Operational and Financial Review

The Group is principally engaged in the manufacture and sale of electronic and power-related automotive parts and accessories and provision of automotive repair, maintenance and restyling services through its automotive aftermarket service chain stores in the PRC. Supported by the strong research and development capability of the Group, the automotive products of the Group have been technologically focused on power and light and could be categorised into five product lines which include inverters, multi-functional power packs, automotive lights (including conventional lights and HID lights), cooler/warmer boxes and other accessories such as chargers and converters. The Group primarily sells its electronic and power-related automotive products to overseas customers and distributes and retails its products under its own brand name of "NFA" through its own distribution network of automotive aftermarket service chain stores in PRC.

Turnover

For the financial year ended 31 December 2004, the Group recorded a turnover of approximately RMB356,729,000 (2003: RMB296,908,000), representing an increase of approximately 20% as compared with that of the previous financial year. The turnover attributable to product sales accounted for approximately RMB340,778,000, representing an increase of approximately 18% as compared with that of 2003, and such increase was attributable to the continuing efforts of the Group in modifying existing products' appearance, enhancing products' functions and developing new products to cater to increasing market demand. The turnover attributable to the provision of automotive aftermarket services accounted for approximately RMB15,951,000, representing an increase of approximately 82% as compared with that of 2003, and such increase was attributable to the increase in the number of automotive aftermarket service chain stores operated by the Group.

Gross Profit

For the financial year ended 31 December 2004, the gross profit margin of the Group was approximately 27% (2003: 27%).

Net Profit

The Group's net profit for the financial year ended 31 December 2004 was approximately RMB50,327,000 (2003: RMB49,347,000), approximately 1.26% higher than the estimated net profit of approximately RMB49,700,000 (equivalent to HK$46,900,000) as stated in the prospectus of the Company dated 17 February 2005 (the "Prospectus"). Despite the increment in the selling and distribution costs and the administrative expenses incurred during the year being higher than the increase in the turnover achieved, net profit of the Group increased by approximately 2% in 2004.

Expenses

Selling and distribution expenses amounted to approximately RMB20,789,000 (2003: RMB12,177,000), representing approximately 6% of the turnover for the year ended 31 December 2004 and an increase of approximately 71% as compared with that of the previous year. Such increase was triggered by a combination of increased wages as a result of larger workforce, increased rental charges due to more automotive aftermarket service chain stores being operated by the Group and an increase in product liability insurance charges and transportation charges which were commensurate to the growth in product sales.

Administrative expenses amounted to approximately RMB23,774,000 (2003: RMB17,267,000), representing approximately 7%

of turnover for the year ended 31 December 2004 and an increase of approximately 38% as compared with that of the previous year. Such increase was triggered by a larger number of administrative staff, an upward revision on the average salary and a distribution of incentive bonus for the year.

Finance costs of approximately RMB1,135,000 (2003: RMB1,086,000) for the year ended 31 December 2004 were roughly maintained at the same level with that of 2003.

Dividend

The Board recommends payment of a special dividend of HK$0.078 per share in respect of 2005 to shareholders whose names appear on the register of members on 18 May 2005.

Outlook

The Group has been principally engaged in the manufacturing and sale of various electronic and power-related automotive parts and accessories. In recent years, the Group extended its scope of business to the provision of automotive aftermarket services such as automotive repair, maintenance, cosmetic and restyling services, through the establishment of automotive aftermarket service chain stores in the Shanghai, Jiangsu and Zhejiang regions.

In 2004, the Group was engaged to manufacture an estimate of 500,000 pieces of inverters for a German car manufacturer over a period of six years. As at the date of this report, the Group had received orders to deliver 110,000 pieces by July 2005. The Directors believe that this golden cooperation opportunity would further enhance the earnings momentum and strengthen the reputation of the Group.

In order to strengthen the market presence of its automotive aftermarket services business, the Group strives to set up around 120 automotive aftermarket service chain stores by the end of 2005. To accomplish this target, the Group strategically established a subsidiary in March 2005 through acquisition of assets including franchises and operating rights of a technical training school from a Shanghai local automotive aftermarket service chain store operator for a consideration of RMB1,500,000. The Group is currently operating 37 automotive aftermarket service chain stores, among which, 33 stores are under the brand name of "Autolife" and 4 stores are under the brand name of "ACDelco". After the acquisition and in addition to the 37 stores operated by the Group, there are in total 27 franchise stores operated under the brand name of "Autolife" which will continuously source automotive parts and accessories from the Group.

Other than striving to set up the targeted number of automotive aftermarket service chain stores, the Group has also put its emphasis on the quality of services provided by its stores. To cope with the expected increase in demand for mechanics, the Group has recently commenced the operation of the technical training school, aiming for training the best talents for the automotive repair, maintenance, cosmetic and restyling industry to be retained as employees for the Group's automotive aftermarket service chain stores.

Liquidity and Financial Resources

As at 31 December 2004, the Group had net current assets of approximately RMB61,833,000 (2003: RMB48,482,000). The Group generally finances its operation with internally generated resources and banking facilities provided by banks. As at 31 December 2004, the Group had cash at bank and on hand of approximately RMB37,750,000 (2003: RMB24,325,000), shareholders' fund of approximately RMB118,953,000 (2003: RMB99,763,000) and the total bank borrowings of approximately RMB14,000,000 (which were fully repaid in the first quarter of 2005).

The net current assets as at 31 December 2004 as stated in the audited combined accounts of the Group is different from that as disclosed in the unaudited financial information in the Prospectus. The discrepancy mainly represents the share issue fees recorded as other receivables in the unaudited financial information is now net off against the share premium in the audited combined accounts of the Group.

The current ratio of the Group was approximately 1.74 (2003: 1.48). The gearing ratio of total bank loans to shareholders' fund was approximately 0.12 (2003: 0.19).

Capital Structure

The shares of the Company were listed on the Main Board of the Stock Exchange on 28 February 2005. The net proceeds from the public offer and placing of 100,000,000 new shares, after deduction for the relevant listing expenses, are approximately HK$74,700,000. The Group will apply the proceeds for the purposes as disclosed in the Prospectus.

Since the listing of the shares of the Company on the Main Board of the Stock Exchange, there has been no change in the capital structure of the Company. The share capital of the Company comprises 400,000,000 ordinary shares.

Foreign Exchange Exposure

The Group's sales were principally denominated in US dollars as over 80% of the total sales were conducted with overseas customers. Since exchange rate of US dollar to Renminbi is relatively stable, the Group was not subject to any significant exposure to foreign exchange risk and thus no hedging arrangement has been employed.

Charges on Assets

As at 31 December 2004, a construction in progress with a net book value of approximately RMB14,343,000 was pledged to secure a bank loan of RMB10,000,000 and the Group's land use rights and buildings with an aggregate net book value of approximately RMB5,405,000 were pledged to secure a bank loan of RMB4,000,000. The total bank loan of RMB14,000,000 was fully repaid in January 2005.

Capital Expenditure

During the year, New Focus Light and Power Technology (Shanghai) Co., Ltd. ("NF Light & Power"), a subsidiary of the Group, and Shanghai Qingpu Export Processing Development Company Limited ("Shanghai Qingpu") had entered into a land exchange agreement, pursuant to which NF Light & Power agreed with Shanghai Qingpu to exchange a parcel of land (the "Old land") with another parcel of land of similar value and with similar area (the "New Land").

The Old Land was located in Qingpu District of Shanghai with a site area of approximately 86,646 sq.m., and was acquired by NF Light & Power during the year ended 31 December 2003 with an amount of RMB14,343,000 for the purpose of building a new production plant thereon.

Capital Commitment

As at 31 December 2004, the Group had no material capital commitment.

Contingent Liabilities

As at 31 December 2004, the Group had no material contingent liabilities or guarantee.

Staff Policy

As at 31 December 2004, the Group employed a total of 1,671 (2003: 1,403) full-time employees. In order to attract and retain high calibre employees, the Group not only participates in various retirement plan mandated by the municipal government, but also provides other fringe benefits such as medical insurance and housing allowances. Discretionary bonuses or share options may also be awarded to distinguished staff. The Group also participates in a provident fund scheme registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of its employees in Hong Kong.