NFA®

# 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 2011

* For identification purpose only

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# CORPORATE INFORMATION

## *Directors*

**Executive Directors**
Hung Wei-Pi, John *(Chairman)*
Raymond N. Chang *(Chief Executive Officer)*
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
Chang An-Li

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

## *Company Secretary*

Liu Xiao Hua

## *Registered Office*

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

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## *Auditor*

BDO Limited
25/F., Wing On Centre
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Hong Kong

## *Legal Advisers*

Jones Day
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The Landmark
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Hong Kong

## *Principal Share Registrar and Transfer Office*

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Butterfield House
68 Fort Street
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Grand Cayman
Cayman Islands

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

Computershare Hong Kong Investor Services Limited
17M/F, Hopewell Centre
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Wanchai
Hong Kong

## *Stock Code*

360

## *Website*

http://www.nfa360.com

# CHAIRMAN'S STATEMENT

On behalf of the Board, it is my honour to take this opportunity to express my sincere gratitude to all our shareholders, customers and parties who have long been supportive to the Group and to present the operating results of the Group for 2011 and its future prospect for 2012.

## *Market Review and Group Profile*

The strong growth momentum of the automotive sales market in China for two consecutive years came to a halt in 2011 when the unfavourable macroeconomic condition together with inflation aggravated consumers' wait-and-see attitude; withdrawal of the stimulating policies and the increasingly tighter restrictions on the eligibility for fuel-efficient automobiles subsidy also caused a large impact to the low-to medium-end market. Coupled with the introduction by certain local authorities of purchase limit policies and the continuing increase in the actual cost of driving, this has led to more rational consumers' demand for automobiles.

In 2011, the growth rate of the automotive market in China slowed down to approximately 3% year-on-year. However, while the total automotive sales in China maintained its position as the world's No.1, totaling approximately 18.51 million, and car count surpassed 100 million for the first time, a high growth rate was sustained in the automotive aftermarket.

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 consumers with products and services of high performance-price ratio.

The Group is a leader in the automotive aftermarket chain service network sector in the Greater China region, maintaining the largest market share in China's market. It is also the only enterprise in the industry which has completed its strategic layout in establishing self-operated retail chain stores in 13 provinces and cities across four key coastal economic zones.

## *Business Review*

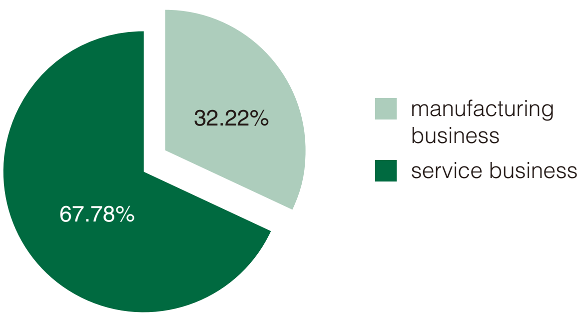
Looking back on the year, leveraging on its long-established solid foundation in both operational and financial terms, the Group has successfully expanded the market coverage and enlarged the market share of its service business.

The management team of the service business continuously focused on increasing the number of B2C Service Centers. As at the end of the year, the number of service centers increased by 5, of which 1 and 4 were located in Shanghai and Shenzhen, respectively, totaling 56 service centers, with a growth rate of 10%. At the same time, the Group acquired Hubei Autoboom Auto Accessories Supermarket Co., Ltd.* (湖北歐特隆汽車用品超市有限公司), which has established B2B Enterprise Wholesale Stores in Hubei, Jiangxi, Anhui provinces for commercial customers, completing the Group's strategic layout in establishing B2B Enterprise Wholesale Stores across three segments in China, namely northeast, southeast and central regions of China, for its wholesale service, which in turn enhanced the efficiency of merchandise and logistic services for the service centers under the retail service arm and further enabled the penetration of the Group's products into third-tier cities in China. As at the end of the year, the number of B2B Enterprise Wholesale Stores increased by 6, of which 1, 1 and 4 were located in Jiangxi, Anhui and Hubei, respectively, totaling 15 stores, with a growth rate of 67%.

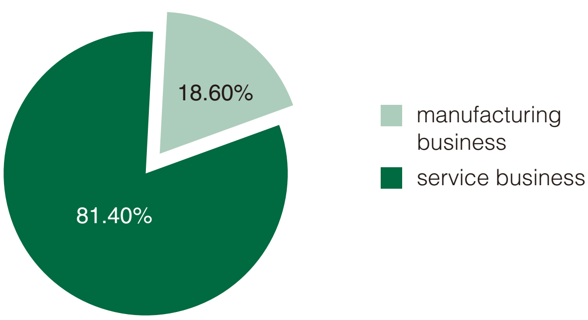
In June 2011, the Group acquired Shanghai Astrace Trade Development Company Limited* (上海追得貿易發展有限公司), which is specialized in the sales and marketing of solar films. Its well-known "Top-Tech Tinting (大師貼膜)" brand has established more than 400 authorised sales and service outlets in different parts of China, covering 27 provinces, municipalities and autonomous regions. In 2011, the brand has developed in-depth cooperation with several automotive manufacturers and distributors for window film projects.

After as many as ten years of exploration and experience, the Group's automotive service chain business in the Greater China region has gradually replaced its manufacturing business to become the major business and source of revenue of the Group. The following is an analysis of the contribution to sales and operating profits from the Group's manufacturing and service businesses in 2011:

**Contribution to sales from manufacturing and service businesses in 2011**




**Contribution to operating profits from manufacturing and service businesses in 2011**




### *Overall Results and Dividend Policy*

For the year ended 31 December 2011, the consolidated turnover of the Group amounted to approximately RMB1,493,140,000, representing an increase of approximately 38.66% as compared to the corresponding period of 2010. Gross profit was approximately RMB406,471,000, representing a growth of about 33.61% as compared to the corresponding period of 2010. Operating profit was approximately RMB105,396,000, representing a growth of approximately 56.57% as compared to the corresponding period of 2010. Profit attributable to shareholders was approximately RMB28,127,000, down about 17.59% as compared to the corresponding period of 2010. Earnings per share were RMB4.91 fen.

The consolidated turnover of the Group's service business amounted to approximately RMB1,012,076,000, representing a growth of approximately 95.09% as compared to the corresponding period of 2010. Gross profit was approximately RMB304,133,000, representing a growth of approximately 68.83% as compared to the corresponding period of 2010, while gross profit margin was about 30.1%, a decrease of approximately 4.6% over the corresponding period of 2010. Operating profit was approximately RMB101,822,000, a rise of approximately 189.65% over the corresponding period of 2010. Net profit was approximately RMB77,756,000, representing a growth of approximately 201.49% over the corresponding period of 2010.

The consolidated turnover of the Group's manufacturing business amounted to approximately RMB481,064,000, representing a decrease of approximately 13.80% as compared to the corresponding period of 2010. Gross profit was approximately RMB102,338,000, representing a decrease of 17.53% as compared to the corresponding period of 2010. Operating profit was approximately RMB23,261,000, down 46.20% as compared to the corresponding period of 2010. Net profit was approximately RMB8,079,000, representing a decrease of approximately 75.49% compared to the corresponding period of 2010.

2012 will be the second year for the Group's 3rd Five-Year Plan and a year to actively accumulate reserve for the implementation of the Group's strategic plans. To attain the target of organic growth, merger and acquisition for the Group's service business in 2012, thereby generating better shareholder's return in the long run, the Board unanimously agreed 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*

Notwithstanding the uncertainties in the future automotive market, the service business of automotive products, being the Group's principal business, is basically immune to the macroeconomic environment but depends primarily on the car count in the target market. With a car count surpassing 100 million which ranks China the second in the world, a favorable macroeconomic environment is already available for the development of the Group's service business of automotive products.

With a view to tapping into development opportunities, ensuring rapid growth of the Group in line with the automobile consumption market in China, the Group will implement the following operating strategies in 2012:

1. **Retail service business of automotive products – enhancing the density of existing market service outlets and expanding into new markets through continuing mergers and acquisitions**

    1. In addition to the existing B2C Service Centers in Beijing, Shanghai, Taiwan, Shenzhen and Jinan, the Group will increase the coverage density of the B2C Service Centers in major markets by self-expansion, mergers and acquisitions. The number of B2C Service Centers is expected to increase by 12 in 2012.

    2. Focusing on expanding the retail automotive products market in the northeast and other regions in China by mergers and acquisitions. The number of B2C Service Centers in target market is expected to increase by 11 in 2012.

2. **Wholesale service business of automotive products – increasing the proportion of products with rigid demand**

    Securing provincial distributorship of key consumables, such as tyres, motor oil and oil filter, for use in automotive products market, increasing the proportion of products with rigid demand, to increase overall sales and profits;

3. **Specialized stores – segment and expansion of specialized stores**

   By capitalising on Shanghai Astrace's capability in sales and marketing and operation, the Group will establish specialized stores for providing professional automobile styling and decals service. The number of specialized stores is expected to increase to 15 in 2012.

4. **Overall resources integration and improvement of management for service business – effective integration and enhanced management**

   1. Performing large scale and effective integration of the Group's existing brands and procurement, which in turn would further enhance the Group's overall market image, brand influence and operating profits;

   2. Standardising management of the Group's stores, upgrading its information system, in particular, the establishment of the customer relationship management system and refining related standard processes, in order to quickly expand stores after 2013 and penetrate the target market by rapidly replicating the successful profit model.

The Group will continue to adopt a proactive and progressive operating strategy for its manufacturing business in 2012. Leveraging upon its strong research and development capability and sales and marketing network, the Group will further increase the sales proportion of its own brands as well as enhance the research and development and sales proportion of its high-margin products.

In order to ensure the successful implementation of the Group's and the aforesaid operating strategies, the Board has appointed Mr. Raymond N. Chang as an Executive Director and the Chief Executive Officer of the Company. Mr. Chang is familiar with China's macro-economy, politics and market, and also understands how to cater to the consumption habits of mainstream automobile users in China. The members of the Board, including myself, believe that Mr. Chang's extensive and market-proven entrepreneurship experiences will contribute to the Company's enhanced capabilities in timely and actively responding to the fast changes in the market, ensuring a high growth rate of earnings per share, maximising the Company's market capitalisation and making New Focus the most valuable brand in the Greater China's automotive aftermarket chain service sector.

Lastly, I would like to take this opportunity to express my sincere gratitude to all staff of the Group for their achievements and continuing effort in contributing to the Group in 2011. I would also like to thank our shareholders for their long-term confidence and great support. The Board will formulate and implement its macro strategies and operating plans which are in the best interests of the Group and its shareholders and bring higher return to the shareholders.

## *Overview*

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 consumers market with products and services with premium performance-price ratio.

## *Results Highlights*

### Revenue

For the year ended 31 December 2011, the Group recorded a consolidated turnover of approximately RMB1,493,140,000 (the corresponding period of 2010: RMB1,076,842,000), representing a growth of approximately 38.66%.

The consolidated turnover of the Group's service business amounted to approximately RMB1,012,076,000 (the corresponding period of 2010: RMB518,778,000), representing an increase of approximately 95.09%. The significant increase in the consolidated turnover of the Group's service business was attributable to the organic growth, mergers and acquisitions during the year, which enlarged its market coverage and increased its market share.

The consolidated turnover of the Group's manufacturing business amounted to approximately RMB481,064,000 (the corresponding period of 2010: RMB558,064,000), representing a decrease of approximately 13.80%. The decrease in the consolidated turnover was due to the unfavourable economic condition, unsatisfactory employment rate and a decrease in consumers' purchasing power in North America, a major market of the Group's manufacturing business.

### Gross profit and gross margin

The consolidated gross profit of the Group was approximately RMB406,471,000 in 2011 (the corresponding period of 2010: RMB304,231,000), up approximately 33.61%. Gross margin decreased slightly from 28.25% in 2010 to approximately 27.22% in 2011.

The gross profit of the Group's service business was approximately RMB304,133,000 (the corresponding period of 2010: RMB180,146,000), representing an increase of approximately 68.83%, while its gross margin was approximately 30.1% (the corresponding period of 2010: 34.7%). The decrease in gross margin was due to an increase in the sales proportion of the Group's wholesale service business.

The gross profit of the Group's manufacturing business was approximately RMB102,338,000 (the corresponding period of 2010: RMB124,085,000), representing a decrease of approximately 17.53%, while its gross margin was approximately 21.27% (the corresponding period of 2010: 22.2%). The decrease in the gross profit and gross margin of the Group's manufacturing business was mainly due to relatively higher losses arising from the cancellation of the export tax rebate for certain products since May 2011 as a result of the adjustment of the export tax rebate policy in Mainland China during the year.

### Expenses

Sales and marketing expenses for the year were approximately RMB226,468,000 (the corresponding period of 2010: RMB171,678,000), representing a growth of approximately 31.91%. The increase in expenses was mainly attributable to the corresponding expenses of sales and marketing incurred by subsidiaries, namely Hubei Autoboom Auto Accessories Supermarket Co., Ltd.*, Shanghai Astrace Trade Development Company Limited*, Zhejiang Autoboom Industrial Co., Ltd.* (浙江歐特隆實業有限公司) and Liaoning Xin Tian Cheng Industrial Co., Ltd.* (遼寧新天成實業有限公司), which were newly merged into and acquired by the Group, during the year.

The administrative expenses for the year were approximately RMB93,009,000 (the corresponding period of 2010: RMB85,781,000), representing an increase of approximately 8.43%.

**Operating profit**

The operating profit of the Group was approximately RMB105,396,000 (the corresponding period of 2010: RMB67,316,000), representing an increase of approximately 56.57%.

Among which, the operating profit of the Group's service business was approximately RMB101,822,000 (the corresponding period of 2010: RMB35,153,000), representing an increase of approximately 189.65%. The operating profit of the Group's manufacturing business was approximately RMB23,261,000 (the corresponding period of 2010: RMB43,235,000), representing a drop of approximately 46.20%.

**Finance costs**

Net finance costs amounted to approximately RMB19,630,000 (the corresponding period of 2010: RMB5,495,000), representing an increase of approximately 257.23%. It was mainly attributable to:

1. In August 2011, the Company issued RMB-denominated bonds with an aggregate principal amount of RMB200,000,000 and a term of 2 years. As a result of a more stringent regulatory system over the inflow of overseas funds into mainland China subsequent to the issuance of bonds, the Company was unable to remit the funds from the issuance of RMB-denominated bonds into Mainland China in a timely manner for repayment of the bank borrowings, thereby significantly increasing the interest expense.

2. The large amount of cash required for mergers and acquisitions by the Group was mainly funded by bank loans, resulting in a significant increase in interest expense of the Group.

**Taxation**

Income tax expenses were approximately RMB25,251,000 (the corresponding period of 2010: RMB14,183,000), representing a growth of approximately 78.04%, which was mainly due to the increase in income tax expenses in line with the significant increase in operating profit of the Group during the year.

**Profit attributable to owners of the Company**

Profit attributable to owners of the Company was approximately RMB28,127,000 (the corresponding period of 2010: RMB34,129,000), down approximately 17.59%. This was mainly due to a decrease in the operating profit of the Group's manufacturing business. Earnings per share were approximately RMB4.91 fen (2010: RMB6.18 fen).

### *Financial Position and Liquidity*

For the year ended 31 December 2011, the Group maintained a stable financial position and the liquidity of assets of the Group remained healthy.

For the year ended 31 December 2011, the Group recorded the cash flow used in operating activities of approximately RMB25,543,000 (2010: RMB1,169,000).

The non-current assets were approximately RMB921,649,000 as at 31 December 2011 (31 December 2010: RMB706,695,000).

The net current assets were approximately RMB379,513,000 as at 31 December 2011 (31 December 2010: RMB38,447,000), with a current ratio of approximately 1.63 (31 December 2010: 1.06).

Gearing ratio calculated by dividing total liabilities by total assets was approximately 54.01% as at 31 December 2011 (31 December 2010: 50.77%). As at 31 December 2011, the total bank borrowings of the Group were approximately RMB187,447,000 (31 December 2010: RMB263,287,000).

The Group maintains strong and sufficient operating 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 2011, the net book values of investment properties, property, plant and equipment and leasehold land and land use rights pledged as security for the Group's bank borrowings aggregated to approximately RMB119,468,000 (31 December 2010: RMB119,921,000).

### *Material Acquisitions and Disposals of Subsidiaries and Associated Companies*

On 28 June 2011, the Company entered into an equity transfer agreement with the shareholders of Shanghai Astrace Trade Development Company Limited*, pursuant to which the Company successfully acquired a 51% equity interest in Shanghai Astrace Trade Development Company Limited* at a consideration of RMB64,260,000 (subject to adjustment). On 4 July 2011, the acquisition was completed.

On 23 September 2011, the Company entered into an equity transfer agreement with the shareholders of Beijing Aiyihang Auto Service Ltd. (北京愛義行汽車服務有限責任公司), pursuant to which the Company successfully acquired an additional 9% equity interest in Beijing Aiyihang Auto Service Ltd. at a consideration of RMB22,633,575. Subsequent to completion of the acquisition on 27 September 2011, the Company indirectly held 60% equity interest in Beijing Aiyihang Auto Service Ltd..

On 23 September 2011, the Company entered into an equity transfer agreement with the shareholders of Hubei Autoboom Auto Accessories Supermarket Co., Ltd.*, pursuant to which the Company successfully acquired a 51% equity interest in Hubei Autoboom Auto Accessories Supermarket Co., Ltd.* at a consideration of approximately RMB87,258,000 (subject to adjustment). On 23 September 2011, the acquisition was completed.

### *Significant Investments*

For the year ended 31 December 2011, the Group had no significant investments.

### *Exchange Risk*

During the year, 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 2011, the Group had no significant contingent liabilities.

### *Employees and Remuneration Policy*

As at 31 December 2011, the Group employed a total of 4,328 full-time employees (31 December 2010: 3,650), of which 785 were managerial staff (31 December 2010: 385). 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 revenue of the Group, the contribution from the Group's service business accounted for approximately 68% in 2011, up from 48% in 2010, compared to the decrease in the contribution from the Group's manufacturing business, which accounted for approximately 32%, down from 52% in 2010. This ranks the Group's service business the first in the Greater China region in terms of automobile sales and the second across the globe in terms of car count during the year. Leveraging on such macroeconomic environment, the Group will seize opportunities brought by the strong growth momentum of the automobile products market and develop the service business as the operational hub of the Group.

### *Automotive Service Chain System in the Greater China Region – the Group's Service Business*

During the year, the Group has made the following progress in its service business:

1. **Retail service business of automotive products – strengthened efforts and steady growth**

   During the year, the total number of B2C Service Centers increased by 5, of which 1 and 4 were located in Shanghai and Shenzhen, respectively, totaling 56 service centers, with a growth rate of 10% as compared to 2010. In September 2011, the Group successfully acquired an additional 9% equity interest in Beijing Aiyihang Auto Service Ltd., increasing its interest in the company to 60%. The acquisition would enhance the Group's profitability and ensure a better control and management of operation of Beijing Aiyihang Auto Service Ltd. by the Group.

2. **Wholesale service business of automotive products – continuing acquisition and network optimisation**

   In September 2011, the Group successfully acquired Hubei Autoboom Auto Accessories Supermarket Co., Ltd.*. The acquisition of Hubei Autoboom Auto Accessories Supermarket Co., Ltd.*, which has established B2B Enterprise Wholesale Stores in Hubei, Jiangxi, Anhui provinces for commercial customers, has completed the Group's strategic layout in establishing B2B Enterprise Wholesale Stores across three segments in China, namely northeast, southeast and central regions of China, for its wholesale service, which in turn enhanced the efficiency of merchandise and logistic services for the service centers under the retail service arm and further enabled the penetration of Group's products into third-tier cities in China. As at the end of the year, the number of B2B Enterprise Wholesale Stores for commercial customers increased by 6, of which 1, 1 and 4 were located in Jiangxi, Anhui and Hubei, respectively, totaling 15 stores, with a growth rate of 67%.

3. **Commencement of the new automobile film business**

   In June 2011, the Group acquired Shanghai Astrace Trade Development Company Limited*, which is specialized in the sales and marketing of solar films. It is currently the strongest operator and promoter in the PRC automobile heat insulating film market, and has won the title of best supplier, outstanding brand etc.. Its well-known "Top-Tech Tinting (大師貼膜)" brand has established more than 400 authorised sales and service outlets in different parts of China, covering 27 provinces, municipalities and autonomous regions. Shanghai Astrace Trade Development Company Limited* has experienced rapid growth of business in Mainland China with an average growth rate of 58% in sales from 2004 to 2010. In 2011, its sales grew by 69% as compared to 2010.

### *Automobile Green Lighting and Electronic Power Manufacturing Business – the Group's Manufacturing Business*

During the year, economic downturn and weak consumption in North America, a major market of the Group's manufacturing business, resulted in decline in export sales of the business. Meanwhile, rising labour costs and substantial increase in finance costs in Mainland China, where the manufacturing base of the Group is located, as well as frequent counterfeit of the Group's products sold in Mainland China due to the country's relatively insufficient intellectual property rights protection, have caused adverse effects on the Group's sales. Due to the abovementioned reasons, the Group's sales and profit recorded a certain degree of fall during the year as compared to 2010.

### *Future Prospects*

During the year, with a car count surpassing 100 million which ranks China the second in the world, a favorable macroeconomic environment has laid a solid foundation for the development of the Group's service business of automotive products. With a view to tapping into development opportunities, the Group will implement the following operating strategies in 2012:

1. **Retail service business of automotive products – enhancing the density of existing market service outlets and expanding into new markets through continuing mergers and acquisitions**

    - In addition to the existing B2C Service Centers in Beijing, Shanghai, Taiwan, Shenzhen and Jinan, the Group will increase the coverage density of the B2C Service Centers in major markets by self-expansion, mergers and acquisitions. The number of B2C Service Centers is expected to increase by 12 in 2012.

    - Focusing on expanding the retail automotive products market in the northeast and other regions in China by mergers and acquisitions. The number of B2C Service Centers in target market is expected to increase by 11 in 2012.

2. **Wholesale service business of automotive products – increasing the proportion of products with rigid demand**

    Securing provincial distributorship of key consumables, such as tyres, motor oil and oil filter, for use in automotive products market, increasing the proportion of products with rigid demand, to increase overall sales and profits.

3. **Specialized stores – segment and expansion of specialized stores**

    By capitalising on the capability in sales and marketing and operation of Shanghai Astrace Trade Development Company Limited*, the Group will establish specialized stores for providing professional automobile styling and decals service. The number of specialized stores is expected to increase to 15 in 2012.

4. **Overall resources integration and improvement of management for service business – effective integration and enhanced management**

    - Performing large scale and effective integration of the Group's existing brands and procurement, which in turn would further enhance the Group's overall market image, brand influence and operating profits;

    - Standardising management of the Group's stores, upgrading its information system, in particular, the establishment of the customer relationship management system and refining related standard processes, in order to quickly expand stores after 2013 and penetrate the target market by rapidly replicating the successful profit model.

The Group will continue to adopt a proactive and progressive operating strategy for its manufacturing business in 2012. Leveraging upon its strong research and development capability and sales and marketing network, the Group will further increase the sales proportion of its own brands as well as enhance the research and development and sales proportion of its high-margin products.

## *Executive Directors*

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

Mr. Hung, aged 51, is one of the founders of the Group and the chairman 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. 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. Raymond N. Chang**

Mr. Chang, aged 41, is an executive Director and the chief executive officer of the Company and is currently responsible for the operation and management of the Group. Mr. Chang has been an executive Director and the chief executive officer since February 2012.

He received his bachelor's degree in arts from New York University in 1992, and his master's degree in business administration from Yale University in 1996. Mr. Chang also matriculated from 1996–1997 in Public Administration Program of John F. Kennedy School of Government, Harvard University. He is an accomplished & seasoned executive with international experience in Greater China, USA and UK. He has co-founded companies, raised venture capital finance, consummated strategic partnerships, taken private companies to public floatation via IPO on the NASDAQ, and is experienced as a public company chief executive officer under the jurisdictions of NASDAQ & London Stock Exchanges. Fluent in three languages (English, Mandarin & Taiwanese), he has strong track records with proven capabilities in leading and formulating complex cross-border investments and transactions. In 1997, he cofounded GigaMedia Limited (NASDAQ: GIGM), and received US$35 million investment from Microsoft in 1999. In February 2000, he successfully brought GigaMedia Limited to NASDAQ IPO and raised US$270 million. Subsequently, in April 2000, he was voted by Fortune magazine as one of the twenty-five Next Generation Global Leaders under 40. In 2006, he co-founded Luckypai Limited, a leading TV shopping company in China, and grew it to US$150 million sales in less than 5 years. Luckypai currently operates 3 TV shopping channels via joint-ventures with Shandong, Yunnan and ChongQing Provincial TV stations. In September 2010, he completed a sale of Luckypai Limited to Lotte Group & Itochu Corp. for US$160 million.

**Mr. Wu Kwan-Hong**

Mr. Wu, aged 51, 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 of New Focus Line Limited from 1990 to 1998 in charge of warehousing management and procurement. 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 46, 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 the sister of Mr. Hung Wei-Pi, John and the spouse of Mr. Wu Kwan-Hong.

**Mr. Lu Yuan Cheng**

Mr. Lu, aged 51, 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's 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 Program (上海星火計劃) and Torch Program (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 67, 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 56, is an executive Director and is responsible for exploration of overseas markets for the manufacturing business of the Group. Mr. Matthew was appointed as an executive Director in August 2010.

He has served for 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 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, the former Chief of the Medical Staff at Highland Park Hospital in Highland Park Illinois, US, and 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 58, 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 57, 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's 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.

**Mr. Chang An-li**

Mr. Chang, aged 45, is a non-executive Director. He received a bachelor's degree in accounting and a MBA degree in finance from Drexel University in Philadelphia, USA in 1995 and 1997, respectively. He has more than 15 years of work experience related to management and investment. Mr. Chang is currently the managing director and the head of Greater China team of STIC Investment, Inc., the general partner of the STIC Secondary Fund II, L.P. and STIC Korea Integrated – Technologies Now Growth Engine Private Equity Fund, which is a leading private equity firm in Korea. Mr. Chang joined the Group in December 2011.

## *Independent Non-executive Directors*

**Mr. Du Haibo**

Mr. Du, aged 42, 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 72, 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 61, 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 45, is the general manager of the strategic investment department of the Group's service business and is responsible for the mergers and acquisitions project 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 a 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. Chow Zhicheng**

Mr. Chow, aged 49, 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's 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 35, is the company secretary and an authorised representative of the Company.

Mr. Liu obtained a master's 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 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 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, 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 year under review.

### *Board of Directors*

The Board currently comprises seven executive Directors and six non-executive Directors with three of them being independent Directors:

**Executive Directors**

Mr. Hung Wei-Pi, John *(Chairman)*
Mr. Raymond N. Chang *(Chief Executive Officer)*
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
Mr. Chang An-Li

**Independent non-executive Directors**

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

Mr. Hung Wei-Pi, John is the brother of Ms. Hung Ying-Lien who is the spouse of Mr. Wu Kwan-Hong.

Issues reserved for 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 acted as both the chairman and chief executive officer of the Company during 2011 and up to 31 January 2012. Such deviation is due to the fact that the day-to-day management of the Group was led by Mr. Hung. The Board considers that such arrangement provided the Group with strong and consistent leadership and allowed for effective and efficient planning and implementation of business strategies and decisions.

In order to focus on providing leadership for the Board and to comply with the provisions of the Code, Mr. Hung Wei-Pi, John resigned as chief executive officer of the Company with effect from 1 February 2012 and was succeeded by Mr. Raymond N. Chang on the same day.

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 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. Edward B. Matthew | 4/4 |
| **Non-executive Directors** | |
| Mr. Low Hsiao-Ping | 4/4 |
| Mr. Hsu Ming Chyuan | 4/4 |
| Mr. Chang An-Li (appointed with effect from 5 December 2011) | N/A* |
| **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*

A Remuneration Committee was set up by the Company on 13 February 2005 with written terms of reference formulated with reference to the provisions of the Code. The Remuneration Committee subsequently changed its name to Remuneration, Examination and Nomination Committee on 4 December 2005 and adopted revised written terms of reference with reference to the code provisions of the Code. It consists

* *No Board meeting was held between 5 December 2011 and 31 December 2011.*

of five members, namely Mr. Hung Wei-Pi, John (Chairman), 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 consistent with the duties and responsibilities of the Directors and senior management and are 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 year 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 during the past year 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 require 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.

The Board has resolved to dissolve the existing Remuneration, Examination and Nomination Committee and to establish three separate Board committees, namely a Remuneration Committee, an Examination Committee and a Nomination Committee, with effect from 31 March 2012, in order to comply with certain amendments to the Listing Rules which will become effective on 1 April 2012. Members of the Remuneration Committee are Mr. Du Hai-Bo (Chairman), Mr. Zhou Tai-Ming, Mr. Uang Chii-Maw, Mr. Hung Wei-Pi, John and Ms. Hung Ying-Lien. Members of the Examination Committee are Mr. Hung Wei-Pi, John (Chairman), Mr. Du Hai-Bo, Mr. Zhou Tai-Ming, Mr. Uang Chii-Maw and Ms. Hung Ying-Lien. Members of the Nomination Committee are Mr. Hung Wei-Pi, John (Chairman), Mr. Du Hai-Bo, Mr. Zhou Tai-Ming, Mr. Uang Chii-Maw and Ms. Hung Ying-Lien.

According to the bye-laws of the Company, notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the Registration Office of the Company at least seven days before the date of the general meeting, or else no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting.

### *Auditors' remuneration*

During the year, the fees paid/payable to BDO Limited (the "Auditor") in respect of their audit services for the year 2011 amounted to approximately HK$1,630,000. In addition, the Company has engaged the Auditor to perform certain agreed upon procedures in relation to its financial statements during the year amounted to approximately HK$70,000. 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 at the request of the Board to review material internal control or financial issues. The functions of the 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 year 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 2011 and the audited annual results for the year ended 31 December 2011, 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 35 and 36.

### *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 the 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.

### *Auditor*

During the year, the performance of the Auditor 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 Auditor be re-appointed as the external auditor of the Company for 2012.

# REPORT OF THE DIRECTORS

The Directors are pleased to present their annual report for the year ended 31 December 2011 (the "Year") and the audited consolidated financial statements (the "Financial Statements") of the Group for the Year.

### *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 as detailed in section 4 headed "Corporate Reorganisation" in Appendix VI to the prospectus dated 17 February 2005 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 providing 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 37. 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 (2010: 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 31 to the Financial Statements.

### *Reserves*
Movements of reserves of the Group and the Company on a consolidated basis are set out in note 32 to the Financial Statements.

### *Distributable Reserves*
Under the Companies Law of the Cayman Islands, share premium amounting to approximately RMB286,471,000 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 2011, the reserve available for distribution to Shareholders of the Company amounted to approximately RMB300,892,000.

### *Closure of Register of Members*
The register of members will be closed from 6 June 2012 to 8 June 2012 (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 5 June 2012.

### *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)*
Raymond N. Chang (*Chief Executive Officer*) (appointed with effect from 1 February 2012)
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
Chang An-Li (appointed with effect from 5 December 2011)

**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. Zhou Tai-Ming, Mr. Low Hsiao-Ping, Ms. Hung Ying-Lien and Mr. Douglas Charles Stuart Fresco 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(3) of the Company's articles of association, the Board appointed Mr. Chang An-Li as non-executive director of the Company with effect from 5 December 2011, and Mr. Raymond N. Chang as executive director of the Company with effect from 1 February 2012.They are due to retire at the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election.

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

### ***Directors' 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, all being 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.

Mr. Edward B. Matthew, an 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.

Mr. Raymond N. Chang, an executive director, has entered into a service contract with the Company for a term of three years commencing from 1 February 2012 subject to retirement by rotation in accordance with the articles of association of the Company.

Mr. Hsu Ming Chyuan , a non-executive director, has entered into a service contract with the Company for a term of three years commencing from 30 March 2010 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 re-appointed 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.

Mr. Chang An-Li, a non-executive director, has entered into a service contract with the Company for a term of three years commencing from 5 December 2011, 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 "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 6.95% 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.

### *Share Option Scheme* *(Continued)*

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.

As at 31 December 2011, 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 24,005,000 shares, representing approximately 4.16% of the total issued share capital of the Company as at that date.

As at 31 December 2011, 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 2011 | Number of underlying shares subject to options lapsed/ cancelled since 1 January 2011 | Number of options exercised since 1 January 2011 | Number of underlying shares subject to options outstanding as at 31 December 2011 |
|---|---|---|---|---|---|---|---|---|
| Mr. Wu Kwan-Hong<br>*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<br>*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<br>*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 |
| Total | | | | | 10,040,000 | – | – | 10,040,000 |

*Note:*

1. None of the share option was exercised during the period from 1 January 2011 to 31 December 2011 and the remaining share options are exercisable during the period from 1 January 2012 to 12 February 2015 subject to such 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 2011, 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:

**(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) | 30.74% |
| Mr. Douglas Charles Stuart Fresco | Interest in a controlled company *(Note 3)* | 53,590,690(L) | 9.29% |
| | Personal *(Note 3)* | 3,665,115(L) | 0.64% |
| Ms. Hung Ying-Lien | Personal | 383,145(L) | 0.07% |
| Mr. Lu Yuan Cheng | Personal | 805,035(L) | 0.14% |
| Mr. Edward B. Matthew | Personal | 21,922,350(L) | 3.80% |
| 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)*

**(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 2011 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 2006 to 12 February 2015 | HK$10.00 (for all) | HK$0.94 (per share) | 0.59% |
| Ms. Hung Ying-Lien | Beneficial owner | 3,400,000(L) | 1 January 2006 to 12 February 2015 | HK$10.00 (for all) | HK$0.94 (per share) | 0.59% |
| Mr. Lu Yuan Cheng | Beneficial owner | 3,240,000(L) | 1 January 2006 to 12 February 2015 | HK$10.00 (for all) | HK$0.94 (per share) | 0.56% |

*Notes:*

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

Save as disclosed above, as at 31 December 2011, to the best knowledge of the Directors, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company 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 2011, 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/ underlying shares under equity derivatives | Percentage of issued shares |
|---|---|---|---|---|---|
| Sharp Concept Industrial Limited | Beneficial owner | 177,256,120(L) | Nil | 177,256,120 | 30.74% |
| Ms. Jin Xiao-Yan | Family interest *(Note 2)* | 177,256,120(L) | Nil | 177,256,120 | 30.74% |
| Golden Century Industrial Limited | Beneficial owner *(Note 3)* | 53,590,690(L) | Nil | 53,590,690 | 9.29% |
| STIC Korea Integrated – Technologies New Growth Engine Private Equity Fund | Beneficial owner | Nil | 78,923,254(L) *(Note 4)* | 78,923,254 | 13.68% |

*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.
4. These represent the underlying shares issuable upon the conversion of the convertible bonds issued to STIC Korea Integrated – Technologies New Growth Engine Private Equity Fund by the Company on 5 December 2011.

Save as disclosed above, as at 31 December 2011, 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 Year, the Company repurchased 6,808,000 ordinary shares of the Company on the Hong Kong Stock Exchange under the general mandate granted at the annual general meeting held on 10 June 2011. 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$) | **Number of shares repurchased** | **Aggregate consideration paid (excluding expenses)** (HK$) |
|---|---|---|---|---|---|
| September 2011 | 2.10 | 1.70 | 1.97 | 4,908,000 | 9,683,121 |
| October 2011 | 2.10 | 1.96 | 2.00 | 1,852,000 | 3,701,283.60 |
| December 2011 | 1.70 | 1.65 | 1.70 | 48,000 | 81,398.40 |

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.

### *Connected Transaction*

During 2011, the following connected transaction was carried out by the Company and its subsidiaries pursuant to Chapter 14A of the Listing Rules of the Hong Kong Stock Exchange. Such connected transactions are subject to reporting and announcement requirements but is exempted from independent shareholders' approval requirements under the Listing Rules.

**Acquisition of 9% Equity Interest in Aiyihang**

On 23 September 2011, the Group entered into an equity transfer agreement with Beijing Yuyang Shiji Trading Co., Ltd* ("Yuyang Shiji") (北京宇陽世紀貿易有限公司) to acquire additional 9% equity interest in Beijing Aiyihang Auto Service Ltd* ("Aiyihang") (北京愛義行汽車服務有限責任公司), a company which was owned as to 51% by the Group and 49% by Yuyang Shiji. Yuyang Shiji is a company owed as to 90% by Xing Aiyi, a director of Aiyihang, and as to 10% by the spouse of Xing Aiyi. The consideration for the transfer of equity interest was RMB22,634,000. Upon completion of transfer of equity interest, the Group's interest in Aiyihang has been increased from 51% to 60%. The Directors is of the view that the acquisition would enhance the Group's profit and ensure a better control and management of operation of Aiyihang by the Group.

**Custom Accessories Sales Agreement (Continuing Connected Transaction)**

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 100% owned by Mr. Edward B. Matthew (a Director of the Company) and his family members. 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 constitutes continuing connected transaction of the Company. Under the Custom Accessories Agreement, which covered the period from 23 April 2008 to 31 December 2010, 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 prices would not be less favourable to the Company/Group than those offered by other independent third parties for similar products. On 15 November 2010, the same parties to the Custom Accessories Agreement entered into the Renewed Custom Accessories Agreement whereby the terms of the Custom Accessories Agreement were renewed for a period of three years until 14 November 2013 and the new annual cap was set to be HK$25,000,000.

The sales of products to Custom Accessories by NFAP and NF Light & Power for the Year amounted to approximately RMB6,390,000.

## ***Connected Transaction*** *(Continued)*

**Confirmation from auditor**

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

(1) was approved by the Board;

(2) was 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.

**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 19% of the total revenue for the Year, whereas the largest customer accounted for 6%. 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, owns 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.

### Auditor

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 auditor of the Company.

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

Hong Kong, 30 March 2012

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**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF NEW FOCUS AUTO TECH HOLDINGS LIMITED**
**（新焦點汽車技術控股有限公司）**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of New Focus Auto Tech Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 125, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

**Auditor's 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 auditor's 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 auditor considers internal control relevant to the entity's preparation of the 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 2011, 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 2012

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Turnover | 6 | **1,493,140** | 1,076,842 |
| Cost of sales | | **(1,086,669)** | (772,611) |
| Gross profit | | **406,471** | 304,231 |
| Other revenue and gains | 7 | **18,402** | 20,544 |
| Distribution costs | | **(226,468)** | (171,678) |
| Administrative expenses | | **(93,009)** | (85,781) |
| Finance costs | 8 | **(19,630)** | (5,495) |
| Profit before income tax expense | 9 | **85,766** | 61,821 |
| Income tax expense | 11 | **(25,251)** | (14,183) |
| Profit for the year | | **60,515** | 47,638 |
| Other comprehensive income, net of tax: | | | |
| Exchange differences on translating foreign operations | 15 | **(4,214)** | 2,618 |
| Total comprehensive income for the year | | **56,301** | 50,256 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | 12 | **28,127** | 34,129 |
| Non-controlling interests | | **32,388** | 13,509 |
| | | **60,515** | 47,638 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **24,668** | 36,219 |
| Non-controlling interests | | **31,633** | 14,037 |
| | | **56,301** | 50,256 |
| Earnings per share: | 14 | | |
| – Basic | | **RMB4.91 fen** | RMB6.18 fen |
| – Diluted | | **RMB4.86 fen** | RMB6.12 fen |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *16* | **219,100** | 201,176 |
| Leasehold land and land use rights | *17* | **17,688** | 18,182 |
| Investment properties | *18* | **46,764** | 46,105 |
| Goodwill | *19* | **285,992** | 184,883 |
| Other intangible assets | *20* | **336,275** | 256,252 |
| Deferred tax assets | *30* | **222** | 97 |
| Prepayments for acquisition of land use right and property, plant and equipment | *24(b)* | **14,108** | – |
| Prepayment for acquisition of subsidiaries | *24(b)* | **1,500** | – |
| | | **921,649** | 706,695 |
| **Current assets** | | | |
| Inventories | *23* | **310,469** | 234,462 |
| Tax recoverable | | **1,260** | – |
| Trade receivables | *24(a)* | **230,373** | 125,082 |
| Deposits, prepayments and other receivables | *24(b)* | **98,275** | 82,233 |
| Amounts due from related companies | *25(a)* | **11,064** | 1,622 |
| Trading securities | *22* | **243** | 282 |
| Pledged time deposits | *34* | **3,587** | 120,826 |
| Cash and cash equivalents | *34* | **326,840** | 82,982 |
| | | **982,111** | 647,489 |
| **Current liabilities** | | | |
| Bank borrowings, secured | *26* | **175,549** | 250,514 |
| Trade payables | *27* | **215,701** | 163,324 |
| Accruals and other payables | | **189,213** | 181,549 |
| Amounts due to directors | *25(b)* | **–** | 16 |
| Amount due to a related party | *25(d)* | **1,000** | – |
| Amounts due to non-controlling owners of subsidiaries | *25(c)* | **10,957** | 7,000 |
| Tax payables | | **10,178** | 6,639 |
| | | **602,598** | 609,042 |
| **Net current assets** | | **379,513** | 38,447 |
| **Total assets less current liabilities** | | **1,301,162** | 745,142 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank borrowings, secured | *26* | **11,898** | 12,773 |
| Renminbi-denominated bonds | *28* | **197,879** | – |
| Convertible bonds | *29* | **122,261** | – |
| Deferred tax liabilities | *30* | **86,524** | 65,754 |
| Consideration payables | *33(b)* | **7,002** | – |
| | | **425,564** | 78,527 |
| **Net assets** | | **875,598** | 666,615 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *31* | **58,256** | 55,317 |
| Reserves | *32(i)* | **559,397** | 427,463 |
| **Equity attributable to owners of the Company** | | **617,653** | 482,780 |
| **Non-controlling interests** | | **257,945** | 183,835 |
| **Total equity** | | **875,598** | 666,615 |

These financial statements were approved and authorised for issue by the board of directors on 30 March 2012.

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

# STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *16* | **48** | 71 |
| Interests in subsidiaries | *21* | **489,630** | 213,866 |
| | | **489,678** | 213,937 |
| **Current assets** | | | |
| Deposits, prepayments and other receivables | | **2,077** | 534 |
| Short-term loan to a subsidiary | *21* | **167,000** | 6,834 |
| Amounts due from subsidiaries | *21* | **–** | 144,966 |
| Cash and cash equivalents | *34* | **144,965** | 2,195 |
| | | **314,042** | 154,529 |
| **Current liabilities** | | | |
| Bank borrowings, secured | *26* | **6,300** | – |
| Other payables | | **4,164** | 1,235 |
| Amount due to a director | *25(b)* | **–** | 13 |
| Amounts due to subsidiaries | *21* | **1,827** | 555 |
| | | **12,291** | 1,803 |
| **Net current assets** | | **301,751** | 152,726 |
| **Total assets less current liabilities** | | **791,429** | 366,663 |
| **Non-current liabilities** | | | |
| Renminbi-denominated bonds | *28* | **197,879** | – |
| Convertible bonds | *29* | **122,261** | – |
| | | **320,140** | – |
| **Net assets** | | **471,289** | 366,663 |

# STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | *31* | **58,256** | 55,317 |
| Reserves | *32(ii)* | **413,033** | 311,346 |
| **Total equity** | | **471,289** | 366,663 |

These financial statements were approved and authorised for issue by the board of directors on 30 March 2012.

**Mr. Hung Wei-Pi, John**
*Director*

**Ms. Hung Ying-Lien**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

| | Share capital RMB'000 *(Note 31)* | Share premium RMB'000 *(Note 32(i)(a))* | Statutory reserve fund RMB'000 *(Note 32(i)(b))* | Re-organisation reserve RMB'000 *(Note 32(i)(c))* | Enterprise expansion fund RMB'000 *(Note 32(i)(d))* | Convertible bonds reserve RMB'000 *(Note 32(i)(g))* | Others RMB'000 *(Note 32(i)(e))* | Capital redemption reserve RMB'000 | Exchange reserve RMB'000 *(Note 32(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 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 38)* | – | – | – | – | – | – | 204 | – | – | – | 204 | – | 204 |
| Consideration issue *(Note 33)* | 709 | 12,023 | – | – | – | – | – | – | – | – | 12,732 | – | 12,732 |
| Repurchases and cancellation of shares *(Note 31(i))* | (395) | (6,744) | – | – | – | – | – | 395 | – | (395) | (7,139) | – | (7,139) |
| Contribution from non-controlling owner of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | 9,475 | 9,475 |
| Arising from acquisitions of subsidiaries *(Note 33)* | – | – | – | – | – | – | – | – | – | – | – | 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 33)* | – | – | – | – | – | – | 49,800 | – | – | – | 49,800 | – | 49,800 |
| Dividend paid to non-controlling owner of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | (3,852) | (3,852) |
| At 31 December 2010 and 1 January 2011 | 55,317 | 223,155 | 33,150 | 2,738 | 2,756 | – | 55,630 | 697 | (4,418) | 113,755 | 482,780 | 183,835 | 666,615 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 28,127 | 28,127 | 32,388 | 60,515 |
| Other comprehensive income for the year | – | – | – | – | – | – | – | – | (3,459) | – | (3,459) | (755) | (4,214) |
| Total comprehensive income for the year, net of tax | – | – | – | – | – | – | – | – | (3,459) | 28,127 | 24,668 | 31,633 | 56,301 |
| Transfer of reserves | – | – | 4,282 | – | – | – | – | – | – | (4,282) | – | – | – |
| Recognition of equity-settled-share based payments *(Note 38)* | – | – | – | – | – | – | 250 | – | – | – | 250 | – | 250 |
| Consideration issues *(Note 33)* | 3,496 | 73,776 | – | – | – | – | (49,800) | – | – | – | 27,472 | – | 27,472 |
| Repurchases and cancellation of shares *(Note 31(i))* | (557) | (10,460) | – | – | – | – | – | 557 | – | (557) | (11,017) | – | (11,017) |
| Issue of convertible bonds *(Note 29)* | – | – | – | – | – | 110,427 | – | – | – | – | 110,427 | – | 110,427 |
| Arising from acquisitions of subsidiaries *(Note 33)* | – | – | – | – | – | – | – | – | – | – | – | 48,234 | 48,234 |
| Acquisition of additional interest in a subsidiary | – | – | – | – | – | – | – | – | – | (16,927) | (16,927) | (5,707) | (22,634) |
| De-registration of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | (50) | (50) |
| At 31 December 2011 | 58,256 | 286,471 | 37,432 | 2,738 | 2,756 | 110,427 | 6,080 | 1,254 | (7,877) | 120,116 | 617,653 | 257,945 | 875,598 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Operating activities** | **85,766** | 61,821 |
| Profit before income tax expense | | |
| Adjustments for: | | |
| Impairment of inventories | **806** | 2,466 |
| Depreciation of property, plant and equipment | **36,130** | 27,527 |
| Amortisation of leasehold land and land use rights | **494** | 494 |
| Amortisation of other intangible assets | **782** | 309 |
| Additional allowance for doubtful debts for trade receivables | **5** | 3,045 |
| Impairment of goodwill | **155** | 1,679 |
| Equity-settled-share-based payments | **250** | 204 |
| Interest income from bank deposits | **(1,437)** | (322) |
| Imputed interest income from earnest money deposit | **–** | (56) |
| Gain on disposal of property, plant and equipment | **(641)** | (83) |
| Fair value gain on investment properties | **(659)** | (5,407) |
| Fair value loss on trading securities | **39** | 57 |
| Interest expenses on bank borrowings | **15,307** | 5,495 |
| Imputed interest on Renminbi-denominated bonds | **3,722** | – |
| Imputed interest on convertible bonds | **601** | – |
| Gain on de-registration of a subsidiary | **(50)** | – |
| Operating cash flows before working capital changes | **141,270** | 97,229 |
| Increase in inventories | **(49,909)** | (30,413) |
| Increase in trade receivables | **(89,260)** | (21,762) |
| Increase in deposits, prepayments and other receivables | **(9,621)** | (13,954) |
| Increase in amounts due from related companies | **(9,442)** | (1,588) |
| Increase/(decrease) in trade payables | **44,612** | (15,443) |
| Decrease in accruals and other payables | **(14,513)** | (2,082) |
| Cash generated from operations | **13,137** | 11,987 |
| Income tax paid | **(23,373)** | (7,661) |
| Interest paid | **(15,307)** | (5,495) |
| **Net cash used in operating activities** | **(25,543)** | (1,169) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **Investing activities** | | |
| Purchase of other intangible assets | **–** | (2,738) |
| Purchase of property, plant and equipment | **(54,098)** | (52,165) |
| Proceeds from disposal of property, plant and equipment | **1,765** | 2,474 |
| Prepayments for acquisition of land use right, property, plant and equipment, and subsidiaries | **(15,608)** | – |
| Net cash outflow arising from acquisitions of subsidiaries | **(99,387)** | (50,853) |
| Decrease/(increase) in pledged time deposits | **117,239** | (118,263) |
| Interest received | **1,437** | 322 |
| **Net cash used in investing activities** | **(48,652)** | (221,223) |
| **Financing activities** | | |
| Contribution from non-controlling owner of a subsidiary | **–** | 9,475 |
| Proceeds from issue of Renminbi-denominated bonds | **200,000** | – |
| Issue costs of Renminbi-denominated bonds | **(3,030)** | – |
| Proceeds from issue of convertible bonds | **241,999** | – |
| Issue costs of convertible bonds | **(9,912)** | – |
| Proceeds from new bank loans | **196,600** | 231,530 |
| Repayment of bank loans | **(253,578)** | (31,193) |
| Repayment to directors | **(16)** | (45) |
| Advance from a non-controlling owner of a subsidiary | **6,207** | 1,550 |
| Repayment to a non-controlling owner of a subsidiary | **(7,000)** | (2,000) |
| Advance from a related party | **1,000** | – |
| Repurchases of shares | **(11,017)** | (7,139) |
| Net cash outflow arising from acquisition of additional interest in a subsidiary | **(22,634)** | – |
| Net proceeds from partial disposal of equity interest in a subsidiary | **–** | 5,188 |
| Dividend paid to non-controlling owner of a subsidiary | **–** | (3,852) |
| **Net cash generated from financing activities** | **338,619** | 203,514 |
| **Net increase/(decrease) in cash and cash equivalents** | **264,424** | (18,878) |
| **Cash and cash equivalents at beginning of year** | **63,216** | 82,560 |
| **Effect of foreign exchange rate changes** | **(800)** | (466) |
| **Cash and cash equivalents at end of year** | **326,840** | 63,216 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Cash at bank and in hand | **326,840** | 82,982 |
| Bank overdrafts | **–** | (19,766) |
| | **326,840** | 63,216 |

## 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 2011

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 |
| HK(IFRIC) – Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments |
| HKAS 24 (Revised) | Related Party Disclosures |

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

*HKFRS 3(Amendments) – Business Combinations*

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition-date fair value unless another measurement basis is required by HKFRSs. The Group has amended its accounting policies for measuring NCI but the adoption of the amendment has had no impact on the Group's financial statements as the NCI in the business acquisition in 2011 (Note 33) represented such present ownership interests.

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

### (a) Adoption of new/revised HKFRSs – effective 1 January 2011 *(Continued)*

*HKAS 24 (Revised) – Related Party Disclosures*

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous years.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

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

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

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosure – Transfers of Financial Assets[1] |
| Amendments to HKFRS 7 | Disclosure – Offsetting Financial Assets and Financial Liabilities[4] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[2] |
| Amendments to HKAS 1 (Revised) | Presentation of Items of Other Comprehensive Income[3] |
| Amendments to HKAS 32 | Disclosure – Offsetting Financial Assets and Financial Liabilities[5] |
| HKFRS 9 | Financial Instruments[6] |
| HKFRS 10 | Consolidated Financial Statements[4] |
| HKFRS 12 | Disclosure of Interests in Other Entities[4] |
| HKFRS 13 | Fair Value Measurement[4] |
| HKAS 27 (2011) | Separate Financial Statements[4] |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures[4] |
| HKAS 19 (2011) | Employee Benefits[4] |

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

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

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

*Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets*

The amendments to HKFRS 7 improve the 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.

*Amendments to HKAS 12 – Deferred Tax – Recovery of Underlying Assets*

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.

*Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

*HKFRS 9 – Financial Instruments*

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, classification 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.

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

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

*HKFRS 10 – Consolidated Financial Statements*

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

*HKFRS 12 – Disclosure of Interests in Other Entities*

HKFRS 12 integrates and makes consistent the disclosure requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

*HKFRS 13 – Fair Value Measurement*

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs in the period of their initial application.

## 3. BASIS OF PREPARATION

**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKSAs") and Interpretations (hereinafter collectively referred to as the "HKFRS") 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 of Hong Kong Limited.

**(b) Basis of measurement**

These financial statements have been prepared under the historical cost basis, as modified for the revaluation of investment properties and trading securities 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.

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 interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets.

All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

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

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

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.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

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 interests 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.

Subsequent to acquisition, the carrying amount of non-controlling interest that represents present ownership interests in the subsidiary 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.

**(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.

Interests 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.

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

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

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% |

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 other 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, and loans and receivables. 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.

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

### (j) Financial assets *(Continued)*

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

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

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

**(j) Financial assets** *(Continued)*

*(iii) Impairment of financial assets (Continued)*

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.

*(iv) 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.

*(v) 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.

*(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 bonds*

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

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

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

*(iii) Convertible bonds (Continued)*

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible bonds reserve will be released to the retained profits. No gain or loss is recognised upon conversion or expiration of the option.

*(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.

*(v) 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.

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

**(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.

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) Income taxes**

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.

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

### (o) Income taxes *(Continued)*

*(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.

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 interests 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 interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the 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.

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

**(p) Foreign currencies**

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences 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.

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

**(q) Employees' benefits** *(Continued)*

*(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.

**(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 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. 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**

*(a)* A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

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

### (t) Related parties *(Continued)*

*(b)* An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

### (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.

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

### (u) Revenue recognition *(Continued)*

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

(v) Subsidies 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.

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

**(a) Critical judgments in applying accounting policies** *(Continued)*

*(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) Other intangible assets and amortisation*

The Group determines the estimated useful lives and related amortisation for the Group's other intangible assets. The useful lives of other 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. Other 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 other intangible assets may be impaired. The amortisation period and the amortisation method for the other 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**

*(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.

*(ii) 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.

*(iii) 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:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Sale of goods | **1,071,486** | 698,355 |
| Service income | **421,654** | 378,487 |
| | **1,493,140** | 1,076,842 |

### (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:

| 2011 | Manufacture and sale of automobile accessories | Provision of automobile repair, maintenance and restyling services and trading of automobile accessories | Consolidated |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| RESULTS: | | | |
| External sales revenue | 481,064 | 1,012,076 | 1,493,140 |
| Inter-segment sales revenue | 29,693 | 30,004 | 59,697 |
| Reportable segment revenue | 510,757 | 1,042,080 | 1,552,837 |
| Less: Inter-segment elimination | | | (59,697) |
| | | | 1,493,140 |
| Reportable segment results | 12,069 | 99,012 | 111,081 |
| Interest income | 234 | 769 | 1,003 |
| Unallocated interest income | | | 434 |
| Total interest income | | | 1,437 |
| Interest expenses | (11,192) | (2,810) | (14,002) |
| Unallocated interest expenses | | | (5,628) |
| Total interest expenses | | | (19,630) |
| Depreciation and amortisation charges | (18,737) | (18,638) | (37,375) |
| Unallocated depreciation and amortisation charges | | | (31) |
| Total depreciation and amortisation charges | | | (37,406) |
| Reportable segment assets | 399,630 | 1,351,778 | 1,751,408 |
| Additions to non-current assets | 10,607 | 43,483 | 54,090 |
| Unallocated additions to non-current assets | | | 8 |
| Total additions to non-current assets | | | 54,098 |
| Reportable segment liabilities | 264,519 | 387,169 | 651,688 |

## 6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

### (a) Reportable segments *(Continued)*

| 2010 | Manufacture and sale of automobile accessories | Provision of automobile repair, maintenance and restyling services and trading of automobile accessories | Consolidated |
|---|---|---|---|
| | 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 |
| Reportable segment revenue | 572,061 | 519,787 | 1,091,848 |
| Less: Inter-segment elimination | | | (15,006) |
| | | | 1,076,842 |
| 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) |
| 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)*

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

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Profit before income tax expense:** | | |
| Reportable segment profit | **111,081** | 72,935 |
| Unallocated other revenue and gains | **583** | 333 |
| Unallocated corporate expenses | **(20,270)** | (11,405) |
| Unallocated finance costs | **(5,628)** | (42) |
| Consolidated profit before income tax expense | **85,766** | 61,821 |

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Assets:** | | |
| Reportable segment assets | **1,751,408** | 1,350,036 |
| Unallocated corporate assets | **152,352** | 4,148 |
| Consolidated total assets | **1,903,760** | 1,354,184 |
| **Liabilities:** | | |
| Reportable segment liabilities | **651,688** | 679,906 |
| Unallocated corporate liabilities | **376,474** | 7,663 |
| Consolidated total liabilities | **1,028,162** | 687,569 |

## 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 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| America | **331,137** | 406,251 | **–** | – |
| Europe | **47,330** | 53,616 | **–** | – |
| Asia Pacific | **40,145** | 36,240 | **–** | – |
| Greater China (including Taiwan) | **1,074,528** | 580,735 | **921,427** | 706,598 |
| | **1,493,140** | 1,076,842 | **921,427** | 706,598 |

### (d) Major customers

During the year, the Group's customer base is diversified and there was no customer (2010: Nil) with whom transactions exceeded 10% of the Group's revenues.

### 7. OTHER REVENUE AND GAINS

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Gross rentals from investment properties and other rental income (Outgoing: RMBNil (2010: RMBNil)) | | **6,785** | 4,582 |
| Interest income from bank deposits | | **1,437** | 322 |
| Imputed interest income from earnest money deposit | | **–** | 56 |
| Income from provision of repair and maintenance and rework of automobile accessories services in the manufacture and sale of automobile accessories segment | | **–** | 19 |
| Gain on disposal of property, plant and equipment | | **641** | 83 |
| Fair value gain on investment properties | *18* | **659** | 5,407 |
| Sale of scrap inventories and sample income | | **1,589** | 2,046 |
| Government subsidies # | | **2,490** | 1,185 |
| Compensation income from lessors on early termination of operating leases | | **508** | 1,613 |
| Sponsorship income | | **1,145** | 1,968 |
| Gain on de-registration of a subsidiary | | **50** | – |
| Others | | **3,098** | 3,263 |
| | | **18,402** | 20,544 |

\# 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

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Interest expenses: | | | |
| Bank borrowings wholly repayable within five years | | **15,307** | 5,278 |
| Bank borrowings wholly repayable after five years | | **–** | 217 |
| Imputed interest on Renminbi-denominated bonds | *28* | **3,722** | – |
| Imputed interest on convertible bonds | *29* | **601** | – |
| | | **19,630** | 5,495 |

## 9. PROFIT BEFORE INCOME TAX EXPENSE

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| This is arrived at after charging/(crediting): | | | |
| Net foreign exchange losses | | **3,138** | 4,228 |
| Cost of inventories *(Note)* | | **378,726** | 432,970 |
| Cost of services *(Note)* | | **707,137** | 337,175 |
| Impairment of inventories | | **806** | 2,466 |
| | | **1,086,669** | 772,611 |
| Depreciation of property, plant and equipment | *16* | **36,130** | 27,527 |
| Amortisation of: | | | |
| Leasehold land and land use rights | *17* | **494** | 494 |
| Other intangible assets* | *20* | **782** | 309 |
| Total depreciation and amortisation charges | | **37,406** | 28,330 |
| Additional allowance for doubtful debts on trade receivables | | **5** | 3,045 |
| Impairment of goodwill | *19* | **155** | 1,679 |
| Auditor's remuneration | | **1,338** | 1,017 |
| Fair value loss on trading securities | | **39** | 57 |
| Employee benefit expenses (including directors' remuneration *(Note 10(a))*): | | | |
| Salaries and allowances | | **150,145** | 113,279 |
| Pension fund contributions | | **19,122** | 9,921 |
| Equity-settled-share-based payments | *38* | **250** | 204 |
| Other benefits | | **10,724** | 5,695 |
| Total employee benefit expenses | | **180,241** | 129,099 |

*Note:* Costs of inventories and services includes RMB55,895,000 (2010: RMB54,785,000) 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 2011 and 2010 is set out below:

**2011**

| Name of directors | Fees | Salaries and other allowances | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Executive directors:** | | | |
| Hung Wei-Pi, John | – | 1,956 | 1,956 |
| Wu Kwan-Hong | – | 1,042 | 1,042 |
| Hung Ying-Lien | – | 922 | 922 |
| Lu Yuan Cheng | – | 446 | 446 |
| Douglas Charles Stuart Fresco (Mr. Fresco) | – | 50 | 50 |
| Edward B. Matthew (Mr. Matthew) | – | 50 | 50 |
| **Non-executive directors:** | | | |
| Low Hsiao-Ping | – | 60 | 60 |
| Hsu Ming Chyuan | – | 60 | 60 |
| Chang An-Li | – | – | – |
| **Independent non-executive directors:** | | | |
| Zhou Tai-Ming | 84 | – | 84 |
| Du Haibo | 84 | – | 84 |
| Uang Chii-Maw | 84 | – | 84 |
| | 252 | 4,586 | 4,838 |

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

### (a) Directors' remuneration *(Continued)*

2010

| Name of directors | Fees | Salaries and other allowances | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | 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 (Mr. Matthew) | – | 18 | 18 |
| Norman L. 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 |

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 2011 (2010: RMBNil).

None of the directors has waived or agreed to waive any emolument paid by the Group during the year ended 31 December 2011 (2010: 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 2011 included three (2010: four) directors whose emoluments are reflected in the analysis presented in Note 10(a) above. The emoluments paid or payable to the remaining two (2010: one) non-director highest paid employees whose emoluments are less than RMB1,000,000 are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Salaries and other allowances | **1,254** | 521 |

## 11. INCOME TAX EXPENSE

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

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current tax | | |
| – Provision for the year | | |
| PRC | **22,988** | 11,898 |
| Taiwan | **2,140** | 1,165 |
| – Over-provision in respect of prior years | **(77)** | (937) |
| | **25,051** | 12,126 |
| Deferred taxation *(Note 30)* | | |
| – attributable to the origination and reversal of temporary differences, net | **(61)** | 1,795 |
| – resulting from change in tax rate | **261** | 262 |
| | **25,251** | 14,183 |

**(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 2010 and 2011. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

## 11. INCOME TAX EXPENSE *(Continued)*

**(b)** *(Continued)*

The applicable PRC and Taiwan income tax rate is 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 24% (2010: 22%) 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:

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Profit before income tax expense | **85,766** | 61,821 |
| Tax calculated at applicable tax rate of 25% (2010: 25%) | **21,441** | 15,455 |
| Tax effect of non-taxable income | **(215)** | (15) |
| Tax effect of non-deductible expenses | **–** | 1,116 |
| Utilisation of tax losses not previously recognised | **(551)** | – |
| Effect of change in tax rate | **261** | 262 |
| Unrecognised tax losses | **5,844** | 2,259 |
| Effect of preferential tax treatments and tax exemptions | **(1,774)** | (4,115) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **322** | 158 |
| Over-provision in respect of prior years | **(77)** | (937) |
| Income tax expense | **25,251** | 14,183 |

## 12. PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit for the year attributable to owners of the Company includes a loss of RMB22,506,000 (2010: RMB14,411,000) 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 2011 (2010: RMBNil). No interim dividend was declared in respect of the year ended 31 December 2011 (2010: 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. 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:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Earnings** | | |
| Profit for the year attributable to the owners of the Company, used in the basic and diluted earnings per share calculation | **28,127** | 34,129 |

| | **Number of shares** | |
|---|---|---|
| | **2011** | 2010 |
| **Shares** | | |
| Weighted average number of ordinary shares for the basic earnings per share calculation* | **572,965,000** | 552,208,000 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **6,091,000** | 5,345,000 |
| Convertible bonds* | **–** | – |
| Weighted average number of ordinary shares adjusted for the effect of all potential ordinary shares | **579,056,000** | 557,553,000 |

* As convertible bonds are mandatorily convertible into ordinary shares of the Company, the ordinary shares to be issued upon conversion of the convertible bonds are included in the computation of basic earnings per share for the year.

## 15. OTHER COMPREHENSIVE INCOME, NET OF TAX

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **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 | **(4,214)** | **–** | **(4,214)** | 2,618 | – | 2,618 |

## 16. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| | *Note* | Construction in progress RMB'000 | Freehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Office equipment, furniture and fixtures RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Opening net carrying amount as at 1 January 2011 | | 1,240 | 88,939 | 28,713 | 50,330 | 9,003 | 22,951 | 201,176 |
| Additions | | 23,409 | 526 | 6,132 | 12,507 | 5,988 | 5,536 | 54,098 |
| Acquisition of subsidiaries | *33* | – | – | 1,442 | 603 | 1,326 | 455 | 3,826 |
| Transfers upon completion | | (4,986) | 77 | 4,108 | 309 | – | 492 | – |
| Disposals | | – | – | (591) | (111) | (298) | (124) | (1,124) |
| Depreciation charge for the year | | – | (4,127) | (3,959) | (14,420) | (3,131) | (10,493) | (36,130) |
| Exchange realignment | | (87) | (1,435) | (716) | (238) | (32) | (238) | (2,746) |
| Closing net carrying amount as at 31 December 2011 | | 19,576 | 83,980 | 35,129 | 48,980 | 12,856 | 18,579 | 219,100 |

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

**The Group** *(Continued)*

| | *Note* | Construction in progress RMB'000 | Freehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Office equipment, furniture and fixtures RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Opening net carrying amount as at 1 January 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 | 33 | – | – | – | – | 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 |

| | **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 2011: | | | | | | | |
| Cost | **19,576** | **95,917** | **59,399** | **110,318** | **21,398** | **51,261** | **357,869** |
| Accumulated depreciation and impairment | **–** | **(11,937)** | **(24,270)** | **(61,338)** | **(8,542)** | **(32,682)** | **(138,769)** |
| Net carrying amount | **19,576** | **83,980** | **35,129** | **48,980** | **12,856** | **18,579** | **219,100** |

| | 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 |

## 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 2010 | 19 | 35 | 54 |
| Additions | – | 38 | 38 |
| Depreciation charge for the year | – | (21) | (21) |
| Net carrying amount as at 31 December 2010 | 19 | 52 | 71 |
| Additions | – | 8 | 8 |
| Depreciation charge for the year | – | (31) | (31) |
| Net carrying amount as at 31 December 2011 | 19 | 29 | 48 |
| At 31 December 2011: | | | |
| Cost | 45 | 153 | 198 |
| Accumulated depreciation | (26) | (124) | (150) |
| Net carrying amount | 19 | 29 | 48 |
| At 31 December 2010: | | | |
| Cost | 45 | 146 | 191 |
| Accumulated depreciation | (26) | (94) | (120) |
| Net carrying amount | 19 | 52 | 71 |

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**

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Net carrying amount: | | |
| At beginning of year | **18,182** | 18,676 |
| Amortisation charge for the year | **(494)** | (494) |
| At end of year | **17,688** | 18,182 |
| Cost | **20,547** | 20,547 |
| Accumulated amortisation | **(2,859)** | (2,365) |
| Net carrying amount | **17,688** | 18,182 |

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**

| | *Note* | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **FAIR VALUE** | | | |
| At beginning of year | | **46,105** | 40,698 |
| Change in fair value | 7 | **659** | 5,407 |
| At end of year | | **46,764** | 46,105 |

## 18. INVESTMENT PROPERTIES *(Continued)*

**The Group** *(Continued)*

As at 31 December 2011, the investment properties were revalued at RMB46,764,000 (2010: RMB46,105,000) by Shanghai Wan Long Real Estate Appraisal Co., Ltd. (2010: Shanghai Shen Fang Real Estate Appraiser Co., Ltd), an independent firm 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 the following basis. All investment properties of the Group are located outside Hong Kong and held under medium term.

The valuations were arrived at by reference to (i) market evidence of transaction prices for similar properties; (ii) current rents of the properties being held under existing tenancies and the reversionary income potential of tenancies; and (iii) the value of the land, together with the replacement costs of industrial buildings.

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 37.

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 2010 | | **70,461** |
| Acquisitions of subsidiaries | 33 | **116,321** |
| Impairment | 9 | **(1,679)** |
| Exchange realignment | | **(220)** |
| At 31 December 2010 and 1 January 2011 | | **184,883** |
| Acquisitions of subsidiaries | 33 | **101,316** |
| Impairment | 9 | **(155)** |
| Exchange realignment | | **(52)** |
| At 31 December 2011 | | **285,992** |

## 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:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | 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. | **8,008** | 7,627 |
| Others | **102** | 257 |
| Exchange realignment | **(52)** | 381 |
| | **68,355** | 68,562 |
| Trading of automobile accessories: | | |
| Liaoning Xin Tian Cheng Industrial Co., Limited | **45,260** | 45,260 |
| Zhejiang Autoboom Industrial Co., Limited | **71,061** | 71,061 |
| Hubei Autoboom Auto Accessories Supermarket Co., Limited | **64,603** | – |
| Shanghai Astrace Trade Development Co., Limited | **36,713** | – |
| | **217,637** | 116,321 |
| Total | **285,992** | 184,883 |

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 3% (2010: 0%–3%). 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:

| | **2011** | 2010 |
|---|---|---|
| | **%** | % |
| Gross margin | **22–53** | 16–51 |
| Growth rate within the five-year period | **14–50** | 13–40 |
| Discount rate | **16–20** | 12–17 |

## 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 RMB155,000 (2010: RMB1,679,000) in order to state the carrying values to their recoverable amounts as at the end of respective reporting periods.

## 20. OTHER INTANGIBLE ASSETS

**The Group**

| | *Note* | **Trademarks** RMB'000 | **Tradenames** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| Net carrying amount: | | | | |
| At 1 January 2010 | | 8,652 | 13,067 | 21,719 |
| Amortisation charge for the year | | (309) | – | (309) |
| Exchange realignment | | 431 | – | 431 |
| Acquisition of subsidiaries | 33 | 231,673 | – | 231,673 |
| Additions | | 2,738 | – | 2,738 |
| **At 31 December 2010 and 1 January 2011** | | 243,185 | 13,067 | 256,252 |
| Amortisation charge for the year | | (782) | – | (782) |
| Exchange realignment | | (627) | – | (627) |
| Acquisition of subsidiaries | 33 | 50,972 | 30,460 | 81,432 |
| **At 31 December 2011** | | 292,748 | 43,527 | 336,275 |
| **At 31 December 2011:** | | | | |
| Cost | | 294,514 | 43,527 | 338,041 |
| Accumulated amortisation | | (1,766) | – | (1,766) |
| Net carrying amount | | 292,748 | 43,527 | 336,275 |
| 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 |

### 20. OTHER INTANGIBLE ASSETS *(Continued)*

Included in the above intangible assets as at 31 December 2011 are (i) certain trademarks, and (ii) tradenames 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 RMB290,496,000 (2010: RMB239,524,000) 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, tradenames with accumulated carrying amount of RMB43,527,000 (2010: RMB13,067,000) were acquired through business combination and were considered by management of the Group as having indefinite useful life as there was no limit to the period the tradenames would contribute to net cash inflows.

### 21. INTERESTS IN SUBSIDIARIES

**The Company**

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Unlisted shares, at cost | **164,066** | 164,066 |
| Amount due from a subsidiary | **325,564** | 49,800 |
| | **489,630** | 213,866 |

Short-term loan to a subsidiary is unsecured, interest-free and repayable within one year from the end of the respective reporting periods. Except for amount due from a subsidiary of RMB325,564,000 (2010: RMB49,800,000) 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.

## 21. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2011 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 |
| Win Bridge International Limited | The British Virgin Islands 2 April 2007 | – | US$1 Registered capital | US$1 | 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. ("New Focus 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 |
| 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 |
| 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 |
| New Focus Richahaus Co. Ltd. ("Richahaus") | Taiwan 15 September 2006 | – | NT$202,574,000 Share capital | NT$202,574,000 | 81.32% | 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 |

## 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 |
|---|---|---|---|---|---|---|
| Beijing Aiyihang Auto Service Ltd. ("Aiyihang") | The PRC September 1997 | Limited liability company | RMB38,500,000 Registered capital | RMB38,500,000 | 60% | 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 |
| Hubei Autoboom Auto Accessories Supermarket Co., Limited | The PRC 28 July 2009 | Limited liability company | RMB19,800,000 Registered capital | RMB19,800,000 | 51% | Trading of automobile products The PRC |
| Shanghai Astrace Trade Development Co., Limited | The PRC 11 August 2003 | Limited liability company | RMB12,000,000 Registered capital | RMB12,000,000 | 51% | Trading of automobile products The PRC |
| New Focus Auto Tech Inc. | United States of America 24 November 2009 | – | US$100,000 Registered capital | US$100,000 | 100% | Investment holding United States of America |

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

**The Group**

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.

## 23. INVENTORIES

**The Group**

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Raw materials | **32,339** | 40,338 |
| Work-in-progress | **29,571** | 30,912 |
| Finished goods | **18,228** | 27,335 |
| Merchandise goods | **230,331** | 135,877 |
| | **310,469** | 234,462 |

## 24. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

(a) **Trade receivables**

**The Group**

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Trade receivables | **231,411** | 126,529 |
| Less: allowance for doubtful debts | **(1,038)** | (1,447) |
| | **230,373** | 125,082 |

## 24. TRADE RECEIVABLES, PREPAYMENTS 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 RMBNil as at 31 December 2011 (2010: RMB1,187,000).

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

**The Group**

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At beginning of year | **1,447** | 2,509 |
| Additional allowance for the year *(Note 9)* | **5** | 3,045 |
| Bad debts written off | **(414)** | (4,107) |
| At end of year | **1,038** | 1,447 |

As at 31 December 2011, the Group's trade receivables of RMB24,478,000 (2010: RMB12,176,000) were individually determined to be partially impaired. Such 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 RMB1,038,000 (2010: RMB1,447,000) is made as at 31 December 2011. 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 RECEIVABLES, PREPAYMENTS 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**

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Current to 30 days | **136,317** | 68,290 |
| 31 to 60 days | **45,222** | 33,661 |
| 61 to 90 days | **25,394** | 12,402 |
| Over 90 days | **24,478** | 12,176 |
| | **231,411** | 126,529 |
| Less: allowance for doubtful debts | **(1,038)** | (1,447) |
| | **230,373** | 125,082 |

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

**The Group**

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Neither past due nor impaired | **168,675** | 68,290 |
| Less than 1 month past due | **27,604** | 33,661 |
| 1 to 2 months past due | **10,654** | 12,402 |
| | **38,258** | 46,063 |
| | **206,933** | 114,353 |

## 24. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

**(a) Trade receivables** *(Continued)*

(iv) *(Continued)*

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.

**(b) Prepayments and other receivables**

Non-current prepayments of RMB14,108,000 (2010: RMBNil) mainly represented (i) a consideration prepaid for a land use right in respect of a land located in Shanghai during the year for which the land use right certificate was in progress of application and the title of the land has not been transferred to the Group at the end of the reporting period; and (ii) prepayments made for acquisition of items of property, plant and equipment.

Non-current prepayment of RMB1,500,000 (2010: RMBNil) represented a consideration prepaid for acquisition of 100% equity interest in target companies during the year, further details of which are set out in Note 44(i).

Included in the Group's deposits, prepayments and other receivables classified under current assets are amounts due from non-controlling owners of subsidiaries and their family members of approximately RMB1,260,000 as at 31 December 2011 (2010: RMB9,298,000) which are unsecured, interest-free, and repayable on demand.

## 25. AMOUNTS DUE FROM/TO RELATED COMPANIES, DIRECTORS AND A RELATED PARTY

### (a) Amounts due from related companies

Amounts due from related companies, which are disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, are as follow:

*(i) Custom Accessories Asia Limited ("Custom Accessories")*

Interests are 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:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Balance at 1 January | **1,622** | 34 |
| Balance at 31 December | **1,389** | 1,622 |
| Maximum amount outstanding during the year | **2,221** | 1,622 |

*(ii) CAE Direct Import Ltd. ("Custom Accessories Europe")*

Interests are held by Mr. Fresco, Mr. Matthew and their close family members. Details of the balance with Custom Accessories Europe are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Balance at 1 January | **–** | – |
| Balance at 31 December | **738** | – |
| Maximum amount outstanding during the year | **776** | – |

## 25. AMOUNTS DUE FROM/TO RELATED COMPANIES, DIRECTORS AND A RELATED PARTY *(Continued)*

**(a) Amounts due from related companies** *(Continued)*

*(iii) Liaoning Xin Tian Cheng Business Management Co., Ltd. ("XTC Business Management")*

Interests in XTC Business Management are held by Ms. Tong Yan and Mr. Li Hai Peng who are non-controlling owners of a subsidiary of the Group as at the end of reporting period. Details of the balance with XTC Business Management are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Balance at 1 January | **–** | – |
| Balance at 31 December | **8,937** | – |
| Maximum amount outstanding during the year | **11,625** | – |

Amounts due from Custom Accessories and Custom Accessories Europe arise from trading activities with aging from current to 30 days. The amount due from XTC Business Management arises from trading activities which has no fixed terms of repayment. The amounts due from the related companies are unsecured, interest-free and repayable on trading terms, where applicable.

There was no amount due but unpaid, nor any allowance for doubtful debts made against the principal amounts at 31 December 2010 and 2011.

**(b) Amounts due to directors**

As at 31 December 2010 and 2011, the amounts due to directors are unsecured, interest-free and repayable on demand.

**(c) Amounts due to non-controlling owners of subsidiaries**

As at 31 December 2010 and 2011, the amounts due to non-controlling owners of subsidiaries are unsecured, interest-free and repayable on demand.

**(d) Amount due to a related party**

The amount due to a related party who is a close family member of a non-controlling owner of a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

## 26. BANK BORROWINGS, SECURED

**The Group**

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Bank loans | **187,447** | 243,521 |
| Bank overdrafts | **–** | 19,766 |
| | **187,447** | 263,287 |
| Bank borrowings are repayable as follows: | | |
| On demand or within one year | **175,549** | 250,514 |
| After one year but within two years | **1,210** | 1,309 |
| After two years but within five years | **10,688** | 2,433 |
| After five years | **–** | 9,031 |
| | **187,447** | 263,287 |
| Amount due within one year included in current liabilities | **(175,549)** | (250,514) |
| Amount included in non-current liabilities | **11,898** | 12,773 |

As at 31 December 2010 and 2011, the banking facilities are secured by (i) the Group's freehold land and certain buildings with an aggregate net carrying amount of RMB83,980,000 (2010: RMB84,269,000); (ii) the Group's leasehold land and land use rights of RMB17,688,000 (2010: RMB18,182,000); (iii) the Group's certain investment properties of RMB17,800,000 (2010: RMB17,470,000); (iv) personal guarantees from a director of the Company, and a director of a subsidiary and her spouse; (v) pledged time deposits of RMB3,587,000(2010: RMB120,826,000); and (vi) corporate guarantees of the Company and a subsidiary.

Most of the bank loans bear floating interest rates ranging from 1.74% to 7.32% per annum (2010: 1.75% to 5.10% 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 in the prior year.

As at 31 December 2011, the Group had available RMB89,726,000 (2010: RMB79,917,000) of undrawn committed banking facilities in respect of which all conditions precedent were met.

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Bank borrowings of the Group were denominated in: | | |
| RMB | **162,707** | 240,998 |
| United States dollars ("US$") | **6,301** | 5,989 |
| Taiwan dollars ("TWD") | **18,439** | 16,300 |
| | **187,447** | 263,287 |

The Company's bank loan bears flowing interest rate of 1.74% per annum and is denominated in RMB.

## 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**

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current to 30 days | **139,033** | 92,591 |
| 31 to 60 days | **29,855** | 34,432 |
| 61 to 90 days | **11,715** | 10,012 |
| Over 90 days | **35,098** | 26,289 |
| | **215,701** | 163,324 |

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

## 28. *RENMINBI-DENOMINATED BONDS*

**The Group and the Company**

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Fair value at inception, net of issue costs | **196,970** | – |
| Imputed interest expense *(Note 8)* | **3,722** | – |
| Less: interest payable included in other payables under current liabilities | **(2,813)** | – |
| Non-current portion | **197,879** | – |

On 17 August 2011, the Company issued bonds in the principal amount of RMB200,000,000 to international institutional investors. The coupon interest rate of the bonds is 3.75% per annum and the maturity period is two years from the date of issue, i.e. 17 August 2013. Interest is payable in arrear on the date falling upon each half anniversary of the bonds. The Company may repay any part of the principal amount of the bonds at any time from the date of issue to the date immediately prior to the maturity date.

The fair value of the bonds at the issue date was approximately RMB196,970,000, after net-off of the issue costs. The effective interest rate of the bonds is determined to be 4.59% per annum.

## 29. CONVERTIBLE BONDS

**The Group and the Company**

On 5 December 2011, the Company issued redeemable convertible bonds (the "CBs") in the principal amount of US$38,201,001 (equivalent to RMB241,999,000) to international institutional investors. The net proceeds of the CBs available to the Group was RMB232,087,000, after net-off of issue costs of RMB9,912,000. The CBs are non-interest-bearing and are mandatorily convertible into ordinary shares of the Company at an initial conversion price of HK$2.781 per conversion share (subject to anti-dilutive adjustments in accordance with the terms of the CBs), at any time during the period commencing from the three months after date of issue of CBs to the maturity date of the CBs.

The CBs are denominated in United States dollars with fixed exchange rates with RMB and Hong Kong dollars ("HK$") upon issuance. The maturity date of the CBs will be the date falling on the fourth anniversary of the issue date and the CBs can be converted into ordinary shares of the Company at the holder's option at initial conversion price of HK$2.781 per shares, subject to certain anti-dilutive adjustments.

Under the subscription agreements of the CBs, if the Group fails to achieve ninety-five per cent of thirty-two per cent average growth rate of basic earnings per share ("EPS") excluding the impacts of the CBs per year on a compounding basis for the years from 2011 to 2014, the Company shall pay to the holders, on the maturity date, in cash and in United States dollars an amount which shall be equivalent to sixty-four per cent of the principal amount of the CBs.

The investors of the CBs are entitled to request the redemption of the outstanding CBs (if not converted in full) and the payment in cash and in United States dollars of the principal amount of such remaining CBs and an amount of interest representing 20% of the internal rate of return ("IRR") of the principal amount from the date of issuance of the CBs to the payment date, upon giving forty-five (45) days' notice in writing, under certain conditions, inter alia, the difference between the basic EPS and the fully diluted EPS as stated in the audited annual consolidated financial statements exceeds 10% in average for the years from 2011 to 2014 (excluding the effect on such difference arising from the issuance of CBs under the subscription agreement).

The fair values of the liability component and the equity component were determined at the issuance of the CBs. The fair value of the liability component upon issuance, include in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity component, is included in convertible bonds reserve net of deferred income taxes (where applicable) under shareholders' equity.

## 29. CONVERTIBLE BONDS *(Continued)*

The CBs recognised in the consolidated and company statements of financial position is calculated as follows:

| | The Group and the Company | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Face value of CBs upon issuance, net of issue costs | **232,087** | – |
| Equity component | **(110,427)** | – |
| Liability component on initial recognition | **121,660** | – |
| Imputed interest expense *(Note 8)* | **601** | – |
| Liability component at 31 December | **122,261** | – |

The fair value of the liability component of the CBs upon issuance is calculated by computing the present value of all future cash flows discounted by the prevailing market rate of interest for non-convertible borrowing of 6.09% per annum based on a professional valuation report issued by RHL Appraisal Limited, an independent firm of professionally qualified valuers. The initially recognised liability component and equity component of the CBs amounted to RMB121,660,000 and RMB110,427,000 respectively after net-off of the issue costs on a pro-rata basis.

Among other undertakings in relation to the CBs, Mr Hung Wei-Pi, John, who is a director and a shareholder of the Company, irrevocably and unconditionally indemnifies, defends and holds harmless the investors of the CBs (and their successor or assign) from and against any and all losses, costs, and claims suffered by the investors or incurred by the investors that arise from any breach by Mr Hung Wei-Pi, John of the representations, warranties and undertakings contained in the deed of undertakings.

Further details of the CBs are set out in the Company's announcements dated 18 November 2011 and 5 December 2011.

## 30. *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 2010 | 23 | 32 | 55 |
| Credited to profit or loss *(Note 11)* | 39 | – | 39 |
| Exchange realignment | 3 | – | 3 |
| At 31 December 2010 and 1 January 2011 | 65 | 32 | 97 |
| Credited to profit or loss *(Note 11)* | 129 | – | 129 |
| Exchange realignment | (4) | – | (4) |
| At 31 December 2011 | 190 | 32 | 222 |

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 2011, the Group had tax losses carried forward of RMB66,738,000 (2010: RMB66,738,000). As at 31 December 2010 and 2011, 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.

## 30. 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 2010 | (2,614) | (2,940) | (192) | (5,746) |
| Acquisition of subsidiaries *(Note 33)* | (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 and 1 January 2011 | (61,285) | (4,277) | (192) | (65,754) |
| Acquisition of subsidiaries *(Note 33)* | (20,354) | – | – | (20,354) |
| Effect of change in tax rate *(Note 11)* | (261) | – | – | (261) |
| Charged to profit or loss *(Note 11)* | (37) | (153) | – | (190) |
| Exchange realignment | 35 | – | – | 35 |
| At 31 December 2011 | (81,902) | (4,430) | (192) | (86,524) |

A 10% PRC withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totaled approximately RMB18,285,000 at 31 December 2011 (2010: RMB10,308,000).

## 31. SHARE CAPITAL

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | 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 | **541,738** | **54,174** | **55,317** | 538,180 | 53,818 | 55,003 |
| Consideration issues *(Note 33)* | **41,739** | **4,174** | **3,496** | 8,050 | 805 | 709 |
| Repurchases and cancellation of shares *(Note (i))* | **(6,760)** | **(676)** | **(557)** | (4,492) | (449) | (395) |
| At end of year | **576,717** | **57,672** | **58,256** | 541,738 | 54,174 | 55,317 |

*Note:*

(i) During the year ended 31 December 2011, 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 6,760,000 (2010: 4,492,000) ordinary shares of HK$0.1 each at a total consideration after expenses of RMB11,017,000 (2010: RMB7,139,000). These shares were cancelled after repurchases during the respective year.

## 32. 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.

## 32. RESERVES *(Continued)*

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

(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 New Focus 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;

(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.

## 32. RESERVES *(Continued)*

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

*(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 33.

*(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).

*(g) Convertible bonds reserve*

The balance represents the equity component of outstanding convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in Note 4(k)(iii).

## 32. RESERVES *(Continued)*

### (ii) Reserves of the Company

| | *Notes* | Share premium RMB'000 | Contributed surplus RMB'000 | Convertible bonds reserve RMB'000 | Others RMB'000 | Accu-mulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2010 | | 217,876 | 84,242 | – | 698 | (32,226) | 270,590 |
| Loss and total comprehensive income for the year | | – | – | – | (116) | (14,411) | (14,527) |
| Lapse of share options | | – | – | – | (274) | 274 | – |
| Recognition of equity-settled-share-based payments | *38* | – | – | – | 204 | – | 204 |
| Consideration issue | *33* | 12,023 | – | – | – | – | 12,023 |
| Repurchases and cancellation of shares | *31(i)* | (6,744) | – | – | 395 | (395) | (6,744) |
| Consideration payables to be settled by issue of fixed number of the Company's shares | *33* | – | – | – | 49,800 | – | 49,800 |
| At 31 December 2010 and 1 January 2011 | | 223,155 | 84,242 | – | 50,707 | (46,758) | 311,346 |
| Loss and total comprehensive income for the year | | – | – | – | – | (22,506) | (22,506) |
| Recognition of equity-settled-share-based payments | *38* | – | – | – | 250 | – | 250 |
| Issue of convertible bonds | *29* | – | – | 110,427 | – | – | 110,427 |
| Consideration issues | *33* | 73,776 | – | – | (49,800) | – | 23,976 |
| Repurchases and cancellation of shares | *31(i)* | (10,460) | – | – | 557 | (557) | (10,460) |
| At 31 December 2011 | | 286,471 | 84,242 | 110,427 | 1,714 | (69,821) | 413,033 |

### 33. BUSINESS COMBINATIONS

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 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. ("Zhejiang 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. Zhejiang Autoboom is engaged in trading of automobile accessories in Zhejiang Province and Jiangsu Province, the PRC.

In July 2011, the Group acquired 51% equity interest in Shanghai Astrace Trade Development Co., Limited ("Shanghai Astrace"), a company established in Shanghai, the PRC, for a total nominal consideration of approximately RMB64,260,000, which is payable as to RMB36,757,000 by cash and as to RMB27,503,000 by issue of consideration shares of the Company. Shanghai Astrace is engaged in the trading of automobile products mainly including glass window tinting and paint filming ("Filming") in Shanghai, the PRC.

In September 2011, the Group acquired 51% equity interest in Hubei Autoboom Auto Accessories Supermarket Co., Ltd. ("Hubei Autoboom"), a company established in Hubei Province, the PRC, for a total consideration of approximately RMB87,258,000 in cash. Hubei Autoboom is engaged in trading of automobile products in Hubei Province, the PRC.

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

## 33. *BUSINESS COMBINATIONS (Continued)*

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

| | | Shanghai Astrace | | Hubei Autoboom | |
|---|---|---|---|---|---|
| | | Carrying value | Fair value | Carrying value | Fair value |
| | *Notes* | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Property, plant and equipment | *16* | 2,255 | 2,255 | 1,571 | 1,571 |
| Other intangible assets | *20* | 18 | 50,972 | – | 30,460 |
| Inventories | | 12,622 | 12,622 | 18,139 | 18,139 |
| Trade receivables | | 2,825 | 2,825 | 13,358 | 13,358 |
| Other receivables | | 1,913 | 1,913 | 4,965 | 4,965 |
| Cash and cash equivalents | | 7,177 | 7,177 | 4,618 | 4,618 |
| Trade payables | | (1,044) | (1,044) | (9,553) | (9,553) |
| Accruals and other payables | | (9,881) | (9,881) | (4,087) | (4,087) |
| Tax payables | | (117) | (117) | (484) | (484) |
| Amounts due to non-controlling owners | | – | – | (4,750) | (4,750) |
| Bank borrowings | | – | – | (2,200) | (2,200) |
| Deferred tax liabilities recognised upon fair value adjustments | *30* | – | (12,739) | – | (7,615) |
| | | | 53,983 | | 44,422 |
| Less: Non-controlling interests | | | (26,467) | | (21,767) |
| Total identifiable net assets at fair value | | | 27,516 | | 22,655 |
| Goodwill on acquisition | *19* | | 36,713 | | 64,603 |
| Total consideration | | | 64,229 | | 87,258 |
| Cash paid during the year | | | 31,506 | | 8,726 |
| Shares of the Company issued *(Note (a))* | | | 27,472 | | – |
| Consideration payable by cash *(Note (b))* | | | 5,251 | | 78,532 |
| Total consideration | | | 64,229 | | 87,258 |

## 33. BUSINESS COMBINATIONS *(Continued)*

*Notes:*

(a) The balances represent fair values of considerations settled by the issue of fixed number of the Company's approximately 13,789,000 ordinary shares for the acquisition of Shanghai Astrace, with nominal value of RMB27,503,000 in accordance with the acquisition agreement. The fair value of the consideration shares of RMB27,472,000 for acquisition of Shanghai Astrace was determined with reference to the market share price of the Company's shares as at the date of the acquisition and was credited to the equity of the Company and the Group. Approximately 13,789,000 consideration shares have been allotted and issued during the current year (Note 31). Such shares rank pari passu with the existing issued shares.

(b) The balances are consideration payables to be settled in cash. Included in the amounts are aggregate consideration payables with carrying value of RMB7,002,000 as at 31 December 2011 which is repayable beyond one year after the end of the reporting period and therefore are classified under non-current liabilities of the Group as at 31 December 2011.

The Group had no presence in the trading of Filming in Shanghai and the wholesale of automobile products in Hubei Province before the acquisitions of equity interests in Shanghai Astrace and Hubei Autoboom, respectively. Shanghai Astrace is engaged in the trading of Filming in PRC. Hubei Autoboom has been operating in the cities with well established network and reputation. It has been the Group's plan to explore the opportunity to diversify its trading products and 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 Shanghai Astrace and Hubei 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 Shanghai Astrace and Hubei Autoboom amounted to RMB4,738,000 and RMB18,323,000, respectively. The gross contractual values of trade and other receivables were RMB4,738,000 and RMB18,323,000, respectively, of which no trade and other receivables are expected to be uncollectible.

Since the acquisitions in 2011, Shanghai Astrace and Hubei Autoboom contributed RMB34,217,000 and RMB28,067,000 to the Group's turnover and the profit of RMB7,664,000 and RMB4,596,000 to the Group's results for the current year, respectively. Had the acquisitions taken place at the beginning of the current year, the turnover and the profit of the Group for the year ended 31 December 2011 would have been RMB1,574,178,000 and RMB63,102,000, respectively.

### 33. BUSINESS COMBINATIONS *(Continued)*

As part of the acquisition agreements, the acquisition considerations of equity interests in Shanghai Astrace and Hubei Autoboom are subject to adjustments by amounts equal to the difference between the respective initial considerations and the actual prices. Actual price is determined in accordance with actual net profits of the acquired subsidiaries attributable to the Group for the twelve calendar months after the respective dates of acquisition agreements with price/earnings ratios of 9.0 to 9.5 times. If the respective actual price is greater than the respective initial consideration, the Group shall not pay the difference to the respective vendors. If the actual price is smaller than the respective initial consideration, the vendors shall pay the differences to the Group. At the date of approval of these financial statements, no significant adjustment to the initial considerations is expected.

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

| | **Shanghai Astrace** RMB'000 | **Hubei Autoboom** RMB'000 |
|---|---|---|
| Purchase considerations settled in cash during the year | 31,506 | 8,726 |
| Cash and cash equivalents in the subsidiaries acquired | (7,177) | (4,618) |
| Net cash outflow on acquisitions | 24,329 | 4,108 |

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 businesses with the existing operations of the Group.

The acquisition-related costs of RMB480,000 have been expensed and are included in administrative expenses.

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

### 33. 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 | | Zhejiang 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 |
| Other receivables | | 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 non-controlling owners | | (7,450) | (7,450) | – | – |
| Deferred tax liabilities recognised upon fair value adjustments | *30* | – | (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 in the prior 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 |

## 33. BUSINESS COMBINATIONS *(Continued)*

*Notes:*

(a) The balances represent fair values of considerations 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 Zhejiang 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 Zhejiang 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. During the year ended 31 December 2011, approximately 27,950,000 consideration shares, in aggregate, were allotted and issued (Note 31). The consideration payable is valued at the market value of the Company's consideration shares at the dates of completion of the respective acquisitions and was included in accruals and other payables of the Company and the Group as at 31 December 2010. Such shares issued during the year rank pari passu with the existing issued shares.

(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 Zhejiang Autoboom. During the year ended 31 December 2011, an amount of RMB70,950,000 has been paid in cash for the partial settlement of considerations of the acquisition of XTC and Zhejiang Autoboom.

The Group had no presence in Liaoning Province, Zhejiang Province and Jiangsu Province before the acquisitions of equity interests in XTC and Zhejiang Autoboom. XTC and Zhejiang Autoboom, on the other hand, have been operating in the 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 Zhejiang 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 Zhejiang 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 were expected to be uncollectible, respectively.

### 33. BUSINESS COMBINATIONS *(Continued)*

Since the acquisitions in 2010, XTC and Zhejiang Autoboom contributed RMB84,661,000 and RMB55,630,000 to the Group's turnover and the profit of RMB4,521,000 and RMB4,666,000 to the Group's results for the year ended 31 December 2010, respectively. Had the acquisitions taken place at the beginning of the prior year, the turnover and the profit of the Group for the year ended 31 December 2010 would have been RMB1,303,482,000 and RMB53,886,000, 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 Zhejiang Autoboom during the 12-month period subsequent to respective 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 non-controlling owners. At the date of approval of these financial statements, no further significant changes to the initial considerations is expected.

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

| | **XTC** | **Zhejiang 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 |

The above goodwill, which was not deductible for tax purposes, comprised 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 had been expensed and were included in administrative expenses for the year ended 31 December 2010.

### 34. 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Cash and cash equivalents were denominated in: | | |
| RMB | **156,411** | 65,339 |
| US$ | **150,205** | 10,587 |
| HK$ | **3,614** | 319 |
| TWD | **16,576** | 6,716 |
| Others | **34** | 21 |
| | **326,840** | 82,982 |

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Pledged time deposits were denominated in: | | |
| RMB | **1,282** | 120,000 |
| US$ | **1,260** | 826 |
| TWD | **1,045** | – |
| | **3,587** | 120,826 |

**The Company**

As at 31 December 2010 and 2011, most of the cash and cash equivalents of the Company were denominated in US$.

## 35. MAJOR NON-CASH TRANSACTIONS

At the end of the reporting period, partial considerations for acquisition of subsidiaries in the aggregate amount of RMB83,783,000 have not been paid by the Group and was included in the Group's accruals and other payables and consideration payables, and partial considerations of RMB27,472,000 was settled by issue of consideration shares during the year.

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

## 36. COMMITMENTS

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Capital commitments** | | |
| Construction of buildings, contracted but not provided for | **41,900** | 3,959 |
| Purchases of other items of properties, plant and equipment | **3,155** | – |
| | **45,055** | 3,959 |
| **Other commitment** | | |
| Acquisition of subsidiaries | **4,500** | – |

## 37. OPERATING LEASE ARRANGEMENTS

**The Group as lessee**

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Minimum lease payments under operating leases recognised as an expense in the year | **43,383** | 41,812 |

## 37. 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:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Within one year | **42,504** | 40,110 |
| After one year but within five years | **104,170** | 100,020 |
| After five years | **34,687** | 43,784 |
| | **181,361** | 183,914 |

**The Group as lessor**

As at 31 December 2010 and 2011, 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:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Within one year | **5,193** | 3,218 |
| After one year but within five years | **9,263** | 7,004 |
| After five years | **6,065** | 7,004 |
| | **20,521** | 17,226 |

## 38. *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 RMB250,000 was charged as an equity-settled-share-based payment (2010: RMB204,000) to profit or loss for the year.

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

| | Share options<br>'000 |
|---|---|
| At 1 January 2010 | 12,360 |
| Lapsed | (2,320) |
| At 31 December 2010 and 2011 | 10,040 |

The weighted average exercise price for the share options lapsed during the year was HK$0.94 (2010: HK$0.94).

At the end of reporting period and the date of approval of these financial statements, the Company had 10,040,000 (2010: 10,040,000) share options outstanding under the Scheme, which represented 1.7% (2010: 1.9%) of the Company's shares in issue as at 31 December 2011. Of the total number of options outstanding at the end of the reporting period, 6,240,000 (2010: 5,020,000) were exercisable at the end of the reporting period. 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 (2010: 10,040,000) additional ordinary shares of the Company and additional share capital of RMB850,000 (2010: RMB850,000) and share premium of RMB7,142,000 (2010: RMB7,142,000) (before issue expenses and transfer from share options reserve).

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

Share options outstanding as at 31 December 2010 and 2011 have the following expiry dates and exercise prices:

**2011**

| 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** |

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 |

### 39. 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 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:

| | | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| (i) | Sale of goods to Custom Accessories | **6,390** | 10,404 |
| (ii) | Sale of goods to Custom Accessories Europe | **776** | – |
| (iii) | Sale of goods to XTC Business Management | **9,394** | 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) In the current year, the Group acquired additional 9% equity interest in Aiyihang from non-controlling owner of this subsidiary (who is also the senior management of Aiyihang) at a cash consideration of approximately RMB22,634,000, and thereafter Aiyihang became a 60%– owned subsidiary of the Group.

(c) In the prior year, the Group disposed of 7.68% equity interest in Richahaus to the senior management and non-controlling owners of this subsidiary at a cash consideration of approximately RMB3,756,000.

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

## 40. 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 (i) debts, which includes the borrowings, Renminbi-denominated bonds and the CBs as disclosed in Notes 26, 28 and 29, respectively; (ii) cash and cash equivalents and pledged time deposits in Note 34; (iii) equity attributable to owners of the Company, comprising share capital disclosed in Note 31 and 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 10–30% determined as the proportion of net debt to equity. Based on the management's recommendations, the Group expects to increase its gearing ratio close to 30% through the issue of new debts and the payment of dividends.

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

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Debts | **507,587** | 263,287 |
| Cash and cash equivalents and pledged time deposits | **(330,427)** | (203,808) |
| Net debt position | **177,160** | 59,479 |
| Equity attributable to owners of the Company | **617,653** | 482,780 |
| Net debt to equity ratio | **28.7%** | 12.3% |

## 41. 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 and debtors 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 and debtors 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 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 21% (2010: 12%) and 45% (2010: 32%) of the total trade receivables were 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.

## 41. 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 | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 year but less than 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2011** | | | | | | |
| Bank borrowings, secured | **187,447** | **191,777** | **179,645** | **1,233** | **10,899** | **–** |
| Trade payables | **215,701** | **215,701** | **215,701** | **–** | **–** | **–** |
| Other payables | **174,992** | **174,992** | **174,992** | **–** | **–** | **–** |
| Renminbi – denominated bonds | **197,879** | **215,000** | **7,500** | **207,500** | **–** | **–** |
| Convertible bonds | **122,261** | **154,879** | **–** | **–** | **154,879** | **–** |
| Amount due to a related party | **1,000** | **1,000** | **1,000** | **–** | **–** | **–** |
| Amounts due to non-controlling owners of subsidiaries | **10,957** | **10,957** | **10,957** | **–** | **–** | **–** |
| Consideration payables | **7,002** | **7,002** | **–** | **7,002** | **–** | **–** |
| Total | **917,239** | **971,308** | **589,795** | **215,735** | **165,778** | **–** |
| 2010 | | | | | | |
| Bank borrowings, secured | 263,287 | 266,368 | 252,042 | 1,528 | 2,989 | 9,809 |
| Trade payables | 163,324 | 163,324 | 163,324 | – | – | – |
| Other payables | 136,172 | 136,172 | 136,172 | – | – | – |
| Amount due to directors | 16 | 16 | 16 | – | – | – |
| Amounts due to non-controlling owners of subsidiaries | 7,000 | 7,000 | 7,000 | – | – | – |
| Total | 569,799 | 572,880 | 558,554 | 1,528 | 2,989 | 9,809 |

### 41. *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 |
|---|---|---|---|---|---|
| **2011** | | | | | |
| Bank borrowing, secured | **6,300** | **6,337** | **6,337** | **–** | **–** |
| Other payables and amounts due to subsidiaries | **5,991** | **5,991** | **5,991** | **–** | **–** |
| Renminbi – denominated bonds | **197,879** | **215,000** | **7,500** | **207,500** | **–** |
| Convertible bonds | **122,261** | **154,879** | **–** | **–** | **154,879** |
| | **332,431** | **382,207** | **19,828** | **207,500** | **154,879** |
| Financial guarantees issued | | | | | |
| Maximum amount guaranteed | **–** | **–** | **12,602** | **–** | **–** |
| 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 | – | – |

**(c) Interest rate risk**

The Group's fair value interest-rate risk mainly arises from Renminbi-denominated bonds and liability component of CBs as disclosed in Notes 28 and 29. Most of bank borrowings were issued at variable rates which expose the Group to cash flow interest rate risk.

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 2011 by RMB1,026,000 (2010: RMB2,038,000). The Group has not used any financial instrument to hedge potential fluctuations in interest rate.

The interest rates and terms of repayment of the Group's borrowings are disclosed in Notes 26, 28 and 29.

## 41. *FINANCIAL RISK MANAGEMENT* *(Continued)*

**(c) Interest rate risk** *(Continued)*

The Company's fair value interest-rate risk mainly arises from Renminbi-denominated bonds and liability component of CBs as disclosed in Notes 28 and 29. The bank loan was issued at variable rates which expose the Company to cash flow interest rate risk.

The Company's cash and cash equivalents bore floating interest rates and expose the Company 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 Company's profit for the year and retained profits as at 31 December 2011 by RMB63,000 (2010: RMBNil). The Company has not used any financial instrument to hedge potential fluctuations in interest rate.

The interest rates and terms of repayment of the Company's borrowings are disclosed in Notes 26, 28 and 29.

**(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** | |
|---|---|---|
| | **2011** | 2010 |
| | **US$'000** | US$'000 |
| Trade and other receivables | **14,392** | 10,420 |
| Cash and cash equivalents | **23,839** | 1,599 |
| Bank borrowings | **(974)** | (904) |
| Overall net exposure | **37,257** | 11,115 |

## 41. *FINANCIAL RISK MANAGEMENT* (Continued)

### (d) Currency risk (Continued)

**The Company**

| | 2011 US$'000 | 2010 US$'000 |
|---|---|---|
| Cash and cash equivalents | **22,404** | 241 |

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 weakens against the relevant currency. For a strengthening 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.

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| **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%** | **11,738** | **–** | 5% | 3,460 | – |

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| **The Company** | **Increase in foreign exchange rate** | **Effect on profit for the year and retained profits RMB'000** | **Effect on other components of equity RMB'000** | Increase in foreign exchange rate | Effect on profit for the year and retained profits RMB'000 | Effect on other components of equity RMB'000 |
| US$ | **5%** | **7,057** | **–** | 5% | 80 | – |

## 41. *FINANCIAL RISK MANAGEMENT (Continued)*

**(d) Currency risk** *(Continued)*

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the 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 2010.

**(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 2011 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, 28 and 29.

*(i) Trading securities*

Fair values are based on quoted market prices at the end of reporting period without any deduction for transaction costs.

*(ii) Interest-bearing bank borrowings, Renminbi-denominated bonds and liability component of CBs*

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

## 42. 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 2011 and 2010 may be categorised as follows:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Carrying value RMB'000** | **Fair value RMB'000** | Carrying value RMB'000 | Fair value RMB'000 |
| Financial assets | | | | |
| Trading securities, at fair value | 243 | 243 | 282 | 282 |
| Loans and receivables (including cash and cash equivalents and pledged time deposits), at amortised cost | 670,139 | 670,139 | 412,745 | 412,745 |
| Financial liabilities | | | | |
| Financial liabilities, at amortised cost | 931,460 | 931,460 | 615,176 | 615,176 |

(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.

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

(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 2011** | | | |
|---|---|---|---|---|
| | **Level 1 RMB'000** | **Level 2 RMB'000** | **Level 3 RMB'000** | **Total RMB'000** |
| Trading securities, listed | **243** | **–** | **–** | **243** |

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
| Trading securities, listed | 282 | – | – | 282 |

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

## 43. CONTINGENT LIABILITIES

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

**The Company**

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Guarantee given to a bank in connection with banking facilities granted to subsidiaries | **12,602** | 33,955 |

The banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMBNil and RMB19,766,000 as at 31 December 2011 and 2010, respectively.

## 44. SIGNIFICANT EVENTS AFTER THE END OF REPORTING PERIOD

(i) During the year, the Group entered into an equity transfer agreement with the independent third parties for the acquisition of 100% equity interests in Shandong Xingzhe Auto Supplies Services Co. Ltd and Shandong Dingkang Auto Supplies Service Co. Ltd. for an aggregate consideration of RMB6,000,000 (subject to adjustments) payable by cash. A prepayment of RMB1,500,000 was paid during the year. In 2012, the acquisitions were completed.

The valuation of the assets acquired and liabilities assumed as well as cost of acquisition is pending for finalisation as of the date of approval of these financial statements and therefore the financial information in relation to these acquisitions has not been disclosed in these financial statements.

(ii) On 30 March 2012, the Company entered into an equity transfer agreement with vendors pursuant to which the Company has conditionally agreed to acquire and the vendors have conditionally agreed to sell the further 12% equity interest in Zhejiang Autoboom at a consideration of RMB37,247,000 payable in cash.

Completion of the acquisition is subject to completion of the amendments to the industry and commerce registration in relation to the transfer of the further 12% equity interest in Zhejiang Autoboom from the vendors to the Group.

Upon completion, the Group's interest in Zhejiang Autoboom will be increased from 51% to 63%. The acquisition has not been completed as of the date of approval of these financial statements. Further details are set out in the Company's announcement dated 30 March 2012.

(iii) On 30 March 2012, the Group entered into an equity transfer agreement with a vendor and guarantor pursuant to which the Group agreed to acquire and the vendor agreed to sell 100% equity interest in Mighty International Limited at a cash consideration of RMB80,000,000. Mighty International Limited holds equity interest in a joint venture with a term of 35 years from establishment, i.e. expiring in January 2037. The joint venture is engaged in the production of apparel equipment, apparel, accessories and the related products as well as the sale of self-produced products, and its major assets are land and property located in Shanghai. The acquisition has not been completed as of the date of approval of these financial statements. Further details are set out in the Company's announcement dated 30 March 2012.

# 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, is set out below:

## *RESULTS*

| | **1.1.2011 to 31.12.2011 RMB'000** | 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 |
|---|---|---|---|---|---|
| Turnover | **1,493,140** | 1,076,842 | 642,349 | 707,426 | 763,451 |
| Profit before income tax expense | **85,766** | 61,821 | 24,637 | 17,791 | 22,429 |
| Income tax expense | **(25,251)** | (14,183) | (7,496) | (4,996) | (1,067) |
| Profit for the year | **60,515** | 47,638 | 17,141 | 12,795 | 21,362 |
| Attributable to: | | | | | |
| Owners of the Company | **28,127** | 34,129 | 11,533 | 10,922 | 17,849 |
| Non-controlling interests | **32,388** | 13,509 | 5,608 | 1,873 | 3,513 |
| | **60,515** | 47,638 | 17,141 | 12,795 | 21,362 |

## *ASSETS AND LIABILITIES*

| | **31.12.2011 RMB'000** | 31.12.2010 RMB'000 | 31.12.2009 RMB'000 | 31.12.2008 RMB'000 | 31.12.2007 RMB'000 |
|---|---|---|---|---|---|
| Total assets | **1,903,760** | 1,354,184 | 686,995 | 617,821 | 653,867 |
| Total liabilities | **(1,028,162)** | (687,569) | (242,234) | (331,451) | (375,483) |
| Net assets | **875,598** | 666,615 | 444,761 | 286,370 | 278,384 |