

# NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

## **1. COMPANY BACKGROUND**

New Focus Auto Tech Holdings Limited (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 a group reorganisation (the “Reorganisation”) in preparation of the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired the entire issued share capital of Perfect Progress Investment Limited (“Perfect Progress”) through a share swap and became the holding company of Perfect Progress and its subsidiaries. Details of the Reorganisation are set out in section 4 headed “Corporate Reorganisation” in Appendix VI to the prospectus of the Company dated 17 February 2005 (the “Prospectus”). The Reorganisation was completed on 13 February 2005.

Following the completion of the public offering and placing of 100,000,000 Company’s shares as set out in the Prospectus, the Company’s shares were listed on the Main Board of the Stock Exchange on 28 February 2005.

## **2. BASIS OF PRESENTATION**

The accounts have been prepared on a going concern basis, notwithstanding that the Company has incurred a loss since incorporation and had shareholders’ deficit of approximately RMB9.47 million and net current liabilities with same amount at 31 December 2004, on the basis that the Company has raised net proceeds from the public offer and placing of the Company’s shares of approximately RMB79 million subsequent to the balance sheet date. The directors of the Company (the “Directors”) are satisfied that the Company will be able to meet in full its financial obligations when they fall due for the foreseeable future and to continue its business as a going concern.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The accounts have been prepared under historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial statements.

# NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

## 3. **PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheets at cost. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand and bank balances.

### (b) **Provisions**

Provisions are recognised when the Company has a legal and constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

### (c) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

## 4. **TURNOVER**

The Company is principally engaged in investment holding. It did not derive any income for the year ended 31 December 2004 (2003: nil).

## 5. **LOSS FOR THE YEAR**

Loss for the year is stated after crediting / (charging) the following:

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Auditors' remuneration	<b>(100)</b>	—
Exchange gain/(losses)	<b>40</b>	(47)

## 6. **TAXATION**

No provision for taxation has been made in the accounts as the Company had no estimated assessable income for the year ended 31 December 2004 (2003: nil).

# NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

## 7. EMOLUMENTS OF DIRECTORS

During the year ended 31 December 2004, no emoluments have been paid or payable to the directors (2003: nil).

## 8. AMOUNT DUE FROM A RELATED PARTY

		2004 RMB'000	2003 RMB'000
a)	Name		
	Perfect Progress Investment Limited ("Perfect Progress")		
	Balance at the beginning of the year	7	–
	Balance at the end of the year	10	7
	Maximum amount outstanding during the year	10	7

Perfect Progress is a limited liability company incorporated in the British Virgin Islands on 8 April 2002. Before the Reorganisation, the shareholders of Perfect Progress, (Sharp Concept Industrial Limited, Golden Century Industrial Limited and Norman Matthew LLC), are also the shareholders of the Company. Perfect Progress became the subsidiary of the Company after the Reorganisation.

Amount due from Perfect Progress is unsecured, interest-free and has no fixed terms of repayment.

## 9. AMOUNT DUE FROM A DIRECTOR

		2004 RMB'000	2003 RMB'000
b)	Name		
	Hung Wei-Pi, John		
	Balance at the beginning of the year	16	–
	Balance at the end of the year	18	16
	Maximum amount outstanding during the year	18	16

Amount due from Hung Wei-Pi, John, a director of the Company, is unsecured, interest-free and has no fixed terms of repayment.

# NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

## 10. AMOUNTS DUE TO RELATED PARTIES

Amounts due to related parties are unsecured, interest free and have no fixed terms of repayment.

## 11. AMOUNT DUE TO A DIRECTOR

Amount due to a director is unsecured, interest free and has no fixed terms of repayment.

## 12. SHARE CAPITAL

Authorised	Number of shares of HK\$0.10 each	Amount HK\$
Upon incorporation on 15 May 2002 (i)	3,500,000	—
<b>Issued</b>		
Share allotted and issued on 15 May 2002 (ii)	1	—
Share allotted and issued on 2 April 2003 (ii)	9	1
<b>Share capital as at 31 December 2004 and 2003</b>	<b>10</b>	<b>1</b>

- (i) The Company was incorporated in the Cayman Islands on 15 May 2002 with an authorised share capital of HK\$350,000 divided into 3,500,000 ordinary shares of HK\$0.1 each.
- (ii) At the date of incorporation of the Company, one subscriber share was allotted to Codan Trust Company (Cayman) Limited at par and was subsequently transferred to Sharp Concept Industrial Limited ("Sharp Concept") on 2 April 2003 with nil paid. On 2 April 2003, an aggregate of 9 shares were allotted and issued at par, credited as fully paid, with 5 shares to Sharp Concept, 2 shares to Golden Century Industrial Limited ("Golden Century") and 2 shares to The Norman Matthew LLC ("NMLLC").

# NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

## 13. RESERVES

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2003	(393)	(1,366)	(1,759)
Share issuance expenses	(1,657)	—	(1,657)
Loss for the year	—	(47)	(47)
At 31 December 2003 and 1 January 2004	(2,050)	(1,413)	(3,463)
Share issuance expenses	(5,947)	—	(5,947)
Loss for the year	—	(60)	(60)
<b>At 31 December 2004</b>	<b>(7,997)</b>	<b>(1,473)</b>	<b>(9,470)</b>

- (i) The Company has no distributable reserve available to shareholders as at 31 December 2004 (2003: nil).

## 14. COMMITMENT

As at 31 December 2004, the Company has no material commitment (2003: nil).

## 15. CONTINGENT LIABILITIES

As at 31 December 2004, the Company has no material contingent liability (2003: nil).

## 16. SUBSEQUENT EVENT

The following subsequent events took place subsequent to 31 December 2004:

- (i) On 13 February 2005, the authorised number of shares of the Company was increased from 3,500,000 to 2,000,000,000 by the creation of additional 1,996,500,000 new shares of HK\$0.10 each.
- (ii) On 13 February 2005, an aggregate of 90 shares were allotted and issued by the Company at par, credited as fully paid, with 54 shares to Sharp Concept, 18 shares to Golden Century and 18 shares to NMLLC, in exchange for the 500 shares of USD1.00 each in Perfect Progress, representing the entire issued share capital of Perfect Progress. The Company became the holding company of Perfect Progress.
- (iii) On 13 February 2005, the directors of the Company were authorised to capitalise HK\$29,999,990 standing to the credit of the Company's share premium account towards paying up in full at par 299,999,900 shares for allotment and issue to the Sharp Concept, Golden Century and NMLLC in proportion.

# NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

## **16. SUBSEQUENT EVENT** *(Continued)*

- (iv) On 28 February 2005, the Company completed its public offering of 100,000,000 shares and the Company's shares were listed on the Main Board of the Stock Exchange. The Company raised net proceeds of approximately RMB79 million from the public offer and placing of the Company shares.
- (v) On 28 February 2005, share options in respect of 23,780,000 shares were granted to certain directors of the Company and employees of the Group with an exercise price of HK\$0.94 per share. Share options in respect of 1,600,000 shares granted to certain executive directors of the Company are exercisable from 1 January 2006 to 31 December 2006. Share options in respect of 10,400,000 shares granted to certain executive directors of the Company are exercisable from 1 January 2006 to 12 February 2015 subject to such performance targets or conditions as determined by the board of directors of the Company. Share options in respect of 11,780,000 shares granted to other employees are exercisable within periods ranging from 1 year to 9 years subject to such performance targets or conditions as determined by the board of directors of the Company.
- (vi) On 25 April 2005, the board of directors of the Company proposed a special dividend of HK\$0.078 per share in respect of 2005, subject to the approval of shareholders in the annual general meeting to be held on 25 May 2005.

## **17. ULTIMATE HOLDING COMPANY**

The directors of the Company regard Sharp Concept Industrial Limited as the ultimate holding company of the Company prior to the completion of the public offering of the Company's shares. Upon the completion of public offering of the Company's shares, Sharp Concept Industrial Limited held 45% equity interest of the Company.

## **18. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 25 April 2005.