



# REPORT OF THE DIRECTORS

The directors (the “Directors”) of New Focus Auto Tech Holdings Limited (the “Company”) herein present their first annual report and the audited accounts (the “Accounts”) of the Company and the audited combined accounts (the “Combined Accounts”) of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2004 (assuming that the group structure of the Group had been in existence throughout the year ended 31 December 2004).

## ***Group Reorganisation, Subsidiaries and Basis of Preparation***

The Company was incorporated in the Cayman Islands on 15 May 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the group reorganisation (the “Reorganisation”) as detailed in section 4 headed “Corporate Reorganisation” in Appendix VI to the prospectus dated 17 February 2005 (the “Prospectus”) of the Company in preparation of the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of other companies now comprising the Group on 13 February 2005. Further details of the Reorganisation as well as the basis of preparation of the Combined Accounts are set out in notes 1 and 2 to the Combined Accounts.

Following the completion of the Reorganisation and the public offer and placing of the Company’s shares as set out in the Prospectus, the Company’s shares were listed on the Stock Exchange on 28 February 2005.

In order to apprise the Company’s shareholders of the combined financial information and position of the Group, as if the Group had been in existence throughout the year ended 31 December 2004, the Combined Accounts are included in this annual report. The basis of preparing the aforesaid combined financial information, which is detailed in notes 1 and 2 to the Combined Accounts, is consistently applied for presenting information relating to the Group in this report.

## ***Principal Activities***

As at 31 December 2004, the Company’s principal activity was investment holding. Had the Reorganisation been completed on 31 December 2004, the principal activity of the Group would have been the manufacturing and sale of electronic and power-related automotive parts and accessories and the provision of automotive aftermarket services in the PRC.

Details of the principal activities of the subsidiaries are set out in note 29 to the Combined Accounts.

## ***Results and Dividends***

The combined results of the Group for the year ended 31 December 2004 are set out in the Combined Profit and Loss Account on page 48.

The Directors have recommended the payment of a special dividend of HK\$0.078 per share for 2005.



# REPORT OF THE DIRECTORS

## ***Summary of Financial Information***

A summary of the combined profit and loss account and the combined assets, liabilities and minority interests of the Group for the last four financial years is set out on page 82.

## ***Fixed Assets***

Details of the movements during the year in the fixed assets of the Group are set out in note 13 to the Combined Accounts.

The fair market value of the Group's property interests at 31 December 2004 was RMB20,850,000, details of which are disclosed in Appendix IV to the Prospectus.

## ***Share Capital***

Details of the movements in the Company's issued share capital since its incorporation, together with the reasons therefor, are set out in note 12 to the Accounts of the Company and note 21 to the Combined Accounts of the Group.

## ***Reserves***

The existing group structure of the Group did not exist as at 31 December 2004. Details of the movements in the reserves of the Group on a combined basis and the Company during the year are set out in note 22 to the Combined Accounts of the Group and note 13 to the Accounts of the Company, respectively.

## ***Distributable Reserves***

At 31 December 2004, the Company had no distributable reserve available to shareholders (2003: Nil).

## ***Closure of Register of Members***

The register of members of the Company will be closed from Thursday, 19 May 2005 to Wednesday, 25 May 2005 (both days inclusive) during which period no transfer of shares will be registered.

In order to qualify for the proposed special dividend to be approved at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 18 May 2005.

# REPORT OF THE DIRECTORS

## **Directors**

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

### **Executive Directors:**

Hung Wei-Pi, John ( <i>Chairman</i> )	(appointed on 2 April 2003)
Wu Kwan-Hong	(appointed on 13 February 2005)
Hung Ying-Lien	(appointed on 13 February 2005)
Lu Yuan Cheng	(appointed on 13 February 2005)
Liao Jung-Chun	(appointed on 13 February 2005)
Jin Xiao-Yan	(appointed on 13 February 2005)
Douglas Charles Stuart Fresco	(appointed on 13 February 2005)
Norman L. Matthew	(appointed on 13 February 2005)

### **Non-executive Director:**

Horng Jian-Bie	(appointed on 13 February 2005)
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### **Independent non-executive Directors:**

Du Haibo	(appointed on 13 February 2005)
Ma Fei	(appointed on 13 February 2005)
Zhou Tai-Ming	(appointed on 13 February 2005)
Uang Chii-Maw	(appointed on 13 February 2005)

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

In accordance with Article 87(1) of the Company's articles of association, Mr. Hung Wei-Pi, John, Mr. Liao Jung-Chun, Ms. Jin Xiao-Yan, Mr. Horng Jian-Bie and Mr. Ma Fei will retire by rotation at the forthcoming annual general meeting of the Company, and being eligible, offer themselves for re-election.

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



# REPORT OF THE DIRECTORS

## ***Directors' Service Contracts***

Each of Mr. Hung Wei-Pi, John, Mr. Wu Kwan-Hong, Ms. Hung Ying-Lien, Mr. Lu Yuan Cheng, Mr. Liao Jung-Chun, Ms. Jin Xiao-Yan, Mr. Douglas Charles Stuart Fresco, and Mr. Norman L. Matthew, being the executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 13 February 2005 and thereafter will continue until terminated by not less than three calendar months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter.

Pursuant to a letter of appointment dated 13 February 2005, the non-executive Director and each of the independent non-executive Directors is appointed for a term of three years subject to rotation in accordance with the articles of association of the Company.

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

## ***Directors' Interests in Contracts***

On 30 August 2004, a transfer of equity interest agreement was entered into between Ms. Jin Xiao-Yan, an executive Director and New Focus Light and Power Technology (Shanghai) Co., Limited ("NF Light & Power"), a wholly-owned subsidiary of the Company, pursuant to which Ms. Jin Xiao-Yan would transfer her 10% equity interest in Shanghai New Focus Auto Repair Services Co., Limited ("NFA Service"), which was indirectly owned as to 90% by the Company and as to 10% by Ms. Jin Xiao-Yan, to NF Light & Power at a consideration of 10% of the audited net asset value of NFA Service as at 31 December 2003. The completion of the said transfer was conditional on and would take place upon NFA Service having obtained all the necessary approvals for the transfer of the said equity interest from the relevant government authorities in the PRC and completed all relevant filing and registration procedures with the State Administration for Industry and Commerce.

Save as disclosed above and save as disclosed in note 11 to the Combined Accounts and 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 existed during the year.

# REPORT OF THE DIRECTORS

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

### **i) The Company**

As at 31 December 2004, no interests or short positions of any Directors and chief executive of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") were required to be recorded in the register maintained by the Company under Section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO as the Company was not listed on the Stock Exchange on that date.

The Company became a listed company on 28 February 2005. The interests and short positions of each of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company under Section 352 of the SFO; or as notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he is taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules at the date of this report, were as follows:

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

Name	Capacity/ Nature of interest	Number of shares in which interested (other than under equity derivatives) (Note 1)	Number of shares in which interested under equity derivatives	Total number of shares	Percentage of issued shares
Mr. Hung Wei-Pi, John	Interest in a controlled corporation (Note 2)	180,000,000(L)	Nil	180,000,000	45%
Mr. Douglas Charles Stuart Fresco	Interest in a controlled corporation (Note 3)	60,000,000(L)	Nil	60,000,000	15%
Ms. Jin Xiao-Yan	Family interest (Note 4)	180,000,000(L)	Nil	180,000,000	45%
Mr. Lu Yuan Cheng	Beneficial Owner	Nil	4,000,000(L) (Note 5)	4,000,000(L)	1%
Ms. Hung Ying-Lien	Beneficial Owner	Nil	4,000,000(L) (Note 5)	4,000,000(L)	1%
Mr. Wu Kwan-Hong	Beneficial Owner	Nil	4,000,000(L) (Note 5)	4,000,000(L)	1%

# REPORT OF THE DIRECTORS

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

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

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

##### *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. These 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.
4. Ms. Jin Xiao-Yan, an executive Director, is the wife of Mr. Hung Wei-Pi, John. Under the SFO, she is deemed to be interested in all the shares of the Company held by Mr. Hung Wei-Pi, John.
5. Details of these equity derivatives are set out in sub-section (b) below.

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

Certain Directors were granted share options under the share option scheme of the Company dated 13 February 2005. Share options granted to the Directors to subscribe for shares of the Company which were outstanding on 28 February 2005 were as follows:

Name	Nature of interest	Number of underlying shares in respect of options granted	Exercise Period	Price for grant (HK\$)	Exercise price
Mr. Lu Yuan Cheng	Beneficial Owner	4,000,000(L)	1 January 2006 to 12 February 2015	HK\$10.00 (for all)	HK\$0.94 (per share)
Ms. Hung Ying-Lien	Beneficial Owner	4,000,000(L)	1 January 2006 to 12 February 2015	HK\$10.00 (for all)	HK\$0.94 (per share)
Mr. Wu Kwan-Hong	Beneficial Owner	4,000,000(L)	1 January 2006 to 12 February 2015	HK\$10.00 (for all)	HK\$0.94 (per share)

# REPORT OF THE DIRECTORS

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

### **ii) The associated corporation**

NFA Service (a subsidiary of the Company establishment in the PRC)

Name of Substantial Shareholder	Capacity/ Nature of interest	Number of shares in which interested (other than under equity derivatives) (Note 1)	Number of shares in which interested under equity derivatives	Total number of shares	Percentage of equity interest (Note 1)
Ms. Jin Xiao-Yan	Beneficial owner	10%(L) (Note 2)	Nil	10%(L) (Note 2)	10%(L) (Note 2)

#### *Notes:*

1. The letter "L" denotes a long position in the registered capital of NFA Service.
2. On 30 August 2004, a transfer of equity interest agreement was entered into between Ms. Jin Xiao-Yan and NF Light & Power pursuant to which Ms. Jin Xiao-Yan would transfer her 10% equity interest in NFA Service to NF Light & Power at a consideration of 10% of the audited net asset value of NFA Service as at 31 December 2003. The completion of the said transfer was conditional on and would take place upon NFA Service having obtained all the necessary approvals for the transfer of the said equity interest from the relevant government authorities in the PRC and completed all relevant filing and registration procedures with the State Administration for Industry and Commerce.

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



# REPORT OF THE DIRECTORS

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

As at 31 December 2004, the Directors were not aware of any disclosure of interests or short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company, as notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of the Group as the Company was not listed on the Stock Exchange on that date.

The Company became a listed company on 28 February 2005. The interests and short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company, as notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of the Group, were as follows:

Name of Substantial Shareholder	Capacity/ Nature of interest	Number of shares in which Interested (other than under equity derivatives) (Note 1)	Number of shares in which interested under equity derivatives	Total number of shares	Percentage of issued shares
Sharp Concept Industrial Limited	Beneficial owner	180,000,000(L)	Nil	180,000,000	45%
Golden Century Industrial Limited	Beneficial owner	60,000,000(L)	Nil	60,000,000	15%
The Norman Matthew LLC	Beneficial owner (Note 2)	60,000,000(L)	Nil	60,000,000	15%
Mrs. Linda Fresco	Family interest (Note 3)	60,000,000(L)	Nil	60,000,000	15%

### *Notes:*

1. The letter "L" denotes a long position in the shares.
2. The Norman Matthew LLC is owned by Mr. Norman L. Matthew as to 28.20%, Mr. Kenneth S. Matthew as to 28.20%, Mr. Edward B. Matthew as to 28.20%, Mr. Abe J. Matthew as to 5.98%, Ms. Nettie Matthew as to 4.43%, Mr. Vince Alesi as to 2.99% and Mr. Glenn Fingerhurt as to 2.00%.
3. Mrs. Linda Fresco is the wife of Mr. Douglas Charles Stuart Fresco, an executive Director. Under the SFO, she is deemed to be interested in all the shares of the Company held by Mr. Douglas Charles Stuart Fresco.





# REPORT OF THE DIRECTORS

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

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

## ***Share Option Scheme***

The Company did not have a share option scheme during the year ended 31 December 2004 and no share options were granted by the Company during the said year.

The Company conditionally adopted a share option scheme (the "Scheme") on 13 February 2005 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Directors, employees, suppliers, customers and business or strategic alliance partners of the Group. The Scheme became effective on 28 February 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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



## REPORT OF THE DIRECTORS

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

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

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

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

As at the date of this annual report, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 23,780,000 shares. The total number of shares available for issue under the Scheme (excluding options already granted) is 16,220,000 shares, representing approximately 4.06% of the total issued share capital of the Company on that date.

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## Share Option Scheme (Continued)

Details of the share options granted under the Scheme since 31 December 2004 are as follows:

Name of option holder	Number of underlying shares subject to options at 31 December 2004	Date of grant of share option	Exercise period of share option	Exercise price of share option (per share)	Closing price on date of grant (per share)	Number of underlying shares subject to options granted since 31 December 2004	Number of underlying shares subject to options exercised since 31 December 2004	Lapsed/ cancelled	Number of underlying shares subject to options at the date of this annual report
Ms. Hung Ying-Lien <i>Executive Director</i>	-	28/2/2005	1/1/2006-12/2/2015 (Note 1)	HK\$0.94	HK\$0.94	4,000,000	-	-	4,000,000
Mr. Wu Kwan-Hong <i>Executive Director</i>	-	28/2/2005	1/1/2006-12/2/2015 (Note 2)	HK\$0.94	HK\$0.94	4,000,000	-	-	4,000,000
Mr. Lu Yuan Cheng <i>Executive Director</i>	-	28/2/2005	1/1/2006-12/2/2015 (Note 3)	HK\$0.94	HK\$0.94	4,000,000	-	-	4,000,000
Continuous contract employees in aggregate	-	28/2/2005	From 1/1/2006 (Note 4)	HK\$0.94	HK\$0.94	11,780,000	-	-	11,780,000
<b>Total</b>	<b>-</b>					<b>23,780,000</b>	<b>-</b>	<b>-</b>	<b>23,780,000</b>

### Notes:

- Share options in respect of 600,000 underlying shares are exercisable during the period from 1 January 2006 to 31 December 2006 and the remaining share options are exercisable during the period from 1 January 2006 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.
- Share options in respect of 600,000 underlying shares are exercisable during the period from 1 January 2006 to 31 December 2006 and the remaining share options are exercisable during the period from 1 January 2006 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.
- Share options in respect of 400,000 underlying shares are exercisable during the period from 1 January 2006 to 31 December 2006 and the remaining share options are exercisable during the period from 1 January 2006 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.
- Share options to other employees are exercisable within periods ranging from 1 year to 9 years subject to such performance targets or conditions as determined by the Board.

The Directors consider it inappropriate to disclose a theoretical value of the options granted as various factors crucial for valuation could not be predicted or ascertained accurately.

# REPORT OF THE DIRECTORS

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

Save as disclosed above and save as disclosed in the section headed “Share Option Scheme”, at no time during the 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, or were there any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## ***Connected Transactions***

During the year under review, the Group had the following connected transactions:

**1. Property lease agreement between Shanghai New Focus Auto Parts Co., Ltd. (“NFA Parts”) and NFA Service**

On 10 October 2000, NFA Parts and NFA Service entered into a property lease agreement (the “Property Lease Agreement”) pursuant to which NFA Parts as landlord agreed to lease a property in the PRC with a floor area of approximately 210 sq.m. to NFA Service as tenant for office use for the period from 1 November 2000 to 30 November 2010 at an annual rent of RMB22,992 (equivalent to approximately HK\$21,691) payable annually.

NFA Service is 90% indirectly owned by the Company and 10% owned by Ms. Jin Xiao-Yan, an executive Director. On 30 August 2004, a transfer of equity interest agreement was entered into between Ms. Jin Xiao-Yan and NF Light & Power, a wholly-owned subsidiary of the Company, pursuant to which Ms. Jin Xiao-Yan would transfer her 10% equity interest in NFA Service to NF Light & Power at a consideration of 10% of the audited net asset value of NFA Service as at 31 December 2003. The completion of the said transfer was conditional on and would take place upon NFA Service having obtained all the necessary approvals for the transfer of the said equity interest from the relevant government authorities in the PRC and completed all relevant filing and registration procedures with the State Administration for Industry and Commerce.

Pursuant to Rule 14A.33(3) of the Listing Rules, so long as the completion (the “Completion”) of the said transfer has not taken place, the Property Lease Agreement constitutes a connected transaction that falls within the de minimis thresholds. Such a transaction, accordingly, is exempt from compliance with the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

# REPORT OF THE DIRECTORS

## **Connected Transactions** (Continued)

### **2. Sales by NFA Parts and NF Light & Power to Custom Accessories Asia Limited (“Custom Accessories”)**

On 13 February 2005, NFA Parts, NF Light & Power and Custom Accessories entered into a sales agreement (the “Custom Accessories Sales Agreement”) pursuant to which NFA Parts and NF Light & Power would supply various automotive parts and accessories manufactured by them to Custom Accessories for a period commencing from 28 February 2005, the date of listing of the Company’s shares on the Stock Exchange (the “Listing Date”), to 31 December 2006. Under the Custom Accessories Sales Agreement, the prices of the automotive products sold to Custom Accessories are determined with reference to market price and on the basis that the terms and prices will not be less favourable to the Group than the terms offered by other independent third parties. Based on the business projections of the Group, the Directors expect that the aggregate maximum annual sales by NFA Parts and NF Light & Power to Custom Accessories under the Custom Accessories Sales Agreement will not exceed HK\$5,000,000, HK\$6,500,000 and HK\$8,000,000 for each of the three financial years ending 31 December 2006 respectively. Taking into account the fact that the estimated maximum aggregate annual sales by NFA Parts and NF Light & Power to Custom Accessories for the three financial years ending 31 December 2006 as set out above are not likely to exceed HK\$10,000,000 and 25% of each of the percentage ratios (as defined in the Listing Rules) other than profits ratio (as defined in the Listing Rules) on an annual basis, the Custom Accessories Sales Agreement will constitute continuing connected transactions exempt from the independent shareholders’ approval requirement for the Company following the Listing under Rule 14A.34 of the Listing Rules.

Custom Accessories is owned as to approximately 50% by Mr. Douglas Charles Stuart Fresco, an executive Director, and his wife, approximately 48% by Mr. Norman L. Matthew, an executive Director, and his family members and approximately 2% by an independent third party.

Custom Accessories has an extensive sales network in the overseas market, in particular, the US. By entering into such sales arrangement with Custom Accessories, the Directors believe that the Group is able to further expand its sales in the North America region.

# REPORT OF THE DIRECTORS

## **Connected Transactions** (Continued)

### **3. Sales by NFA Parts and NF Light & Power to NFA Service**

On 13 February 2005, NFA Parts, NF Light & Power and NFA Service entered into a distribution agreement (the "NFA Service Sales Agreement") pursuant to which NFA Parts and NF Light & Power would supply various automotive parts and accessories manufactured by them to NFA Service for a period commencing from the Listing Date to 31 December 2006. Under the NFA Service Sales Agreement, the prices of the automotive parts and accessories sold to NFA Service are determined with reference to the market price of similar products available in the market and the average gross profit margin of the products manufactured by the Group. Based on the business projections of the Group, the Directors expect that the maximum aggregate annual sales by NFA Parts and NF Light & Power to NFA Service under the NFA Service Sales Agreement will not exceed HK\$19,000,000, HK\$30,000,000 and HK\$40,000,000 respectively for each of the three financial years ending 31 December 2006. Taking into account the fact that the estimated maximum aggregate annual sales by NFA Parts and NF Light & Power to NFA Service for the three financial years ending 31 December 2006 as set out above are likely to exceed 2.5% of each of the percentage ratios (as defined in the Listing Rules) other than the profits ratio (as defined in the Listing Rules) and HK\$10,000,000 on an annual basis, the NFA Service Sales Agreement will constitute non-exempt continuing connected transactions for the Company, so long as the Completion (as defined in paragraph 1 of this section) has not taken place.

As NFA Service has been and will continue to be the sole and exclusive distributor of the Group in the PRC, the Directors intend that NFA Parts and NF Light & Power will continue to sell such automotive products to NFA Service to enable NFA Service to resell to end customers through its automotive aftermarket service chain stores and distribution network comprising distributors, car dealers, auto parts shops and specialised electronics stores in the PRC.

### **4. Financial Assistance provided by the Company to NFA Service**

On 13 February 2005, the Company and NFA Service has entered into a loan agreement (the "Loan Agreement") whereby the Company would provide a loan for a sum of HK\$12 million to NFA Service for a term commencing from the Listing Date to 31 December 2006 for the purpose of implementing the Group's expansion of the automotive repair, maintenance and restyling business and the establishment of more automotive aftermarket service chain stores in the PRC. Pursuant to the Loan Agreement, the loan would be interest bearing at the interest rate of 3% above the prime lending rate as published by The Hongkong and Shanghai Banking Corporation from time to time.

# REPORT OF THE DIRECTORS

## **Connected Transactions** *(Continued)*

### **4. Financial Assistance provided by the Company to NFA Service** *(Continued)*

Taking into account the fact that the estimated maximum principal sum to be advanced by the Company to NFA Service and the estimated maximum interest payable by NFA Service to the Company under the Loan Agreement as set out below are likely to exceed 2.5% of each of the percentage ratios (as defined in the Listing Rules) other than the profits ratio (as defined in the Listing Rules) and HK\$10,000,000 on an annual basis, the Loan Agreement is not exempted under Rule 14A.66 of the Listing Rules and will be subject to reporting, announcement and independent Shareholders' approval requirements under Rule 14A.63 of the Listing Rules.

The Stock Exchange has granted a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A and Rules 14A.07 and 14A.42(3) of the Listing Rules for a period of two financial years ending 31 December 2006 in respect of each of the Custom Accessories Sales Agreement, the NFA Service Sales Agreement and the Loan Agreement subject to the Group complying with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules except for compliance of Rule 14A.37(1) for the Loan Agreement.

The independent non-executive Directors have reviewed the above transactions for the year ended 31 December 2004 and confirmed that:

- (a) the Property Lease Agreement, Custom Accessories Sales Agreement and NFA Service Sales Agreement had been entered into by the Group in its ordinary and usual course of business;
- (b) the Property Lease Agreement, Custom Accessories Sales Agreement, NFA Service Sales Agreement and Loan Agreement were entered into by the Group on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (c) the Property Lease Agreement, Custom Accessories Sales Agreement, NFA Service Sales Agreement and Loan Agreement were entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.



# REPORT OF THE DIRECTORS

## ***Connected Transactions (Continued)***

The auditors of the Company have reviewed the above transactions, and have confirmed in a letter to the Directors stating that:

- (i) the transactions have been approved by the Board of Directors of the Company;
- (ii) the details of the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (iii) the transactions have not exceeded the relevant upper limits stated above.

## ***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.

## ***Major Customers and Suppliers***

In the year under review, sales to the Group's five largest customers accounted for approximately 56% of the total sales for the year and sales to the largest customer included therein amounted to approximately 40%. Purchases from the Group's five largest suppliers accounted for approximately 28% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 10%.

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

## ***Disclosure Under Rules 13.11 to 13.22 of the Listing Rules***

As at 31 December 2004, there was approximately RMB30,904,000 in amounts due from Xantrex Technology Inc. ("Xantrex"), which exceeded 8% of each of (i) the total assets of the Group as at 31 December 2004, (ii) profits of the Group for the year ended 31 December 2004, (iii) revenues of the Group for the year ended 31 December 2004, and (iv) the market capitalization of the Company.

The advance to Xantrex, an Independent Third Party, represented trade receivables arising from the sales of the Group's products in the ordinary course of business. The trade receivable is repayable within the Group's normal credit period of 90 days.

Save as disclosed above, the Directors have confirmed that as at the 31 December 2004, they were not aware of any circumstances which would give rise to the disclosure requirements under Rules 13.11 to 13.22 of the Listing Rules.



# REPORT OF THE DIRECTORS

## ***Corporate Governance***

In the opinion of the Directors, the Company has complied with the code provisions of the Code of Corporate Governance Practice as set out in Appendix 14 of the Listing Rules in the period between the Listing Date and the date of this report.

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

There were no purchases, sales or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the year ended 31 December 2004.

## ***Auditors***

The accompanying Accounts of the Company and Combined Accounts of the Group have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Hung Wei-Pi, John**

*CHAIRMAN*

Hong Kong, 25 April 2005