配件有限公司) ("NFAP") and New Focus Light and Power Technology (Shanghai) Co., Ltd. (紐福克斯光電科技(上海)有限公司) ("NF Light & Power"), both being wholly-owned subsidiaries of the Company, entered into a sales agreement ("Custom Accessories Agreement") with Custom Accessories Asia Limited ("Custom Accessories"), which is 51% owned by Mr. Douglas Fresco (a substantial shareholder and Director of the Company) and his wife, 49% owned by Mr. Edward B. Matthew (a Director of the Company) and his family members, respectively. Custom Accessories is therefore a connected person of the Company within the meaning of the Listing Rules and the transaction contemplated under the Custom Accessories Agreement constitute continuing connected transaction of the Company. Under the Custom Accessories Agreement, NFAP and NF Light & Power were to supply products to Custom Accessories. The prices were determined with reference to market conditions and on the basis that the terms and those prices would not be less favourable to the Company/Group than those offered to other independent third parties for similar products. A new contract covering the period from 23 April 2008 to 31 December 2010 with the same terms of and among the same parties to the Custom Accessories Agreement was executed and the expiry date of which is 31 December 2010. On 15 November 2010, the same parties to the Custom Accessories Agreement entered into the Renewed Custom Accessories Agreement where the valid term was renewed for a period of three years ending 14 November 2013 and the new annual cap was set to be HK$25,000,000.

For the year ended 31 December 2010, the sales of products to Custom Accessories by NFAP and NF Light & Power amounted to approximately RMB10,404,000.

Confirmation from auditors

The Board has received a comfort letter from the auditors of the Company with respect to the above continuing connected transaction and the letter stated that for the year 2010, the above continuing connected transaction:

(1) was approved by the Board;

(2) are in accordance with the pricing policies of the Company;

(3) was entered into in accordance with the terms of the agreement governing the transaction; and

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

Continuing Connected Transaction *(Continued)*

Confirmation of Independent Non-executive Directors

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

(1) the transaction was entered into in the ordinary and usual course of the business of the Company;

(2) the transaction was conducted on normal commercial terms; and

(3) the transaction was conducted in accordance with the agreement governing the connected transaction on terms that are fair and reasonable and in the interest of the Shareholders of the Company as a whole.

The Company confirms that it has complied with the disclosure requirements as set out in Chapter 14A of the Listing Rules in respect of the above continuing connected transaction.

Major Customers and Suppliers

Sales to our five largest customers accounted for approximately 22% of the total revenue for the year ended 31 December 2010, whereas the largest customer accounted for 9%. 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 or 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.

Auditors

The financial statements have been audited by BDO Limited. At the forthcoming annual general meeting, the Company will propose a resolution to re-appoint BDO Limited as the auditors of the Company.

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

Hong Kong, 30 March 2011

BDO

Tel: +852 2541 5041
Fax: +852 2815 2239
www.bdo.com.hk

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

香港干諾道中111號
永安中心25樓

INDEPENDENT AUDITORS' 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 35 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements
The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, and of the Group's profit and cash flows 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.

BDO Limited
Certified Public Accountants

Lam Siu Fung
Practising Certificate Number: P05308

Hong Kong, 30 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	6	**1,076,842**	642,349
Cost of sales		**(772,611)**	(457,720)
Gross profit		**304,231**	184,629
Fair value gain on the derivative component of convertible bond	28	**–**	409
Other income and gains or losses	7	**20,544**	8,799
Distribution costs		**(171,678)**	(101,421)
Administrative expenses		**(85,781)**	(57,870)
Finance costs	8	**(5,495)**	(9,909)
Profit before income tax expense	9	**61,821**	24,637
Income tax expense	11	**(14,183)**	(7,496)
Profit for the year		**47,638**	17,141
Other comprehensive income, net of tax:			
Exchange differences on translating foreign operations		**2,618**	1,182
Add: Reclassification adjustment of exchange reserve on partial disposal of equity interest in a subsidiary		**–**	724
Gain on revaluation of properties		**–**	3,215
Other comprehensive income, net of tax	15	**2,618**	5,121
Total comprehensive income for the year		**50,256**	22,262
Profit for the year attributable to:			
Owners of the Company	12	**34,129**	11,533
Non-controlling interests		**13,509**	5,608
		47,638	17,141
Total comprehensive income for the year attributable to:			
Owners of the Company		**36,219**	16,480
Non-controlling interests		**14,037**	5,782
		50,256	22,262
Earnings per share:	14		
– Basic		**RMB6.18 fen**	RMB2.45 fen
– Diluted		**RMB6.12 fen**	RMB2.43 fen

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*16*	**201,176**	169,656
Leasehold land and land use rights	*17*	**18,182**	18,676
Investment properties	*18*	**46,105**	40,698
Goodwill	*19*	**184,883**	70,461
Other intangible assets	*20*	**256,252**	21,719
Deferred tax assets	*29*	**97**	55
		706,695	321,265
Current assets			
Inventories	*23*	**234,462**	144,477
Trade receivables	*24(a)*	**125,082**	81,075
Deposits, prepayments and other receivables	*24(b)*	**82,233**	54,670
Amount due from a related company	*25(a)*	**1,622**	34
Trading securities	*22(a)*	**282**	339
Pledged time deposits	*33*	**120,826**	2,563
Cash and cash equivalents	*33*	**82,982**	82,572
		647,489	365,730
Current liabilities			
Bank borrowings, secured	*26*	**250,514**	14,042
Trade payables	*27*	**163,324**	134,977
Accruals and other payables		**181,549**	56,903
Amounts due to directors	*25(b)*	**16**	61
Amount due to a minority equity holder of a subsidiary	*25(c)*	**7,000**	–
Tax payable		**6,639**	2,135
		609,042	208,118
Net current assets		**38,447**	157,612
Total assets less current liabilities		**745,142**	478,877

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Bank borrowings, secured	*26*	**12,773**	28,370
Deferred tax liabilities	*29*	**65,754**	5,746
		78,527	34,116
Net assets		**666,615**	444,761
CAPITAL AND RESERVES			
Share capital	*30*	**55,317**	55,003
Reserves		**427,463**	339,283
Equity attributable to owners of the Company		**482,780**	394,286
Non-controlling interests		**183,835**	50,475
Total equity		**666,615**	444,761

These financial statements were approved and authorised for issue by the board of directors on 30 March 2011.

Mr. Hung Wei-Pi, John
Director

Ms. Hung Yi-Lien
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*16*	**71**	54
Interests in subsidiaries	*21*	**213,866**	164,066
		213,937	164,120
Current assets			
Deposits, prepayments and other receivables		**534**	445
Short-term loan to a subsidiary	*21*	**6,834**	30,044
Amounts due from subsidiaries	*21*	**144,966**	143,183
Cash and cash equivalents	*33*	**2,195**	1,929
		154,529	175,601
Current liabilities			
Other payables		**1,235**	13,629
Amount due to a director	*25(b)*	**13**	14
Amounts due to subsidiaries	*21*	**555**	485
		1,803	14,128
Net current assets		**152,726**	161,473
Net assets		**366,663**	325,593
CAPITAL AND RESERVES			
Share capital	*30*	**55,317**	55,003
Reserves	*31(ii)*	**311,346**	270,590
Total equity		**366,663**	325,593

These financial statements were approved and authorised for issue by the board of directors on 30 March 2011.

Mr. Hung Wei-Pi, John
Director

Ms. Hung Yi-Lien
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital RMB'000 *(Note 30)*	Share premium RMB'000 *(Note 31(i)(a))*	Statutory reserve fund RMB'000 *(Note 31(i)(b))*	Reorganisation reserve RMB'000 *(Note 31(i)(c))*	Enterprise expansion fund RMB'000 *(Note 31(i)(d))*	Others RMB'000 *(Note 31(i)(e))*	Capital redemption reserve RMB'000	Exchange reserve RMB'000 *(Note 31(i)(f))*	Retained profits RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2009	47,354	100,851	26,893	2,738	2,756	2,472	23	(8,605)	78,348	252,830	33,540	286,370
Profit for the year	–	–	–	–	–	–	–	–	11,533	11,533	5,608	17,141
Other comprehensive income for the year	–	–	–	–	–	3,215	–	1,732	–	4,947	174	5,121
Total comprehensive income for the year, net of tax	–	–	–	–	–	3,215	–	1,732	11,533	16,480	5,782	22,262
Lapse of share options	–	–	–	–	–	(89)	–	–	89	–	–	–
Transfer of reserves	–	–	2,630	–	–	–	–	–	(2,630)	–	–	–
Recognition of equity-settled-share based payments *(Note 37)*	–	–	–	–	–	302	–	–	–	302	–	302
Issue of shares *(Note 30(ii))*	7,928	119,819	–	–	–	–	–	–	–	127,747	–	127,747
Repurchases and cancellation of shares *(Note 30(i))*	(279)	(2,794)	–	–	–	–	279	–	(279)	(3,073)	–	(3,073)
Contribution from minority owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	903	903
Arising from acquisition of a subsidiary *(Note 32)*	–	–	–	–	–	–	–	–	–	–	8,625	8,625
Arising from partial disposal of equity interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	4,372	4,372
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(2,638)	(2,638)
Dividend paid to minority owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	(109)	(109)
At 31 December 2009 and 1 January 2010	55,003	217,876	29,523	2,738	2,756	5,900	302	(6,873)	87,061	394,286	50,475	444,761
Profit for the year	–	–	–	–	–	–	–	–	34,129	34,129	13,509	47,638
Other comprehensive income for the year	–	–	–	–	–	–	–	2,090	–	2,090	528	2,618
Total comprehensive income for the year, net of tax	–	–	–	–	–	–	–	2,090	34,129	36,219	14,037	50,256
Lapse of share options	–	–	–	–	–	(274)	–	–	274	–	–	–
Transfer of reserves	–	–	3,627	–	–	–	–	–	(3,627)	–	–	–
Recognition of equity-settled-share based payments *(Note 37)*	–	–	–	–	–	204	–	–	–	204	–	204
Consideration issue *(Note 32)*	709	12,023	–	–	–	–	–	–	–	12,732	–	12,732
Repurchases and cancellation of shares *(Note 30(i))*	(395)	(6,744)	–	–	–	–	395	–	(395)	(7,139)	–	(7,139)
Contribution from minority owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	9,475	9,475
Arising from acquisition of subsidiaries *(Note 32)*	–	–	–	–	–	–	–	–	–	–	106,185	106,185
Arising from partial disposal of equity interest in subsidiaries	–	–	–	–	–	–	–	365	(3,687)	(3,322)	7,515	4,193
Consideration payables to be settled by issue of fixed number of the Company's shares *(Note 32)*	–	–	–	–	–	49,800	–	–	–	49,800	–	49,800
Dividend paid to minority owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	(3,852)	(3,852)
At 31 December 2010	55,317	223,155	33,150	2,738	2,756	55,630	697	(4,418)	113,755	482,780	183,835	666,615

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before income tax expense	**61,821**	24,637
Adjustments for:		
Fair value gain on the derivative component of convertible bond	**–**	(409)
Impairment/(reversal of impairment) of inventories	**2,466**	(92)
Depreciation of property, plant and equipment	**27,527**	21,737
Amortisation of leasehold land and land use rights	**494**	494
Amortisation of other intangible assets	**309**	133
Additional allowance for doubtful debts for trade receivables	**3,045**	1,450
Additional impairment for deposits, prepayments and other receivables	**–**	285
Impairment of goodwill	**1,679**	–
Equity-settled-share-based payments	**204**	302
Interest income from bank deposits	**(322)**	(880)
Imputed interest income from earnest money deposit	**(56)**	(166)
Net loss on redemption of convertible bond	**–**	5,126
Loss on partial disposal of equity interest in a subsidiary	**–**	1,438
(Gain)/loss on disposal of property, plant and equipment	**(83)**	417
Fair value gain on investment properties	**(5,407)**	(3,015)
Discount on acquisition of additional interest in a subsidiary	**–**	(2,638)
Fair value loss/(gain) on trading securities	**57**	(112)
Exchange loss on convertible bond	**–**	168
Other finance costs	**5,495**	9,741
Operating cash flows before working capital changes	**97,229**	58,616
Increase in inventories	**(30,413)**	(14,535)
Increase in trade receivables	**(21,762)**	(3,616)
(Increase)/decrease in deposits, prepayments and other receivables	**(13,954)**	7,196
(Increase)/decrease in amount due from a related company	**(1,588)**	282
(Decrease)/increase in trade payables	**(15,443)**	20,858
Decrease in accruals and other payables	**(2,082)**	(3,387)
Effect of foreign exchange rate changes	**–**	63
Cash generated from operations	**11,987**	65,477
Income tax paid	**(7,661)**	(1,854)
Interest paid	**(5,495)**	(5,980)
Net cash (used in)/generated from operating activities	**(1,169)**	57,643

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Investing activities		
Purchase of other intangible assets	**(2,738)**	–
Purchase of property, plant and equipment	**(52,165)**	(40,655)
Proceeds from disposal of property, plant and equipment	**2,474**	369
Net cash outflow arising from acquisitions of subsidiaries	**(50,853)**	(12,341)
Net proceeds from partial disposal of equity interest in a subsidiary	**5,188**	4,160
Additional cash consideration paid for the acquisition of a subsidiary	**–**	(2,544)
Interest received	**322**	880
Net cash used in investing activities	**(97,772)**	(50,131)
Financing activities		
Increase in pledged time deposits	**(118,263)**	(686)
Contribution from minority owner of a subsidiary	**9,475**	903
Repayment of convertible bond	**–**	(77,237)
Proceeds from new bank loans	**231,530**	130,990
Repayment of bank loans	**(31,193)**	(199,153)
Repayment to directors	**(45)**	(389)
Inception of loan from a minority equity holder of a subsidiary	**1,550**	–
Repayment of loan from a minority equity holder of a subsidiary	**(2,000)**	–
Proceeds from issue of shares	**–**	133,195
Expenses on issue of shares	**–**	(5,448)
Repurchases of shares	**(7,139)**	(3,073)
Dividend paid to minority owner of a subsidiary	**(3,852)**	(109)
Net cash generated from/(used in) financing activities	**80,063**	(21,007)
Net decrease in cash and cash equivalents	**(18,878)**	(13,495)
Cash and cash equivalents at beginning of year	**82,560**	95,726
Effect of foreign exchange rate changes	**(466)**	329
Cash and cash equivalents at end of year	**63,216**	82,560
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**82,982**	82,572
Bank overdrafts	**(19,766)**	(12)
	63,216	82,560

(Expressed in Renminbi)

1. ORGANISATION AND OPERATIONS

New Focus Auto Tech Holdings Limited (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 sale 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 and trading of automobile accessories. Further details of the Company's subsidiaries are set out in Note 21. The Company and its subsidiaries are collectively referred to the Group.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2010

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

HKFRS 3 (Revised) – Business Combinations and HKAS 27(Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are described in Note 4, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The Group has accounted for the acquisitions of equity interests in Liaoning Xin Tian Cheng Industrial Co., Limited and Zhejiang Autoboom Industrial Co., Limited according to the revised standard, details of which are set out in Note 32.

(Expressed in Renminbi)

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2010 *(Continued)*

HKFRS 3 (Revised) – Business Combinations and HKAS 27(Revised) – Consolidated and Separate Financial Statements (Continued)

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, and accordingly such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has resulted in loss arising from partial disposal of equity interest in a subsidiary of approximately RMB3,322,000 recognised within equity, which increased the consolidated profit for the current year by RMB3,322,000.

(b) New/revised HKFRSs that have been issued but not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's operations, have been issued, but are not yet effective and have not been early adopted by the Group:

HKFRSs (Amendments)	Amendment to HKFRS 2010[1&2]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[3]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKFRS 9	Financial Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2010
2 Effective for annual periods beginning on or after 1 January 2011
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but not yet effective *(Continued)*

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of measurement

These 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 were carried at fair value as explained in the accounting policies set out below.

(c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

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

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Business combination from 1 January 2010 (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests resulting in gains and losses for the Group are recognised profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

(b) 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 statement of financial position at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) 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 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.

(d) Property, plant and equipment

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 construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at end of each reporting period, with the effect of any change 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%

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(d) Property, plant and equipment *(Continued)*

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.

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 as well as borrowing costs capitalised 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.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

(e) Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties 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.

(f) Other intangible assets

Other intangible assets are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, other intangible assets with indefinite useful lives are carried at cost less any impairment losses and other 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 change in estimate being accounted for on a prospective basis. The principal annual rates of other intangible assets with definite useful lives are as follows:

Trademarks with definite useful lives	6.6% to 10%

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Impairment of tangible and intangible assets excluding goodwill

At end of each reporting period, 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.

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.

(h) 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 providing 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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost, including an appropriate portion of fixed and variable overhead expenses, is 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.

(j) 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 or held-to-maturity securities 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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Financial assets *(Continued)*

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

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

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 statement of financial position at cost less any 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 end of each reporting period. 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 loss 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.

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.

4. *PRINCIPAL ACCOUNTING POLICIES* *(Continued)*

(j) Financial assets *(Continued)*

(iv) Impairment of financial assets (Continued)

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 would have 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.

(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.

(k) 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.

4. *PRINCIPAL ACCOUNTING POLICIES* *(Continued)*

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

(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 contract 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 option 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.

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 amortised 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 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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

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

(v) 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 values at the end of each reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives that do not qualify for hedge accounting are deemed as financial assets/financial liabilities held for trading and are measured at fair value with fair value changes recognised in profit or loss except for derivative instruments which are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured and such derivative instruments are stated at cost less any impairment losses, if applicable.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

(vi) Derecognition of financial liabilities

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

(l) 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 consolidated statement of cash flows.

(m) 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 profit or loss on the straight-line basis over the lease terms. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight line basis over the lease term. 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. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Leases *(Continued)*

Leasehold land and land use rights held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense and less any impairment losses.

(n) 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 end of reporting period, 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.

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.

(o) 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 profit or loss 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 end of reporting period.

(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 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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(o) Taxation *(Continued)*

(ii) Deferred tax (Continued)

The carrying amount of deferred tax assets is reviewed at end of each reporting period 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.

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 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 end of reporting period. 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 end of reporting period, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(p) 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 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 end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. *PRINCIPAL ACCOUNTING POLICIES* *(Continued)*

(p) 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 end of reporting period. Income and expense 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 recognised in other comprehensive income and accumulated in equity as the Group's exchange reserve (attributed to non-controlling interests as appropriate). Such translation differences are recognised in profit or loss in the period in which the foreign operations 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. Exchange difference arising are recognised in the exchange reserve.

(q) 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 obligation once the contributions have been paid.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) 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 (i.e. share options reserve), based on the Group's estimate of equity instruments that will eventually vest. At end of each reporting period, 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 share options 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 profits.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counterparty renders the service.

(s) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which necessarily require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(t) 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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) 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.

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

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

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

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

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

(vi) Sponsorship income is recognised on an accrual basis when the right to receive has been established.

(v) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

5. 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.

(i) 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 judgement. 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.

(ii) Intangible assets and amortisation

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. The useful lives of intangible assets are assessed to be either finite or indefinite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with finite useful lives are reviewed by the management at least at the end of each reporting period.

(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. Further details are set out in Note 19.

5. 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 dates 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 rentals and future maintenance costs.

(iii) 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 end of each reporting period.

(iv) Impairment of trade and other receivables

The Group's management determines the allowance for impairment of trade and other receivables. This estimate is based on the credit history of its customers and debtors and the current market condition. Management will reassess the allowance at end of each reporting period.

6. TURNOVER AND SEGMENT INFORMATION

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

	2010	2009
	RMB'000	RMB'000
Sale of goods	**698,355**	378,935
Service income	**378,487**	263,414
	1,076,842	642,349

(a) Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group operates in two reportable segments: (i) the manufacture and sale of automobile accessories ; and (ii) the provision of automobile repair, maintenance and restyling services and trading of automobile accessories.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' results that is used by the chief operating decision-makers for assessment of segment performance.

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(a) Reportable segments *(Continued)*

Set out below is an analysis of information of these segments:

2010	Manufacture and sale of automobile accessories	Provision of automobile repair, maintenance and restyling services and trading of automobile accessories	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS:				
External sales revenue	558,064	518,778	–	1,076,842
Inter-segment sales revenue	13,997	1,009	(15,006)	–
External other income and gains or losses	10,606	9,605	–	20,211
Reportable segment revenue	582,667	529,392	(15,006)	1,097,053
Reportable segment results	38,108	34,827		72,935
Interest income	211	164		375
Unallocated interest income				3
Total interest income				378
Interest expenses	(5,127)	(326)		(5,453)
Unallocated interest expenses				(42)
Total interest expenses				(5,495)
Depreciation and amortisation charges	(14,949)	(13,360)		(28,309)
Unallocated depreciation and amortisation charges				(21)
Total depreciation and amortisation charges				(28,330)
Income tax expense	(5,142)	(9,036)		(14,178)
Unallocated income tax expense				(5)
Total income tax expense				(14,183)
Reportable segment assets	515,373	834,663		1,350,036
Additions to non-current assets	24,325	30,541		54,866
Unallocated additions to non-current assets				37
Total additions to non-current assets				54,903
Reportable segment liabilities	211,270	468,636		679,906

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(a) Reportable segments *(Continued)*

2009	Manufacture and sale of automobile accessories	Provision of automobile repair, maintenance and restyling services and trading of automobile accessories	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS:				
External sales revenue	378,935	263,414	–	642,349
Inter-segment sales revenue	715	120	(835)	–
External other income and gains or losses	8,780	3,759	–	12,539
Reportable segment revenue	388,430	267,293	(835)	654,888
Reportable segment results	26,313	11,860		38,173
Interest income	484	459		943
Unallocated interest income				103
Total interest income				1,046
Interest expenses	(5,529)	(451)		(5,980)
Unallocated interest expenses				(3,761)
Total interest expenses				(9,741)
Depreciation and amortisation charges	(12,396)	(9,951)		(22,347)
Unallocated depreciation and amortisation charges				(17)
Total depreciation and amortisation charges				(22,364)
Income tax expense	(4,137)	(3,359)		(7,496)
Reportable segment assets	365,456	302,807		668,263
Additions to non-current assets	34,328	6,327		40,655
Reportable segment liabilities	137,559	99,566		237,125

6. *TURNOVER AND SEGMENT INFORMATION (Continued)*

(b) Reconciliation of reportable segment profit or loss, and assets and liabilities

	2010 RMB'000	2009 RMB'000
Profit before income tax expense:		
Reportable segment profit	**72,935**	38,173
Unallocated other income and gains or losses	**333**	(3,740)
Unallocated corporate expenses	**(11,405)**	(6,276)
Fair value losses on the derivative component of convertible bond	**–**	409
Unallocated finance costs	**(42)**	(3,929)
Consolidated profit before income tax expense	**61,821**	24,637

	2010 RMB'000	2009 RMB'000
Assets:		
Reportable segment assets	**1,350,036**	668,263
Unallocated corporate assets	**4,148**	18,732
Consolidated total assets	**1,354,184**	686,995
Liabilities:		
Reportable segment liabilities	**679,906**	237,125
Unallocated corporate liabilities	**7,663**	5,109
Consolidated total liabilities	**687,569**	242,234

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(c) Geographical segments

Segment revenue from external customers of the Group and non-current assets other than financial instruments and deferred tax assets ("Specified non-current assets") by geographical locations is presented as below:

	Revenue from external customers		Specified non-current assets	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
North America	**406,251**	255,338	**–**	–
Europe	**53,616**	39,973	**–**	–
Asia Pacific	**36,240**	48,097	**–**	–
Greater China (including Taiwan)	**580,735**	298,941	**706,598**	321,210
	1,076,842	642,349	**706,598**	321,210

(d) Major customers

During the year, the Group's customer base is diversified and there was no customer (2009: Nil) with whom transactions exceeded 10% of the Group's revenues.

7. OTHER INCOME AND GAINS OR LOSSES

	Notes	2010 RMB'000	2009 RMB'000
Gross rentals from investment properties and other rental income (Outgoing: RMBNil (2009: RMBNil))		**4,582**	3,658
Interest income from bank deposits		**322**	880
Imputed interest income from earnest money deposit		**56**	166
Income from provision of repair and maintenance and rework of automobile accessories in the manufacture and sale of automobile accessories segment		**19**	531
Net loss on redemption of convertible bond	28	**–**	(5,126)
Loss on partial disposal of equity interest in a subsidiary		**–**	(1,438)
Gain/(loss) on disposal of property, plant and equipment		**83**	(417)
Fair value gain on investment properties	18	**5,407**	3,015
Discount on acquisition of additional interest in a subsidiary		**–**	2,638
Fair value (loss)/gain on trading securities		**(57)**	112
Sale of scrap inventories and sample income		**2,046**	1,980
Government subsidies #		**1,185**	482
Compensation income from lessors on early termination of operating leases		**1,613**	–
Sponsorship income		**1,968**	–
Others		**3,320**	2,318
		20,544	8,799

The balance represented compensation income from local governments for taxes paid by certain subsidiaries in the PRC and subsidies granted by the PRC local governments.

8. FINANCE COSTS

	Note	2010 RMB'000	2009 RMB'000
Interest expense:			
Bank borrowings wholly repayable within five years		**5,278**	5,762
Bank borrowings wholly repayable after five years		**217**	218
Imputed interest on convertible bond	28	**–**	3,761
Exchange loss on convertible bond	28	**–**	168
		5,495	9,909

9. PROFIT BEFORE INCOME TAX EXPENSE

	Note	2010 RMB'000	2009 RMB'000
Profit before income tax expense is arrived at after charging/(crediting):			
Net foreign exchange losses		**4,228**	360
Cost of inventories *(Note)*		**432,970**	285,963
Cost of services *(Note)*		**337,175**	171,849
Impairment/(reversal of impairment) of inventories		**2,466**	(92)
		772,611	457,720
Depreciation of property, plant and equipment		**27,527**	21,737
Amortisation of:			
Leasehold land and land use rights		**494**	494
Other intangible assets*		**309**	133
Total depreciation and amortisation charges		**28,330**	22,364
Additional allowance for doubtful debts on trade receivables		**3,045**	1,450
Additional impairment for deposits, prepayment and other receivables		**–**	285
Impairment of goodwill	19	**1,679**	–
Auditors' remuneration		**1,017**	900
Employee benefit expenses (including directors' remuneration *(Note 10(a))*:			
Salaries and allowances		**113,279**	77,781
Pension fund contributions		**9,921**	5,917
Equity-settled-share-based payments		**204**	302
Other benefits		**5,695**	5,261
Total employee benefit expenses		**129,099**	89,261

Note: Costs of inventories and services includes RMB54,785,000 (2009: RMB32,468,000) relating to staff costs, depreciation and amortisation charges, which are also included in the respective total amounts disclosed separately above.

* Included in administrative expenses

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

The directors' remuneration for the years ended 31 December 2010 and 2009 is set out below:

2010

Name of director	Fees RMB'000	Salaries and other allowances RMB'000	Total RMB'000
Executive directors:			
Hung Wei-Pi, John	–	1,950	1,950
Wu Kwan-Hong	–	959	959
Hung Ying-Lien	–	808	808
Lu Yuan Cheng	–	355	355
Douglas Charles Stuart Fresco (Mr. Fresco)	–	53	53
Edward B. Matthew	–	18	18
Norman L. Matthew (Mr. Matthew)	–	13	13
Non-executive directors:			
Low Hsiao Ping	–	60	60
Irene Shih	–	20	20
Hsu Ming Chyuan	–	45	45
Independent non-executive directors:			
Zhou Tai-Ming	81	–	81
Du Haibo	81	–	81
Uang Chii-Maw	81	–	81
	243	4,281	4,524

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

(a) Directors' remuneration *(Continued)*

2009

Name of director	Fees RMB'000	Salaries and other allowances RMB'000	Total RMB'000
Executive directors:			
Hung Wei-Pi, John	–	1,640	1,640
Wu Kwan-Hong	–	868	868
Hung Ying-Lien	–	657	657
Lu Yuan Cheng	–	354	354
Douglas Charles Stuart Fresco (Mr. Fresco)	–	53	53
Norman L. Matthew (Mr. Matthew)	–	53	53
Non-executive directors:			
Low Hsiao Ping	–	60	60
Irene Shih	–	60	60
Li Jung-Hsing	–	15	15
Independent non-executive directors:			
Zhou Tai-Ming	72	–	72
Du Haibo	72	–	72
Uang Chii-Maw	72	–	72
	216	3,760	3,976

No discretionary bonuses, inducement fee, employer's contribution to pension scheme or compensation for loss of office as directors was given to any of the directors during the year ended 31 December 2010 (2009: RMBNil).

None of the directors has waived or agreed to waive any emolument paid by the Group during the year ended 31 December 2010 (2009: RMBNil).

10. 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 2010 included four (2009: three) directors whose emoluments are reflected in the analysis presented in Note 10(a) above. The emolument paid or payable to the remaining one (2009: two) non-director highest paid employees whose emolument is less than RMB1,000,000 is as follows:

	2010	2009
	RMB'000	RMB'000
Salaries and other allowances	**521**	898

11. INCOME TAX EXPENSE

(a) The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2010	2009
	RMB'000	RMB'000
Current tax		
– Provision for the year		
PRC	**11,898**	5,499
Taiwan	**1,165**	1,055
– (Over)/under-provision in respect of prior years	**(937)**	231
	12,126	6,785
Deferred taxation *(Note 29)*		
– attributable to the origination and reversal of temporary differences, net	**1,795**	705
– resulting from a change in tax rate	**262**	6
	14,183	7,496

(b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong for the years ended 31 December 2009 and 2010. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

11 INCOME TAX EXPENSE

(b) *(Continued)*

The applicable PRC and Taiwan income tax rate are 25% and 17% respectively for the year. Pursuant to the relevant laws and regulations in the PRC, (i) on 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC (the "New EIT Law"). One major PRC subsidiary of the Company is entitled to a preferential income tax rate of 18%-24% effective from 1 January 2008. The existing preferential tax rate currently enjoyed by the subsidiary is gradually transited to the new standard rate of 25% over a five-year transitional period under the New EIT Law. The PRC enterprise income tax of the subsidiary has been provided at the rate of 22% (2009: 20%) on the estimated assessable profits for the year; and (ii) one major PRC subsidiary of the Company, being qualified as a foreign investment production enterprise and a high and new tech enterprise in the PRC, is subject to an applicable national PRC income tax rate of 15% for three years commencing from 1 January 2009.

(c) The income tax expense for the year can be reconciled to the profit before income tax expense per consolidated statement of comprehensive income as follows:

	2010 **RMB'000**	2009 RMB'000
Profit before income tax expense	**61,821**	24,637
Tax calculated at applicable tax rate of 25% (2009: 25%)	**15,455**	6,159
Tax effect of non-taxable income	**(15)**	(595)
Tax effect of non-deductible expenses	**1,116**	–
Effect of change in tax rate	**262**	6
Unrecognised tax losses	**2,259**	3,453
Effect of preferential tax treatments and tax exemptions	**(4,115)**	(2,413)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**158**	655
(Over)/under-provision in respect of prior years	**(937)**	231
Income tax expense	**14,183**	7,496

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company includes a loss of RMB14,411,000 (2009: RMB16,357,000) which has been dealt with in the financial statements of the Company.

13. DIVIDEND

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: RMBNil). No interim dividend was declared in respect of the year ended 31 December 2010 (2009: RMBNil).

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to the owners of the Company, adjusted to add the imputed interest on convertible bond, the exchange gain on convertible bond and fair value gain on the derivative component of convertible bond, where applicable. 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 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 per share are based on:

	2010 RMB'000	2009 RMB'000
Earnings		
Profit attributable to the owners of the Company, used in the basic earnings per share calculation	**34,129**	11,533
Effects of convertible bond	**–**	–*
Profit attributable to the owners of the Company as adjusted for the effect of convertible bond	**34,129**	11,533

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares for the basic earnings per share calculation	**552,208,000**	471,043,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**5,345,000**	3,423,000
Convertible bond	**–**	–*
Weighted average number of ordinary shares adjusted for the effect of all potential ordinary shares	**557,553,000**	474,466,000

* The convertible bond had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2009. Accordingly, the effects of the convertible bond and the potential ordinary shares from the convertible bond were not assumed in the calculation of the diluted earnings per share for the year ended 31 December 2009. The convertible bond was fully redeemed in the prior year.

15. OTHER COMPREHENSIVE INCOME, NET OF TAX

	2010			2009		
	Before tax amount RMB'000	**Tax expense RMB'000**	**Net of tax amount RMB'000**	Before tax amount RMB'000	Tax expense RMB'000	Net of tax amount RMB'000
Exchange differences on translating foreign operations	**2,618**	**–**	**2,618**	1,182	–	1,182
Add:						
Reclassification adjustment of exchange reserve on partial disposal of equity interest in a subsidiary included in profit or loss	**–**	**–**	**–**	724	–	724
Gain on revaluation of properties upon transfer to investment properties *(Note 16)*	**–**	**–**	**–**	4,286	(1,071)	3,215
At end of year	**2,618**	**–**	**2,618**	6,192	(1,071)	5,121

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Notes	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 2010		1,273	90,730	19,886	37,130	4,117	16,520	169,656
Additions		12,396	1,849	2,041	23,888	2,985	9,006	52,165
Acquisition of subsidiaries	*32*	–	–	–	–	4,214	3,051	7,265
Transfers upon completion		(12,432)	14	11,618	235	–	565	–
Disposals		–	(692)	(536)	(667)	(461)	(35)	(2,391)
Depreciation charge for the year		–	(3,960)	(4,779)	(10,443)	(1,874)	(6,471)	(27,527)
Exchange realignment		3	998	483	187	22	315	2,008
Closing net carrying amount as at 31 December 2010		1,240	88,939	28,713	50,330	9,003	22,951	201,176

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

The Group *(Continued)*

	Notes	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 2009		56,429	32,544	19,168	23,971	4,905	13,384	150,401
Reclassifications		175	–	(52)	–	–	(123)	–
Additions		16,546	56	2,530	18,764	709	2,050	40,655
Acquisition of a subsidiary	*32*	699	–	2,477	2,787	408	–	6,371
Transfer to investment properties	*18*	–	(10,298)	–	–	–	–	(10,298)
Fair value adjustment upon transfer to investment properties	*15*	–	4,286	–	–	–	–	4,286
Transfers upon completion		(72,581)	66,378	528	165	–	5,510	–
Disposals		–	–	(71)	(402)	(245)	(68)	(786)
Depreciation charge for the year		–	(2,696)	(4,859)	(8,218)	(1,664)	(4,300)	(21,737)
Exchange realignment		5	460	165	63	4	67	764
Closing net carrying amount as at 31 December 2009		1,273	90,730	19,886	37,130	4,117	16,520	169,656

	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
At 31 December 2010:							
Cost	**1,240**	**96,791**	**50,022**	**98,527**	**16,046**	**46,285**	**308,911**
Accumulated depreciation and impairment	**–**	**(7,852)**	**(21,309)**	**(48,197)**	**(7,043)**	**(23,334)**	**(107,735)**
Net carrying amount	**1,240**	**88,939**	**28,713**	**50,330**	**9,003**	**22,951**	**201,176**
At 31 December 2009:							
Cost	1,273	94,708	36,188	75,780	10,701	33,239	251,889
Accumulated depreciation and impairment	–	(3,978)	(16,302)	(38,650)	(6,584)	(16,719)	(82,233)
Net carrying amount	1,273	90,730	19,886	37,130	4,117	16,520	169,656

16. *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 2009	19	52	71
Depreciation charge for the year	–	(17)	(17)
Net carrying amount as at 31 December 2009	19	35	54
Additions	–	38	38
Depreciation charge for the year	–	(21)	(21)
Net carrying amount as at 31 December 2010	**19**	**52**	**71**
At 31 December 2010:			
Cost	45	146	191
Accumulated depreciation	(26)	(94)	(120)
Net carrying amount	**19**	**52**	**71**
At 31 December 2009:			
Cost	45	108	153
Accumulated depreciation	(26)	(73)	(99)
Net carrying amount	**19**	**35**	**54**

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 26.

17. *LEASEHOLD LAND AND LAND USE RIGHTS*

The Group

	2010	2009
	RMB'000	RMB'000
Net carrying amount:		
At beginning of year	**18,676**	20,508
Amortisation charge for the year	**(494)**	(494)
Transfer to investment properties *(Note 18)*	**–**	(1,338)
At end of year	**18,182**	18,676
Cost	**20,547**	20,547
Accumulated amortisation	**(2,365)**	(1,871)
Net carrying amount	**18,182**	18,676

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

Leasehold land and land use rights of the Group were pledged to secure the bank borrowings of the Group as detailed in Note 26.

18. *INVESTMENT PROPERTIES*

The Group

		2010	2009
	Notes	**RMB'000**	RMB'000
FAIR VALUE			
At beginning of year		**40,698**	26,047
Transfer from property, plant and equipment	*16*	**–**	10,298
Transfer from leasehold land and land use rights	*17*	**–**	1,338
Change in fair value	*7*	**5,407**	3,015
At end of year		**46,105**	40,698

18. INVESTMENT PROPERTIES *(Continued)*

The Group *(Continued)*

As at 31 December 2010, the investment properties were revalued at RMB46,105,000 (2009: RMB40,698,000) by Shanghai Shen Fang Real Estate Appraiser Co., Ltd. (2009: Shanghai Shen Jia Real Estate Appraiser Co., Ltd.), independent firms of professionally qualified valuers 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 and held under medium term.

Details of 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 7 and 36.

Certain investment properties were pledged to secure the bank borrowings of the Group as detailed in Note 26.

19. GOODWILL

The Group

	Notes	RMB'000
Carrying amount:		
At 1 January 2009		46,068
Partial disposal of equity interest in a subsidiary		(502)
Arising on acquisition of a subsidiary	*32*	16,378
Adjustment *(Note)*		8,402
Exchange realignment		115
At 31 December 2009 and 1 January 2010		70,461
Partial disposal of equity interests in subsidiaries		(630)
Arising on acquisitions of subsidiaries	*32*	116,321
Impairment	*9*	(1,679)
Exchange realignment		410
At 31 December 2010		184,883

Note: It represents the adjustments to the final considerations payable in respect of acquisitions of subsidiaries in prior years, according to the respective acquisition agreements.

19. 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:

	2010 RMB'000	2009 RMB'000
Provision of automobile repair, maintenance and restyling services:		
Beijing Aiyihang Auto Services Ltd.	**43,919**	43,919
Shenzhen Yonglonghang Auto Service Ltd.	**16,378**	16,378
New Focus Richahaus Co. Ltd.	**7,627**	8,154
Others	**257**	1,895
Exchange realignment	**381**	115
	68,562	70,461
Trading of automobile accessories:		
Liaoning Xin Tian Cheng Industrial Co., Limited	**45,260**	–
Zhejiang Autoboom Industrial Co., Limited	**71,061**	–
	116,321	–
Total	**184,883**	70,461

The recoverable amount of a CGU is determined based on value-in-use calculations. These 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 of 0%-3% (2009: 0%-2%). 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:

	2010 %	2009 %
Gross margin	**16–51**	30–50
Growth rate within the five-year period	**13–40**	8–20
Discount rate	**12–17**	16

19. GOODWILL *(Continued)*

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 respective industries. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

The directors of the Company are of the opinion, based on value-in-use calculations, that goodwill associated with certain subsidiaries was impaired by RMB1,679,000 in order to state the carrying values to their recoverable amounts as at 31 December 2010.

20. OTHER INTANGIBLE ASSETS

The Group

	Note	**Trademarks** RMB'000	**Tradename** RMB'000	**Total** RMB'000
Net carrying amount:				
At 1 January 2009		8,601	–	8,601
Amortisation charge for the year		(133)	–	(133)
Exchange realignment		184	–	184
Arising from acquisition of a subsidiary	*32*	–	13,067	13,067
At 31 December 2009 and 1 January 2010		8,652	13,067	21,719
Amortisation charge for the year		(309)	–	(309)
Exchange realignment		431	–	431
Arising from acquisition of subsidiaries	*32*	231,673	–	231,673
Additions		2,738	–	2,738
At 31 December 2010		243,185	13,067	256,252
At 31 December 2010:				
Cost		244,192	13,067	257,259
Accumulated amortisation		(1,007)	–	(1,007)
Net carrying amount		243,185	13,067	256,252
At 31 December 2009:				
Cost		9,334	13,067	22,401
Accumulated amortisation		(682)	–	(682)
Net carrying amount		8,652	13,067	21,719

20. OTHER INTANGIBLE ASSETS *(Continued)*

Included in the above intangible assets as at 31 December 2010 are (i) certain trademarks, and (ii) tradename with indefinite useful lives which are attributable to the same CGUs with which the goodwill amounts are recognised. Details of the impairment assessment of the CGUs are set out in Note 19.

As at end of reporting period, trademarks with aggregate carrying amount of RMB239,524,000 (2009: RMB7,851,000) have indefinite useful lives as they are considered renewable at minimal costs. Management of the Group are of the opinion that the Group would renew the trademarks continuously and has the ability to do so.

As at end of reporting period, tradename with carrying amount of RMB13,067,000 (2009: RMB13,067,000) was acquired through business combination and was considered by management of the Group as having indefinite useful life as there was no limit to the period the tradename would contribute to net cash inflows.

21. INTERESTS IN SUBSIDIARIES

The Company

	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**164,066**	164,066
Amount due from a subsidiary	**49,800**	–
Unlisted shares, at cost	**213,866**	164,066

Short-term loan to a subsidiary of US$1,000,000 (2009: US$4,400,000) (equivalent to RMB6,834,000 (2009: RMB30,044,000)) is unsecured, interest-free and repayable in September 2011 (2009: December 2010). Except for amount due from a subsidiary of RMB49,800,000 (2009: RMBNil) which is unsecured, interest-free and in substance represents 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.

(Expressed in Renminbi)

21. *INTERESTS IN SUBSIDIARIES (Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows:

Company name	Country/place and date of incorporation/ establishment	Legal form of entities for those established in the 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. ("NFA Parts") *(Note (i))*	The PRC 1 March 1994	Wholly-owned foreign enterprise	US$6,500,000 Registered capital	US$6,500,000	100%	Manufacture and sale of automobile accessories The PRC
New Focus Light and Power Technology (Shanghai) Co., Ltd. ("NF Light & Power") *(Note (i))*	The PRC 24 April 2001	Wholly-owned foreign enterprise	US$16,300,000 Registered capital	US$16,300,000	100%	Manufacture and sale of automobile accessories The PRC
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 automobile 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 automobile products The PRC
Liaoning Xin Tian Cheng Industrial Co., Limited	The PRC 8 January 2009	Limited liability company	RMB20,000,000 Registered capital	RMB20,000,000	51%	Trading of automobile 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	RMB11,584,870 Registered capital	RMB11,584,870	90.97%	Automobile repair, maintenance and restyling services; sales of automobile products The PRC

(Expressed in Renminbi)

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Country/place and date of incorporation/ establishment	Legal form of entities for those established in the PRC	Registered capital/ share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/ place of operation
New Focus Richahaus Co. Ltd.	Taiwan 15 September 2006	–	NT$202,574,000 Share capital	NT$202,574,000	80.37%	Automobile repair maintenance and restyling services; sales of automobile products Taiwan
Shandong New Focus Longsheng Auto Parts Co. Ltd.	The PRC 26 April 2006	Limited liability company	US$4,012,700 Registered capital	US$4,012,700	58.99%	Manufacture and sale of automobile 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 automobile products The PRC
Shenzhen Yonglonghang Auto Service Ltd.	The PRC June 2002	Limited liability company	RMB13,000,000 Registered capital	RMB13,000,000	51%	Automobile repair, maintenance and restyling services; sales of automobile products The PRC
Zhejiang Autoboom Industrial Co., Limited	The PRC December 2008	Limited liability company	RMB28,000,000 Registered capital	RMB28,000,000	51%	Trading of automobile 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.

Note:

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

22. TRADING SECURITIES AND AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

(a) *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 end of reporting period.

(b) *Available-for-sale financial assets*

In prior years, the Group disposed of 85% equity interest in Shanghai Beforly Investment Management Limited ("Beforly"). The Group's remaining 7.89% equity interest in Beforly is classified as an available-for-sale financial asset of the Group with nil carrying amount as at 31 December 2009 and 2010. This unlisted company is not accounted for using equity method as the Group does not have the power to participate in the company's operating and financial policies. During the year, the Group acquired trademark from Beforly at a consideration of RMB1,852,000.

23. INVENTORIES

The Group

	2010 **RMB'000**	2009 RMB'000
Raw materials	**40,338**	35,441
Work-in-progress	**30,912**	22,841
Finished goods	**27,335**	18,596
Merchandise goods	**135,877**	67,599
	234,462	144,477

24. TRADE AND OTHER RECEIVABLES

(a) Trade Receivables

The Group

	2010 **RMB'000**	2009 RMB'000
Trade receivables	**126,529**	83,584
Less: allowance for doubtful debts	**(1,447)**	(2,509)
	125,082	81,075

24. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade Receivables *(Continued)*

(i) The average credit period to the Group's trade debtors is 30 days. Included in trade receivables of the Group is a trading amount due from a related company of RMB1,187,000 as at 31 December 2010 (2009: RMBNil).

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

The Group

	2010	2009
	RMB'000	RMB'000
At beginning of year	**2,509**	1,059
Additional allowance for the year *(Note 9)*	**3,045**	1,450
Bad debts written off	**(4,107)**	–
At end of year	**1,447**	2,509

At 31 December 2010, the Group's trade receivables of RMB12,176,000 (2009: RMB7,717,000) were individually determined to be impaired. The individually impaired trade receivables related to customers that were in financial difficulties or had a prolonged delay in settlement, and management assessed that only a portion of the receivables is expected to be recovered. Consequently, an accumulated allowance for doubtful debts of RMB1,447,000 (2009: RMB2,509,000) is made as at 31 December 2010. The Group does not hold 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.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade Receivables *(Continued)*

(iii) The ageing analysis of trade receivables at the end of reporting period by invoice date is as follows:

The Group

	2010 RMB'000	2009 RMB'000
Current to 30 days	**68,290**	41,738
31 to 60 days	**33,661**	20,767
61 to 90 days	**12,402**	13,362
Over 90 days	**12,176**	7,717
	126,529	83,584
Less: allowance for doubtful debts	**(1,447)**	(2,509)
	125,082	81,075

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

The Group

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	**68,290**	41,738
Less than 1 month past due	**33,661**	20,767
1 to 2 months past due	**12,402**	13,362
	46,063	34,129
	114,353	75,867

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.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Other receivables

Included in the Group's deposits, prepayments and other receivables are amounts due from minority equity holders of subsidiaries and their family members of approximately RMB9,298,000 as at 31 December 2010 (2009: RMBNil) which are unsecured, interest-free, and repayable on demand.

25. AMOUNTS DUE FROM/TO A RELATED COMPANY AND DIRECTORS

(a) Amount due from a related company

Amount due from a related company, which is disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, is as follows:

The related company is Custom Accessories Asia Limited ("Custom Accessories"). Majority interests of Custom Accessories are mainly held by Mr Fresco, Mr Matthew and their close family members. Mr Fresco and Mr Matthew are directors of the Company and have beneficial interests in the Company as at the end of reporting period. Details of the balance with Custom Accessories are as follows:

	2010 **RMB'000**	2009 RMB'000
Balance at 1 January	**34**	316
Balance at 31 December	**1,622**	34
Maximum amount outstanding during the year	**1,622**	316

Amount due from Custom Accessories arises from trading activities with ageing from current to 30 days. The amount due from the related company is unsecured, interest-free and repayable on trading terms.

There was no amount due but unpaid, nor any allowance for doubtful debts made against the principal amounts at 31 December 2009 and 2010.

(b) Amounts due to directors

As at 31 December 2009 and 2010, the amounts due to directors are unsecured, interest-free and repayable on demand.

(c) Amount due to a minority equity holder of a subsidiary

As at 31 December 2010, the amount due to a minority equity holder of a subsidiary is unsecured, interest-free and repayable on demand.

26. BANK BORROWINGS, SECURED

The Group

	2010 RMB'000	2009 RMB'000
Bank loans	**243,521**	42,400
Bank overdrafts	**19,766**	12
	263,287	42,412
Bank borrowings are repayable as follows:		
On demand or within one year	**250,514**	14,042
After one year but within two years	**1,309**	16,241
After two years but within five years	**2,433**	2,778
After five years	**9,031**	9,351
	263,287	42,412
Amount due within one year included in current liabilities	**(250,514)**	(14,042)
Amount included in non-current liabilities	**12,773**	28,370

As at 31 December 2009 and 2010, the banking facilities are secured by (i) the Group's freehold land and certain buildings with an aggregate net carrying amount of RMB84,269,000 (2009: RMB90,043,000); (ii) the Group's leasehold land and land use rights of RMB18,182,000 (2009: RMB18,676,000); (iii) the Group's investment properties of RMB17,470,000 (2009: RMBNil); (iv) personal guarantees from a director of the Company, and a director of a subsidiary and her husband; (v) pledged time deposits of RMB120,826,000 (2009: RMB2,563,000); and (vi) corporate guarantee of the Company. As at 31 December 2009, personal guarantees from two chief executives of a subsidiary were also provided for pledge of bank facilities of the Group.

Most of the bank loans bear fixed interest rates ranging from 1.751% to 5.100% per annum (2009: 1.658% to 5.310% per annum). The bank overdrafts were repayable on demand and bore interest at the lending rate stipulated by the People's Bank of China applicable to the 6-month loan period (2009: lending rate applicable to the 6-month loan period).

At 31 December 2010, the Group had available RMB79,917,000 (2009: RMB122,867,000) of undrawn committed banking facilities in respect of which all conditions precedent was met.

	2010 RMB'000	2009 RMB'000
Bank borrowings were denominated in:		
RMB	**240,998**	25,712
United States dollars ("US$")	**5,989**	1,284
Taiwan dollars ("TWD")	**16,300**	15,416
	263,287	42,412

27. TRADE PAYABLES

The ageing analysis of trade payables of the Group at the end of reporting period by invoice date is as follows:

The Group

	2010 RMB'000	2009 RMB'000
Current to 30 days	**92,591**	80,517
31 to 60 days	**34,432**	26,599
61 to 90 days	**10,012**	12,754
Over 90 days	**26,289**	15,107
	163,324	134,977

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

28. 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$2.070 per conversion share and subsequently HK$1.923 as a result of adjustments arising from the bonus issue of the Company (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.

On 23 February 2009, at the bondholder's request and in consideration for the bondholder's agreement to terminate the convertible bond, the Company issued a promissory note (the "Promissory Note") in favour of the bondholder whereby the Company promised to pay to the bondholder the loan of US$12,000,000 in accordance with the terms and conditions set forth in the Promissory Note, whereby instalments of US$3,000,000 (the "First Instalment"), US$4,000,000 (the "Second Instalment") and US$5,000,000 (the "Third Instalment") are repayable on 26 February 2009, 30 April 2009 and 30 June 2009, respectively. The obligations of the Company under the Promissory Note are fully and irrevocably guaranteed by a director of the Company. Details of the above transaction are set out in the Company's announcement dated 23 February 2009.

28. CONVERTIBLE BOND *(Continued)*

Pursuant to the terms and conditions of the Promissory Note, the Company shall be entitled to deduct US$700,000 (equivalent to RMB4,784,000) from the amounts of repayment of the Promissory Note (the "Early Repayment Compensation") if the Company repays the Third Instalment on or before 30 April 2009 after having fully repaid the First Instalment and the Second Instalment on or before 26 February and 30 April 2009, respectively. As the above conditions were met in the prior year, the Company was entitled to the Early Repayment Compensation of RMB4,784,000 and recognised in profit or loss.

The movements of the liability component and derivative component of the convertible bond are as follows:

	Liability component of convertible bond RMB'000	**Derivative component of convertible bond** RMB'000	**Total** RMB'000
At 1 January 2009	67,509	1,082	68,591
Imputed interest *(Note 8)*	3,761	–	3,761
Fair value gain	–	(409)	(409)
Unrealised exchange loss *(Note 8)*	168	–	168
Net loss on redemption of convertible bond, net of gain on the Early Repayment Compensation *(Note 7)*	5,126	–	5,126
Early redemption	(76,564)	(673)	(77,237)
At 31 December 2009 and 2010	–	–	–

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

In the prior year, there was a 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 RMB409,000.

29. DEFERRED TAX

The Group

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

Deferred tax assets:

	Accrued expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	61	32	93
Charged to profit or loss *(Note 11)*	(33)	–	(33)
Effect of change in tax rate *(Note 11)*	(6)	–	(6)
Exchange alignment	1	–	1
At 31 December 2009 and 1 January 2010	23	32	55
Credited to profit or loss *(Note 11)*	39	–	39
Exchange alignment	3	–	3
At 31 December 2010	65	32	97

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 2010, the Group had tax losses carried forward of RMB66,738,000 (2009: RMB57,702,000). As at 31 December 2009 and 2010, 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.

29. DEFERRED TAX *(Continued)*

The Group

Deferred tax liabilities:

	Other intangible assets RMB'000	Fair value gain on investment properties RMB'000	Accrued subsidy income RMB'000	Total RMB'000
At 1 January 2009	–	(1,197)	(192)	(1,389)
Arising from acquisition of a subsidiary *(Note 32)*	(2,614)	–	–	(2,614)
Charged to equity for the year *(Note 15)*	–	(1,071)	–	(1,071)
Charged to profit or loss *(Note 11)*	–	(672)	–	(672)
At 31 December 2009 and 1 January 2010	(2,614)	(2,940)	(192)	(5,746)
Arising from acquisition of subsidiaries *(Note 32)*	(57,911)	–	–	(57,911)
Effect of change in tax rate *(Note 11)*	(262)	–	–	(262)
Charged to profit or loss *(Note 11)*	(497)	(1,337)	–	(1,834)
Exchange alignment	(1)	–	–	(1)
At 31 December 2010	(61,285)	(4,277)	(192)	(65,754)

30. SHARE CAPITAL

	2010			2009		
	Number of shares ’000	**Amount HK$’000**	**Amount RMB’000**	Number of shares ’000	Amount HK$’000	Amount 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	**538,180**	**53,818**	**55,003**	451,344	45,134	47,354
Consideration issue *(Note 32)*	**8,050**	**805**	**709**	–	–	–
Repurchases and cancellation of shares *(Note (i))*	**(4,492)**	**(449)**	**(395)**	(3,164)	(316)	(279)
Issue of shares *(Note (ii))*	**–**	**–**	**–**	90,000	9,000	7,928
At end of year	**541,738**	**54,174**	**55,317**	538,180	53,818	55,003

Notes:

(i) During the year ended 31 December 2010, by virtue of exercise of the rights granted by the Company’s shareholders to the directors under general mandate, the Company repurchased on the Stock Exchange 4,492,000 (2009: 3,164,000) ordinary shares of HK$0.1 each at a total consideration before expenses of RMB7,139,000 (2009: RMB3,073,000). These shares were cancelled after repurchases during the year.

(ii) On 12 October 2009, the Company issued 90,000,000 units of Taiwan depository receipts, representing 90,000,000 new shares of the Company, which were listed on the Taiwan Stock Exchange Corporation on the same day. These new shares were issued at HK$1.68 each under at an aggregate consideration of RMB127,747,000, net of issuing expenses, of which RMB7,928,000 was credited to share capital and the remaining balance of RMB119,819,000 was credited to the share premium account. Further details are set out in the Company’s announcements dated 29 July 2009, 16 September 2009, 23 September 2009 and 9 October 2009. Such shares rank pari passu with the existing issued shares.

31. RESERVES

(i) Reserves of the Group

(a) Share premium

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) Statutory reserve fund

The Group's wholly-owned-foreign subsidiaries established in the PRC 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 respective registered capital.

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

(c) Reorganisation reserve mainly 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 held 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;

31. RESERVES *(Continued)*

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

(c) Reorganisation reserve mainly represents: (Continued)

(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 issued by the Company and 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 5% of its annual statutory net profit (after offsetting any prior years' losses) to enterprise expansion fund.

(e) Others, including share options reserve, property revaluation reserve and consideration payables to be settled by issue of fixed number of the Company's shares

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 4(r).

The property revaluation reserve represents the gains/losses arising on the revaluation of property (other than investment property). The balance on this reserve is wholly undistributable.

Details of the consideration payables to be settled by issue of fixed number of the Company's shares are set out in Note 32.

(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 4(p).

31. RESERVES *(Continued)*

(ii) Reserves of the Company

	Notes	**Share premium** RMB'000	**Contributed surplus** RMB'000	**Others** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2009		100,851	84,242	(1,937)	(15,679)	167,477
Total comprehensive income for the year		–	–	2,143	(16,357)	(14,214)
Lapse of share options		–	–	(89)	89	–
Recognition of equity-settled-share-based payments	*37*	–	–	302	–	302
Issue of shares	*30(ii)*	119,819	–	–	–	119,819
Repurchases and cancellation of shares	*30(i)*	(2,794)	–	279	(279)	(2,794)
At 31 December 2009 and 1 January 2010		217,876	84,242	698	(32,226)	270,590
Total comprehensive income for the year		–	–	(116)	(14,411)	(14,527)
Lapse of share options		–	–	(274)	274	–
Recognition of equity-settled-share-based payments	*37*	–	–	204	–	204
Consideration issue	*32*	12,023	–	–	–	12,023
Repurchases and cancellation of shares	*30(i)*	(6,744)	–	395	(395)	(6,744)
Consideration payables to be settled by issue of fixed number of the Company's shares	*32*	–	–	49,800	–	49,800
At 31 December 2010		223,155	84,242	50,707	(46,758)	311,346

32. BUSINESS COMBINATIONS

In November 2009, the Group acquired 51% equity interest in Shenzhen Youglonghang Auto Service Ltd. ("Yonglonghang"), a company established in Shenzhen, the PRC, for a total consideration of approximately RMB25.3 million of which RMB12.6 million was satisfied in cash and the remaining RMB12.7 million was satisfied by the allotment and issue of 8,049,505 ordinary shares of HK$0.1 each of the Company (the "Consideration Shares"). Yonglonghang is engaged in providing automotive services, namely repair, maintenance and restyling services, and sales of automotive products in Shenzhen, the PRC.

In July 2010, the Group acquired 51% equity interest in Liaoning Xin Tian Cheng Industrial Co., Limited. ("XTC"), a company established in Liaoning Province, the PRC, for a total nominal consideration of RMB100,980,000. Details on settlement are listed in breakdown of purchase consideration below. XTC is engaged in the trading of automobile accessories in Liaoning Province, the PRC.

In September 2010, the Group acquired 51% equity interest in Zhejiang Autoboom Industrial Co., Limited. ("Autoboom"), a company established in Zhejiang Province, the PRC, for a total nominal consideration of RMB134,860,000. Details on settlement are listed in breakdown of purchase consideration below. Autoboom is engaged in trading of automobile accessories in Zhejiang Province and Jiangsu Province, the PRC.

The Group has elected to measure the non-controlling interests in XTC and Autoboom at the non-controlling interests' proportionate share of fair values of XTC's and Autoboom's identifiable net assets, respectively.

32. *BUSINESS COMBINATIONS (Continued)*

The fair values of identifiable assets and liabilities of the acquirees as at the respective dates of acquisitions were as follow:

		XTC		Autoboom	
		Carrying value	Fair value	Carrying value	Fair value
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	*16*	2,668	2,668	4,597	4,597
Other intangible assets	*20*	28	109,077	–	122,596
Inventories		34,647	34,647	25,095	25,095
Trade receivables		3,350	3,350	21,858	21,858
Deposits and prepayments		9,398	9,398	3,796	3,796
Cash and cash equivalents		6,245	6,245	16,002	16,002
Trade payables		(22,893)	(22,893)	(19,171)	(19,171)
Accruals and other payables		(11,663)	(11,663)	(23,537)	(23,537)
Amounts due to equity owners		(7,450)	(7,450)	–	–
Deferred tax liabilities recognised upon fair value adjustments	*29*	–	(27,262)	–	(30,649)
			96,117		120,587
Less: Non-controlling interests			(47,097)		(59,088)
Total identifiable net assets at fair value			49,020		61,499
Goodwill on acquisition	*19*		45,260		71,061
Total consideration			94,280		132,560
Cash paid during the year			56,100		17,000
Shares of the Company to be issued *(Note (a))*			20,600		29,200
Consideration payable by cash *(Note ((b))*			17,580		86,360
Total consideration			94,280		132,560

Notes:

(a) The balances represent fair values of considerations to be settled by the issue of fixed number of the Company's ordinary shares of approximately 12,977,000 and 14,973,000 for the acquisition of XTC and Autoboom, respectively, with nominal values of RMB27,300,000 and RMB31,500,000 respectively in accordance with respective acquisition agreements and the related supplemental agreements. Their fair values of the consideration shares at RMB20,600,000 and RMB29,200,000 for acquisition of XTC and Autoboom respectively were determined with reference to the market share prices of the Company's shares as at the dates of the respective acquisitions and were credited to the equity of the Company and the Group.

(b) The balances are consideration payables to be settled in cash which included contingent considerations subject to the achievement of target earnings of XTC and Autoboom.

32. *BUSINESS COMBINATIONS (Continued)*

The Group had no presence in Liaoning Province, Zhejiang Province and Jiangsu Province before the acquisitions of equity interests in XTC and Autoboom. XTC and Autoboom, on the other hand, have been operating in such cities with well established network and reputation. It has been the Group's plan to extend operations in the above regions and strengthen establishment in other major provinces in the Greater China Region. Given the vast differences in the level of economic development and consumer behaviours and preference in different cities in the Greater China Region, entry into such provinces through acquisitions of XTC and Autoboom, companies already operating there, would be the most efficient and effective way in terms of both time and costs.

The fair values of trade and other receivables of XTC and Autoboom amounted to RMB12,748,000 and RMB25,654,000, respectively. The gross contractual values of trade and other receivables were RMB12,788,000 and RMB25,654,000, respectively, of which RMB40,000 and RMBNil are expected to be uncollectible, respectively.

Since the acquisitions in 2010, XTC and Autoboom contributed RMB84,661,000 and RMB55,630,000 to the Group's turnover and a profit of RMB4,521,000 and RMB4,666,000 to the Group's results for the current year, respectively. Had the acquisition taken place at the beginning of the current year, XTC and Autoboom would have contributed RMB163,002,000 and RMB203,929,000 to the turnover of the Group and the profit of RMB6,354,000 and RMB9,081,000 to the Group's results for the current year, respectively.

As part of the acquisition agreements, contingent considerations are payable, which are dependent on the amounts of profit before income tax expense of XTC and Autoboom during the 12-month period subsequent to acquisition. Their initial amounts recognised were RMB17,580,000 and RMB15,410,000, respectively. The considerations are due for final measurements and payments to the minority equity holders. At the date of approval of these financial statements, no further significant change to the considerations is expected.

As analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	XTC	**Autoboom**
	RMB'000	RMB'000
Purchase considerations settled in cash during the year	56,100	17,000
Cash and cash equivalents in the subsidiaries acquired	(6,245)	(16,002)
Net cash outflow on acquisitions	49,855	998

32. BUSINESS COMBINATIONS *(Continued)*

The above goodwill, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

The acquisition-related costs of RMB616,000 have been expensed and are included in administrative expenses.

Details of net assets acquired in the prior year and goodwill arising therefrom are as follows:

	RMB'000
Purchase considerations:	
Cash paid	12,622
Consideration payable to be settled by allotment and issue of shares of the Company *(Note)*	12,732
Fair value of net assets acquired – shown as below	(8,976)
Goodwill *(Note 19)*	16,378

Note: The 8,049,505 Consideration Shares have been allotted and issued during the current year (Note 30). The consideration payable is valued at the market value of the Company's Consideration Shares at the date of completion of the acquisition in prior year, and was included in accruals and other payables of the Company and the Group as at 31 December 2009. Such shares rank pari passu with the existing issued shares.

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

The Group had no presence in Shenzhen before the acquisition of equity interests in Yonglonghang. Yonglonghang, on the other hand, had been operating in Shenzhen with well established reputation. It has been the Group's plan to extend operations in the above region and other major cities in other major provinces in the Greater China Region. Given the vast differences in the level of economic development and consumer behaviours and preference in different cities in the Greater China Region, entry into Shenzhen through the acquisition of Yonglonghang, companies already operating there, would be the most efficient and effective way in terms of both time and costs.

32. BUSINESS COMBINATIONS *(Continued)*

In the prior year, the net assets acquired in the acquisitions were as follows:

	Notes	**Fair value of net assets acquired** RMB'000
Property, plant and equipment	*16*	6,371
Other intangible assets	*20*	13,067
Inventories		4,155
Trade receivables		734
Deposits, prepayments and other receivables		1,425
Cash and cash equivalents		281
Trade payables		(3,412)
Accruals and other payables		(2,406)
Deferred tax liabilities recognised upon fair value adjustments	*29*	(2,614)
		17,601
Less: Non-controlling interests		(8,625)
Fair value of net assets acquired attributable to the Group		8,976
Purchase considerations settled in cash		12,622
Cash and cash equivalents in the subsidiaries acquired		(281)
Net cash outflow on acquisitions		12,341

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

Since the acquisition in 2009, Yonglonghang contributed RMB3.4 million to the Group's turnover and a profit of RMB0.4 million to the Group's results for the year ended 31 December 2009. Had the acquisition taken place at the beginning of the prior year, Yonglonghang would have contributed RMB24.3 million to the turnover of the Group and the loss of RMB3.3 million to the Group's results for that year.

33. 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	
	2010	2009
	RMB'000	RMB'000
Cash and cash equivalents were denominated in:		
RMB	**65,339**	42,874
US$	**10,587**	28,471
HK$	**319**	80
EURO	**21**	–
TWD	**6,716**	11,147
	82,982	82,572

	2010	2009
	RMB'000	RMB'000
Pledged time deposits were denominated in:		
RMB	**120,000**	–
US$	**826**	–
TWD	**–**	2,563
	120,826	2,563

The Company

As at 31 December 2009 and 2010, most of the cash and cash equivalents of the Company were denominated in US$.

34. MAJOR NON-CASH TRANSACTIONS

In the prior year, additional consideration for acquisition of a subsidiary of RMB8,402,000 had not been paid by the Group and was included in accruals and other payables of the Group as at 31 December 2009.

The other financial asset of RMB2,944,000 was reclassified into deposits, prepayments and other receivables as at 31 December 2009.

In the current year, consideration for acquisition of subsidiaries of RMB103,940,000 and RMB49,800,000 have not been paid by the Group and was included in the Group's accruals and other payables, and others reserves as at 31 December 2010, respectively.

35. COMMITMENTS

Capital commitments outstanding at the end of reporting period not provided for in the financial statements were as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Capital commitments				
Construction of buildings, contracted but not provided for	**3,959**	1,982	**–**	–
Other commitment				
Capital injection in respect of subsidiary	**–**	–	**–**	3,060

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2010	2009
	RMB'000	RMB'000
Minimum lease payments under operating leases recognised as an expense in the year	**41,812**	33,034

36. *OPERATING LEASE ARRANGEMENTS (Continued)*

The Group as lessee *(Continued)*

At the end of reporting period, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	2010	2009
	RMB'000	RMB'000
Within one year	**40,110**	33,061
After one year but within five years	**100,020**	101,609
After five years	**43,784**	21,940
	183,914	156,610

The Group as lessor

As at 31 December 2009 and 2010, the Group leased out its investment properties under operating leases.

At the end of reporting period, the Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2010	2009
	RMB'000	RMB'000
Within one year	**3,218**	3,218
After one year but within five years	**7,004**	6,958
After five years	**7,004**	7,322
	17,226	17,498

37. EQUITY-SETTLED-SHARE-BASED PAYMENT TRANSACTIONS

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

On 28 February 2005, the Company granted share options of 23,780,000 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.

The Group amortises the fair value of the share options calculated above over the relevant vesting period. Accordingly, an amount of RMB204,000 was charged as an equity-settled-share-based payment (2009: RMB302,000) to profit or loss for the year.

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

	Share options (in thousands)
At 1 January 2009	13,110
Lapsed	(750)
At 31 December 2009 and 1 January 2010	12,360
Lapsed	(2,320)
At 31 December 2010	10,040

The weighted average exercise price for the share options lapsed during the year was HK$0.94 (2009: HK$0.94). The weighted average exercise price for the share options exercised in the prior year was HK$0.94 (2009: HK$0.94).

At the end of reporting period and the date of approval of these financial statements, the Company had 10,040,000 (2009: 12,360,000) share options outstanding under the Scheme, which represented 1.9% (2009: 2.3%) of the Company's shares in issue as at 31 December 2010. The exercise in full of the remaining outstanding share options would, under the present capital structure of the Company, result in the issue of 10,040,000 (2009: 12,360,000) additional ordinary shares of the Company and additional share capital of RMB850,000 (2009: RMB1,085,000) and share premium of RMB7,142,000 (2009: RMB9,115,000) (before issue expenses and transfer from share options reserve).

37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share options outstanding as at 31 December 2009 and 2010 have the following expiry dates and exercise prices:

2010

Expiry date	Exercise price HK$ per share	Share options granted to directors '000	Share options granted to employees '000	Total '000
12 February 2015	**0.94**	**10,040**	**–**	**10,040**
Weighted average exercise price (HK$)		**0.94**	**–**	**0.94**

2009

Expiry date	Exercise price HK$ per share	Share options granted to directors '000	Share options granted to employees '000	Total '000
31 December 2010	0.94	–	2,320	2,320
12 February 2015	0.94	10,040	–	10,040
		10,040	2,320	12,360
Weighted average exercise price (HK$)		0.94	0.94	0.94

38. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation in full and are not disclosed in this note. Except for disclosed elsewhere in the notes to these 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 companies which are not members of the Group:

	2010 **RMB'000**	2009 RMB'000
Sale of goods to Custom Accessories	**10,404**	8,745
Sale of goods to a related company	**1,187**	–

Sales of goods were made at the Group's usual list prices discounted to reflect the quantity of purchase and the relationships between the parties.

(b) During the year, the Group disposed of 7.68% (2009: 11.95%) equity interest in a subsidiary in Taiwan to the senior management of the subsidiary at a cash consideration of approximately RMB3,756,000 (2009: RMB4,160,000).

(c) Members of key management during the year comprised only of the executive directors whose remuneration is set out in Note 10(a).

39. 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 disclosed in Note 26, cash and cash equivalents and pledged time deposits in Note 33 and equity attributable to owners of the Company, comprising share capital disclosed in Note 30 and other reserves as disclosed in consolidated statement of changes in equity.

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.

39. CAPITAL RISK MANAGEMENT *(Continued)*

The gearing ratio at end of the reporting period was as follows:

	2010	2009
	RMB'000	RMB'000
Debts	**263,287**	42,412
Cash and cash equivalents and pledged time deposits	**(203,808)**	(85,135)
Net debt/(cash) position	**59,479**	(42,723)
Equity	**666,615**	444,761
Net debt to equity ratio	**8.9%**	N/A

40. 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.

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 customers' 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 into 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 end of reporting period, the Group has a certain concentration of credit risk as 12% (2009: 17%) and 32% (2009: 50%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the manufacture and sale 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 24.

40. 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 of the Group's financial liabilities at the end of reporting period, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) 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 year but less than 5 years RMB'000	More than 5 years RMB'000
2010						
Bank borrowings	**263,287**	**266,368**	**252,042**	**1,528**	**2,989**	**9,809**
Trade payables	**163,324**	**163,324**	**163,324**	**–**	**–**	**–**
Other payables	**136,172**	**163,172**	**163,172**	**–**	**–**	**–**
Amounts due to directors	**16**	**16**	**16**	**–**	**–**	**–**
Amounts due to a minority equity holder of subsidiary	**7,000**	**7,000**	**7,000**	**–**	**–**	**–**
Total	**596,799**	**599,880**	**585,554**	**1,528**	**2,989**	**9,809**
2009						
Bank borrowings	42,412	43,512	14,305	16,477	3,353	9,377
Trade payables	134,977	134,977	134,977	–	–	–
Other payables	49,278	49,278	49,278	–	–	–
Amounts due to directors	61	61	61	–	–	–
Total	226,728	227,828	198,621	16,477	3,353	9,377

40. *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 year but less than 5 years RMB'000
2010					
Other payables and amounts due to a director and subsidiaries	**1,803**	**1,803**	**1,803**	**–**	**–**
Financial guarantees issued					
Maximum amount guaranteed	**–**	**–**	**33,955**	**–**	**–**
2009					
Other payables, amounts due to a director and subsidiaries	14,128	14,128	14,128	–	–
Financial guarantees issued					
Maximum amount guaranteed	–	–	29,296	–	–

(c) Interest rate risk

The Group's fair value interest-rate risk mainly arises from bank borrowings as disclosed in Note 26. Most of bank borrowings were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has 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's cash and cash equivalents bore floating interest rates and expose the Group to cash flow interest rate risk. It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit for the year and retained profits as at 31 December 2010 by RMB2,038,000 (2009: RMB826,000). The Group has not used any financial instrument to hedge potential fluctuations in interest rates.

The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 26.

As the Company has no significant interest-bearing assets and liabilities, the Company's income and operating cash flows are substantially independent of changes in market interest rate.

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

The following table details the Group's and the Company's exposure at the end of reporting period 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

	2010	2009
	US$'000	US$'000
Trade and other receivables	**10,420**	10,178
Cash and cash equivalents	**1,599**	4,171
Bank loans	**(904)**	(188)
Overall net exposure	**11,115**	14,161

The Company

	2010	2009
	US$'000	US$'000
Cash and cash equivalents	**241**	251

40. *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 end of reporting period. 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.

	2010			2009		
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$	5%	3,460	–	5%	4,815	–

	2010			2009		
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$	5%	80	–	5%	86	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period 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 end of the next reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2009.

40. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) 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 2009 and 2010.

(f) 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 22, 26 and 28.

(i) Trading securities

Fair value is based on quoted market prices at the end of reporting period 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.

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts and fair values of the Group's financial assets and financial liabilities as recognised at 31 December 2010 and 2009 may be categorised as follows:

	2010		2009	
	Carrying Value RMB'000	**Fair value RMB'000**	Carrying value RMB'000	Fair value RMB'000
Financial assets				
Trading securities, at fair value	**282**	**282**	339	339
Loans and receivables (including cash and cash equivalents and pledged time deposits), at amortised cost	**412,745**	**412,745**	220,914	220,914
Financial liabilities				
Financial liabilities, at amortised cost	**615,176**	**615,176**	234,353	234,353

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

(a) The fair values of financial assets and liabilities are determined as follows:

- The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices

- The fair value of other financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

(b) The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group			
	2010			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Trading securities, listed	**282**	**–**	**–**	**282**

	2009			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Trading securities, listed	339	–	–	339

There is no transfer between Level 1 and Level 2 of the fair value hierarchy during both years.

42. CONTINGENT LIABILITIES

At the end of reporting period, contingent liabilities not provided for in the financial statements were as follows:

The Company

	2010 **RMB'000**	2009 RMB'000
Guarantee given to a bank in connection with banking facilities granted to a subsidiary	**33,955**	29,296

The banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of RMB19,766,000 and RMB12,000 as at 31 December 2010 and 2009, respectively.

43. COPPER FUTURE CONTRACTS

In December 2009, the Group has entered into copper future contracts to hedge against the fluctuations of copper price. The copper future contracts have not been designated as hedging instruments in the prior year. As these copper future contracts were entered into near the end of prior reporting period and there was no significant change in the contract price, the directors have the opinion that the fair value of the copper future contracts approximates their carrying values at the end of prior reporting period. As at 31 December 2010, the Group has no any outstanding future contract.

The major terms of these outstanding copper future contracts of the Group were as follows:

	As at 31 December 2009
Quantities (in tonnes)	100
Average price per tonne	RMB58,510
Delivery period	From December 2009 to April 2010

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

	1.1.2010 to 31.12.2010 RMB'000	1.1.2009 to 31.12.2009 RMB'000	1.1.2008 to 31.12.2008 RMB'000	1.1.2007 to 31.12.2007 RMB'000	1.1.2006 to 31.12.2006 RMB'000 (Restated)
Turnover	**1,076,842**	642,349	707,426	763,451	533,302
Profit before income tax expense	**61,821**	24,637	17,791	22,429	2,460
Income tax expense	**(14,183)**	(7,496)	(4,996)	(1,067)	(4,201)
Profit/(loss) for the year	**47,638**	17,141	12,795	21,362	(1,741)
Attributable to:					
Owners of the Company	**34,129**	11,533	10,922	17,849	(3,089)
Non-controlling interests	**13,509**	5,608	1,873	3,513	1,348
	47,638	17,141	12,795	21,362	(1,741)

ASSETS AND LIABILITIES

	31.12.2010 RMB'000	31.12.2009 RMB'000	31.12.2008 RMB'000	31.12.2007 RMB'000	31.12.2006 RMB'000 (Restated)
Total assets	**1,354,184**	686,995	617,821	653,867	442,212
Total liabilities	**(687,569)**	(242,234)	(331,451)	(375,483)	(232,742)
Net assets	**666,615**	444,761	286,370	278,384	209,470