1. GROUP REORGANISATION

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.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group.

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 PREPARATION OF THE COMBINED ACCOUNTS

Although the current group structure resulting from the Reorganisation, as referred to in note 1 to the combined accounts, did not legally exist until 13 February 2005, the directors of the Company (the "Directors") consider that meaningful information is provided by treating the Group as a continuing entity as if the group structure as at 13 February 2005 had been in existence from the beginning of the year ended 31 December 2003.

Accordingly, for the purpose of this report, the combined profit and loss accounts, combined cash flow statements and combined statement of changes in equity of the Group for the year ended 31 December 2004 and 2003, including the financial information of the companies now comprising the Group as a result of the Reorganisation as if the Group structure had been in existence throughout the year ended 31 December 2004 and 2003, or since their respective dates of incorporation/ establishment or date of acquisition, whichever is the shorter period.

The combined balance sheets of the Group as at 31 December 2004 and 2003 have been prepared to present the assets and liabilities of the Group as if the group structure after the Reorganisation had been in existence as at these dates.

3. PRINCIPAL ACCOUNTING POLICIES

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

(a) Subsidiary

The combined accounts include the accounts of the Company and its subsidiaries made up to 31 December 2004.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of the subsidiary acquired or disposal during the year is included in the combined profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(b) Intangible assets – goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisition is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Where an indication of impairment exists, the carrying amount of the goodwill is assessed and written down immediately to its recoverable amount.

(c) Fixed assets

(i) Construction in progress

Construction in progress comprises land use rights and buildings on which construction work has not been completed. Construction in progress is carried at cost which includes cost of acquisition of land use rights, development and construction expenditure incurred and other direct costs attributable to the construction, less accumulated impairment losses.

Construction in progress is not depreciated until such time as the assets are completed and ready for their intended use.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets *(Continued)*

(ii) Other fixed assets

Other fixed assets, comprising land use rights, buildings, leasehold improvements, plant and machineries, motor vehicles and office equipment, furniture and fixtures, are stated at cost less accumulated amortisation or depreciation and accumulated impairment losses.

(iii) Depreciation and amortisation

Land use right is amortised on a straight line basis over the unexpired period of the right granted or the operating period of the relevant company, whichever is shorter.

No depreciation is provided for construction in progress.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives to their respective residual values on a straight line basis.

The expected useful lives are as follows:

Buildings	20 years
Leasehold improvements	10 years
Plant and machineries	3 to 10 years
Motor vehicles	5 years
Office equipment, furniture and fixtures	3 to 5 years

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Inventories

Inventories comprise of raw materials, work in progress, finished goods and merchandise goods. Merchandise goods are merchandise purchased for resale. Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. The cost of work in progress and finished goods comprises raw materials, direct labor, other direct costs and an appropriate portion of production overheads (based on normal operating capacity). Net realisable value is determined on the basis of anticipated sales proceeds less the estimated selling expenses.

(e) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheets are stated net of such provision.

(f) Cash and cash equivalents

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

(g) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred taxation is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(h) Provisions

Provisions are recognised when the Group has a present legal or 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 Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) 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 notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(j) Translation of foreign currencies

The principal activities of the Group are expressed in Renminbi ("RMB"). Accordingly, the Group uses the RMB as its reporting currency.

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.

(k) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

(l) Research and development costs

Research costs are expensed as incurred.

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised.

Development costs that do not meet the above criteria are expensed as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) Retirement benefit costs

The Group contributes on a monthly basis to various defined contribution retirement plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans. Contributions to these plans are expensed as incurred. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

(o) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Revenue from repair and maintenance services are recongised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

A government subsidy is recognized, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customers are located. Total assets and capital expenditure are where the assets are located.

Unallocated items mainly represent interest-bearing loans, corporate and financing expenses.

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sales of automobile accessories and the provision of automobile repair, maintenance and restyling services. Revenues recognised during the year are as follows:

	2004 RMB'000	2003 RMB'000
Turnover		
Sales of goods	**340,778**	288,141
Render of service	**15,951**	8,767
	356,729	296,908
Other revenues		
Interest income	**108**	69
Government subsidies		
– Rewards for export sales	**9**	6
– Enterprise development fund	**100**	277
– Rewards for increase in export sales	**377**	268
Others	**84**	116
	678	736
Total revenues	**357,407**	297,644

(a) Primary reporting format – business segments

The Group operates in two business segments, the manufacturing and sales of automobile accessories, and the provision of automobile repair, maintenance and restyling services.

There are no sales or other transactions between the business segments during the year ended 31 December 2004 (2003: nil).

4. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format – business segments *(Continued)*

(i) Analysis of the segment turnover and results is as follows:

	Year ended 31 December 2004		
	Sales of automobile accessories RMB'000	Provision of automobile repair, maintenance and restyling services RMB'000	Group RMB'000
Segment revenues			
Turnover	340,778	15,951	356,739
Other revenue	678	–	678
	341,456	15,951	357,407
Segment results	57,497	(5,891)	51,606
Unallocated costs			(553)
Operating profit			51,053
Finance costs			(1,135)
Profit before taxation			49,918
Taxation			(37)
Profit after taxation			49,881
Minority interests			446
Profit for the year			50,327
Segment assets	170,990	21,795	192,785
Unallocated corporate assets			9,208
Total assets			201,993
Segment liabilities	68,224	1,072	69,296
Unallocated corporate liabilities			14,000
Total liabilities			83,296
Capital expenditure	5,468	5,616	11,084
Depreciation and amortisation charge	4,485	1,011	5,496

4. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format – business segments *(Continued)*

	Year ended 31 December 2003		
	Sales of automobile accessories RMB'000	Provision of automobile repair, maintenance and restyling services RMB'000	Group RMB'000
Segment revenues			
Turnover	288,141	8,767	296,908
Other revenue	736	–	736
	288,877	8,767	297,644
Segment results	54,263	(1,737)	52,526
Unallocated costs			(55)
Operating profit			52,471
Finance costs			(1,086)
Profit before taxation			51,385
Taxation			(2,065)
Profit after taxation			49,320
Minority interests			27
Profit for the year			49,347
Segment assets	189,019	10,983	200,002
Unallocated corporate assets			306
Total assets			200,308
Segment liabilities	69,282	12,073	81,355
Unallocated corporate liabilities			19,000
Total liabilities			100,355
Capital expenditure	5,058	4,034	9,092
Depreciation and amortisation charge	4,026	446	4,472

4. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Secondary reporting format – geographical segments

The Group operates in four main geographical areas. An analysis of the geographical segment turnover and results is as follows:

	2004	2003
	RMB'000	RMB'000
Segment revenues		
North America	**242,510**	223,018
Europe	**29,625**	15,610
Asia Pacific	**35,106**	33,240
Greater China (including Taiwan)	**49,488**	25,040
Total	**356,729**	296,908
Segment results		
North America	**44,591**	46,289
Europe	**5,359**	4,835
Asia Pacific	**8,509**	8,687
Greater China (including Taiwan)	**16,931**	9,858
Total	**75,390**	69,669
Unallocated income	**108**	69
Unallocated costs	**(24,445)**	(17,267)
Operating profits	**51,053**	52,471

No geographical segment information regarding the Group's assets and capital expenditure is presented as all of the Group's assets are located and capital expenditure are incurred in the PRC.

There are no sales between the geographical segments during the years ended 31 December 2004 (2003: nil).

5. OPERATING PROFIT

Operating profit is stated after charging the following:

	2004 RMB'000	2003 RMB'000
Cost of inventories sold	**261,791**	215,729
Write off of inventories	**486**	614
Auditors' remuneration	**480**	300
Depreciation and amortisation of fixed assets	**5,496**	4,472
Exchange losses	**570**	132
Loss on disposal of fixed assets	**110**	305
Operating leases – land and building	**4,431**	1,674
Provision for bad and doubtful debts	**140**	122
Research and development cost	**4,038**	3,238

6. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on short-term bank loans	**1,135**	1,086

7. TAXATION

The amount of taxation charged to the combined profit and loss account represents:

	2004 RMB'000	2003 RMB'000
Current taxation-PRC income tax	**–**	2,152
Deferred taxation (note 14)	**37**	(87)
	37	2,065

(a) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong during the years ended 31 December 2004 (2003: nil).

7. TAXATION *(Continued)*

(b) *(i)* *Shanghai New Focus Auto Parts Co., Ltd. ("NFA Parts")*

In accordance with the relevant tax laws and regulations in the PRC, NFA Parts was qualified as an Export Oriented Enterprise (with over 70% export sales per annum in 2004 and 2003) and was therefore entitled to a 50% reduction in corporate income tax for the year ended 31 December 2004 and 2003. Although Exported Oriented Enterprises status has not been approved by the relevant authorities for the year ended 31 December 2004, the Directors believe that NFA Parts should be qualified as Export Oriented Enterprise for the year ended 31 December 2004 given that the export sales of NFA Parts for the year ended 31 December 2004 accounted for over 70% NFA Part's total sales for the year. Accordingly, corporate income tax was provided at a rate of 12% for the year ended 31 December 2004 (2003: 12%). NFA Parts incurred loss for the year ended 31 December 2004, hence no corporate income tax was provided for the year.

(ii) *New Focus Light and Power Technology (Shanghai) Co., Ltd. ("NF Light & Power")*

Being qualified as a foreign investment production enterprise in an industrial development zone in the PRC, NF Light & Power is exempted from local income tax and is subject to an applicable corporate income tax rate of 24%. In accordance with the approval from the relevant tax authorities, NF Light & Power is entitled to two years exemption from corporate income tax followed by three years of 50% reduction in corporate income tax commencing from the first profit-making year net of losses carried forward. The year ended 31 December 2003 is NF Light & Power's first profit-making year net of losses brought forward from previous years, and hence NF Light & Power is exempted from corporate income tax for the year ended 31 December 2004 (2003: nil).

7. TAXATION *(Continued)*

(b) *(Continued)*

(iii) Shanghai New Focus Auto Repair Services Co., Ltd. ("NFA Service")

Prior to the Group's acquisition of NFA Service in September 2002, NFA Service was regarded as a privately owned company with small business scale for tax purposes, income tax was calculated at certain percentage of NFA Service's annual sales. After the Group's acquisition of NFA Service, in accordance with the relevant regulations, NFA Service should change its status to become a domestic enterprise and provide income tax accordingly at 33% of its taxable profit. As NFA Service has been loss making for the years ended 31 December 2002 and 2003, no income tax would have been provided should NFA Service be regarded as a domestic enterprise and taxed on its taxable income. However, up to 31 December 2003, the local tax bureau had continued to require NFA Service to pay income tax based on its annual sales as if it is still a privately owned company with small business scale for tax purpose, hence income tax is calculated on the following basis before 1 January 2004:

Base for calculation	Prior to 1 March 2003	From 1 March 2003 to 31 December 2003
Sales of goods	0.6%	0.6%
Maintenance service income	1.8%	3.6%
Restyling service income	–	2.4%

From 1 January 2004, as confirmed by the local tax bureau, NFA Service started to provide income tax at 33% of its taxable profit. For the year ended 31 December 2004, NFA Service was in loss-making position, accordingly, no income tax has been provided.

7. TAXATION *(Continued)*

(c) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in the PRC applicable to the Group as follows:

	2004	2003
	RMB'000	RMB'000
Profit before taxation	**49,918**	51,385
Calculated at a taxation rate of 24%	**11,980**	12,332
Effect of preferential tax treatments (note 7 b(i))	**–**	(1,806)
Effect of tax exemptions (note 7 b(ii))	**(13,550)**	(8,355)
Effect of different tax rates (note 7 b(iii))	**–**	308
Unrecognised tax losses	**1,045**	–
Utilisation of unrecognised tax losses	**–**	(196)
Income not subject to taxation	**(90)**	(271)
Expenses not deductible for tax purpose	**615**	53
Prior year deferred tax assets realised in current period	**37**	–
Taxation charge	**37**	2,065

8. DIVIDENDS

The dividends paid prior to the initial public offering of the Company's shares for the year ended 31 December 2004 and 2003 represented the dividends paid by the Company's subsidiaries to its then shareholders. The dividends appropriation was recorded in the year the dividend was declared.

The dividend rates and number of shares ranking for the dividends are not presented as such information for the purpose of this report is not considered meaningful.

9. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2004 RMB'000	2003 RMB'000
Wages and salaries	**32,503**	26,151
Retirement benefit costs (note 10)	**1,167**	1,223
Staff and workers' bonus and welfare fund (note)	**2,388**	–
Other social welfare	**2,199**	1,230
Meal allowances	**2,519**	2,123
Labour protection fee	**562**	311
Staff costs	**41,338**	31,038

Note: In accordance with the relevant PRC regulations and the Articles of Association, NFA Parts, NF Light & Power and NFA Service are required to provide staff and workers' bonus and welfare fund which is appropriated from the profit after taxation, as determined in accordance with the accounting principles and relevant financial regulations applicable to enterprise established in the PRC. Appropriation of staff and workers' bonus and welfare fund is determined at the discretion of the board of directors and is charged to profit and loss account for the year in which the appropriation is made. The staff and workers' bonus and welfare fund can only be used for special bonus or collective welfare of their employees. The amount as shown above for the year ended 31 December 2004 are the appropriation of staff and workers' bonus and welfare fund made by NFA Parts and NF Light & Power in 2004.

10. RETIREMENT BENEFIT COSTS

The PRC employees of the Group participate in a defined contribution retirement plan organised by the municipal government whereby the Group is required to make monthly contributions to the plan at certain percentages of the employee's salary during the year. The Group has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Expenses incurred by the Group in connection with the aforesaid retirement plan were RMB1,167,000 for the years ended 31 December 2004 (2003: RMB1,223,000). There was no forfeited contributions throughout the year ended 31 December 2004 (2003: nil).

11. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) During the years ended 31 December 2004 and 2003, as the Company has no significant business transactions, no emoluments have been paid or payable to the Directors.

11. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(Continued)*

(b) Details of the emoluments paid or payable to the Directors by the Group are as follows:

	2004	2003
	RMB'000	RMB'000
Fees	**–**	–
Basic salaries and other allowances	**1,440**	1,430
Discretionary bonuses	**–**	–
Retirement benefit costs	**–**	–
	1,440	1,430

None of the Directors have waived or agreed to waive any emoluments paid by the Group during the years ended 31 December 2004 (2003: nil).

No emoluments were paid to independent non-executive directors during year ended 31 December 2004 (2003: nil).

The emoluments of the Directors fell within the following band:

	Number of directors as at 31 December	
	2004	2003
Nil to RMB1,000,000	**4**	4

(c) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2004 and 2003 included three directors whose emoluments are reflected in the analysis presented above. The emoluments paid or payable to the remaining two non-directors are as follows:

11. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(Continued)*

(c) Five highest paid individuals *(Continued)*

	2004	2003
	RMB'000	RMB'000
Basic salaries and other allowances	**1,416**	1,406
Discretionary bonuses	**–**	–
Retirement benefit costs	**–**	–
	1,416	1,406

All of the emoluments of the two highest paid non-directors fell within the band of nil to RMB1,000,000.

(d) During the year ended 31 December 2004, no emoluments were paid by the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2003: nil).

12. COMBINED EARNINGS PER SHARE

The basic combined earnings per share is calculated by dividing the combined profit attributable to shareholders by the combined number of shares of the Company and Perfect Progress in issue during the year, and on the assumption that the Reorganisation and the issue of 299,999,999 shares of the Company had been effective on 1 January 2003.

	2004	2003
Combined profit attributable to shareholders (RMB'000)	**50,327**	49,347
Number of shares of the Company issued on 1 January 2003	**1**	1
Number of shares of Perfect Progress issued on 1 January 2003	**500**	500
299,999,999 shares of the Company issued from 1 January 2003 to the date of the completion of the Reorganisation	**299,999,999**	299,999,999
	300,000,500	300,000,500
Combined earnings per share (RMB)	**0.168**	0.164

No diluted earnings per share is presented as there was no potential dilutive shares outstanding as at 31 December 2004 (2003: nil).

13. FIXED ASSETS

	Construction in progress RMB'000	Land use rights RMB'000	Buildings RMB'000	Leasehold improve-ments RMB'000	Plant and Machinery RMB'000	Motor vehicles RMB'000	Office equipment, furniture and fixtures RMB'000	Total RMB'000
Cost								
At 1 January 2004	14,882	4,443	19,722	1,943	13,996	2,548	5,820	63,354
Additions	14,421	14	2,247	1,434	5,291	713	1,307	25,427
Transfer upon completion	(405)	–	405	–	–	–	–	–
Disposals	(14,343)	–	–	–	(2,314)	–	(11)	(16,668)
At 31 December 2004	14,555	4,457	22,374	3,377	16,973	3,261	7,116	72,113
Depreciation								
At 1 January 2004	–	363	3,260	129	4,580	851	2,787	11,970
Charge for the year	–	275	1,020	279	2,734	345	843	5,496
Disposals	–	–	–	–	(2,167)	–	–	(2,167)
At 31 December 2004	–	638	4,280	408	5,147	1,196	3,630	15,299
Net book value								
At 31 December 2004	14,555	3,819	18,094	2,969	11,826	2,065	3,486	56,814
At 31 December 2003	14,882	4,080	16,462	1,814	9,416	1,697	3,033	51,384

The Group's interests in land use rights are held in Shanghai, the PRC and on leases over the period of 50 years.

As at 31 December 2004, the net book values of construction in progress, land use rights and buildings pledged as security for the Group's short-term bank loans amounted to RMB19,748,000 (2003: RMB21,315,000) (note 20).

The construction in progress as at 31 December 2003 mainly represent the acquisition amount of RMB14,343,000 for a parcel of land located in Qingpu District with an area of approximately 86,646 square meters (the "Land"), which was acquired by NF Light & Power for the purpose of building a new production plant thereon.

13. FIXED ASSETS *(Continued)*

On 18 September 2003, NF Light & Power and Shanghai Qingpu Export Processing Development Company Limited ("Shanghai Qingpu") entered into a land exchange agreement, pursuant to which NF Light & Power agreed with Shanghai Qingpu to exchange the Land with another parcel of land of similar value and with similar area (the "New Land"). The construction in progress as at 31 December 2004 includes the acquisition amount of the New Land. As of the date of this report, the New Land was granted by Shanghai Qingpu however the issuance of the land use right certificate is still in process.

14. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using the tax rates that are expected to apply to the year when the deferred tax asset is realised or the deferred tax liability is settled, based on the tax rates that have been enacted at the respective balance sheet dates.

The movements of the deferred tax assets for the years ended 31 December 2004 and 2003 are as follows:

	Inventory provision	**Provision on warranty**	**Loss on property written off subject to tax approval**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2003 and 1 January 2004	74	13	–	87
(Charged)/Credited to profit and loss account (note 7)	(43)	(7)	13	(37)
At 31 December 2004	31	6	13	50

All deferred tax assets are to be recovered within 12 months.

Deferred tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The Group has unrecognised tax losses of RMB1,045,000 (2003: nil) to carry forward against future taxable income. These tax losses will expire in 2009.

15. INVENTORIES

	2004	2003
	RMB'000	RMB'000
Raw materials	21,168	13,225
Work in progress	8,324	7,568
Finished goods	627	2,091
Merchandise goods	17,101	8,728
	47,220	31,612
Less: Inventory provision	(547)	(614)
	46,673	30,998

There were no inventories stated at net realisable value as at 31 December 2004 (2003: nil).

16. TRADE RECEIVABLES

Details of the ageing analysis are as follows:

	2004	2003
	RMB'000	RMB'000
Current to 30 days	29,851	23,755
31 to 60 days	18,405	19,328
61 to 90 days	2,111	12,819
Over 91 days	3,431	1,329
	53,798	57,231
Less: provision for doubtful debts	(753)	(613)
	53,045	56,618

Credit terms generally range from 30 days to 90 days.

17. AMOUNT DUE FROM A RELATED PARTY

Name		2004 RMB'000	2003 RMB'000
Custom Accessories Asia Limited ("Custom Accessories")	Balance at 1 January	**640**	1,103
	Balance at 31 December	**486**	640
	Maximum amount outstanding during the years	**2,015**	1,550

Majority interests of Custom Accessories are mainly held by two of its directors, Mr. Fresco, who and his wife held 50% of its equity interest, and Mr. Matthew, who and his family members, held 48% of its equity interest. Mr. Fresco and Mr. Matthew are also directors of the Company and have beneficial interests in the Company.

Amount due from Custom Accessories arising from trading activities is unsecured, interest-free and has no fixed terms of repayment.

18. AMOUNT DUE FROM A DIRECTOR AND AMOUNTS DUE TO DIRECTORS

Amount due from a director

Name		2004 RMB'000	2003 RMB'000
Hung Wei-Pi, John	Balance at 1 January	**3,022**	–
	Balance at 31 December	**–**	3,022
	Maximum amount outstanding during the years	**3,022**	3,022

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

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

19. TRADE PAYABLES

Details of the ageing analysis are as follows:

	2004 RMB'000	2003 RMB'000
Current to 30 days	**31,881**	63,698
31 to 60 days	**15,897**	–
61 to 90 days	**533**	–
Over 91 days	**707**	1,973
	49,018	65,671

20. SHORT-TERM BANK LOANS

		2004 RMB'000	2003 RMB'000
Secured	*(a)*	**14,000**	16,000
Unsecured	*(b)*	**–**	3,000
		14,000	19,000

(a) The interest rates, repayment terms and securities of the secured loans as at the respective balance sheet dates are as follows:

	2004	2003
Interest rate per annum	**4.78% to 5.31%**	4.78% to 5.31%
Repayment term	**6 to 12 months**	6 to 12 months
Securities	**Construction in progress, land use rights and buildings with aggregate net bank value of RMB19,748,000 *(note 13)***	Construction in progress, land use rights and buildings with aggregate net book value of RMB21,315,000 *(note 13)*

(b) Unsecured loans as at 31 December 2003 were granted to NFA Parts and guaranteed by NF Light & Power. These unsecured loans were discharged in July 2004.

21. SHARE CAPITAL

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$0.10 each. As at 1 January 2003, 1 out of the 3,500,000 ordinary shares was issued. On 2 April 2003, additional 9 shares were issued, therefore, by 31 December 2004 and 2003, a total of 10 shares of the 3,500,000 ordinary shares were issued.

As at 31 December 2004, the Reorganisation has not yet completed. For the purpose of this report, the share capital as at each of the balance sheet dates represents the share capital of Perfect Progress of US$500, the then holding company of all other companies now comprising the Group.

Details of the movements of authorised and issued share capital of the Company are as follows:

(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) 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").

(iii) 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.

(iv) 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.

(v) On 28 February 2005, the Company completed its public offer and placing of 100,000,000 shares and the Company's shares were listed on the Main Board of the Stock Exchange.

22. RESERVES

	Share premium	Reor-ganisation reserve (note b)	Statutory reserve fund (note a)	Enterprise expansion fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	(2,050)	34,534	7,641	2,756	56,878	99,759
Share issuance expenses	(5,947)	–	–	–	–	(5,947)
Profit for the year	–	–	–	–	50,327	50,327
Transfer to reserves	–	–	5,820	–	(5,820)	–
Dividends *(note 8)*	–	–	–	–	(25,190)	(25,190)
At 31 December 2004	(7,997)	34,534	13,461	2,756	76,195	118,949
As at 1 January 2003	(393)	34,534	4,160	2,756	20,945	62,002
Share issuance expenses	(1,657)	–	–	–	–	(1,657)
Profit for the year	–	–	–	–	49,347	49,347
Transfer to reserves	–	–	3,481	–	(3,481)	–
Dividends *(note 8)*	–	–	–	–	(9,933)	(9,933)
At 31 December 2003	**(2,050)**	**34,534**	**7,641**	**2,756**	**56,878**	**99,759**

(a) NFA Parts and NF Light & Power are wholly foreign owned enterprises established in the PRC and hence are in required to transfer no less than 10% of the profit after taxation, as determined in accordance with the accounting principles and relevant financial regulations applicable to enterprise established in the PRC, to statutory reserve fund until the fund aggregates to 50% of their registered capital.

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

22. RESERVES *(Continued)*

(b) The reorganisation reserve of the Group consists of the following components:

(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 therefore;

(ii) in 2001, Custom Accessories, the former investor of NF Light & Power contributed capital of RMB19,959,000; and

(iii) as part of the Reorganisation and pursuant to the share transfer agreement dated 3 June 2002, which came to be 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 holds 60% shares 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 came to be 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 issuance 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.

23. NOTES TO THE COMBINED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations:

	2004	2003
	RMB'000	RMB'000
Profit before taxation	**49,918**	51,385
Depreciation and amortisation of fixed assets	**5,496**	4,472
Loss on disposal of fixed assets	**110**	305
Interest income	**(108)**	(69)
Interest expenses	**1,135**	1,086
Operating profit before working capital changes	**56,551**	57,179
Increase in inventories	**(15,675)**	(11,596)
Decrease/(increase) in trade receivables	**3,573**	(35,300)
Decrease/(increase) in prepayments, deposits and other receivables	**26,059**	(11,915)
Decrease in amount due from related parties	**154**	463
Decrease/(increase) in amount due from a director	**3,022**	(3,022)
(Decrease)/increase in trade payables	**(16,653)**	39,192
Increase in accruals and other payables	**1,151**	2,083
Increase/(decrease) in amounts due to directors	**71**	(699)
Net cash inflow generated from operating activities	**58,253**	36,385

23. NOTES TO THE CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing:

	Dividend payable RMB'000	Share capital RMB'000	Minority interests RMB'000	Loans RMB'000
At 1 January 2003	4,416	4	(83)	21,000
Minority interests' share of loss	–	–	(27)	–
Dividend declared	9,933	–	–	–
Contribution from a minority shareholder	–	–	300	–
Cash outflows	(10,098)	–	–	(2,000)
At 31 December 2003 and 1 January 2004	4,251	4	190	19,000
Minority interests' share of loss	–	–	(446)	–
Dividend declared	25,190	–	–	–
Contribution from a minority shareholder	–	–	–	–
Cash outflows	(21,454)	–	–	(5,000)
At 31 December 2004	**7,987**	**4**	**(256)**	**14,000**

24. COMMITMENTS

(a) Commitments under operating leases

The Group has future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 RMB'000	2003 RMB'000
Within one year	**5,058**	2,439
In the second to fifth year inclusive	**18,852**	9,489
After the fifth year	**6,745**	8,399
	30,655	20,327

24. COMMITMENTS *(Continued)*

(b) Capital commitments

The Group has no material capital commitments as at 31 December 2004 (2003: nil).

25. RELATED PARTY TRANSACTIONS

Apart from the transactions or balances as disclosed in notes 17 and 18, the Group had the following significant related party transactions:

	2004	2003
	RMB'000	RMB'000
Sales of goods to Custom Accessories	**4,822**	4,311

Sales to Custom Accessories were conducted in the normal course of business at prices and terms determined by reference to those charged to and contracted with other third party customers of the Group.

26. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2004 (2003: nil).

27. BANKING FACILITIES

The Group's banking facilities are as follows:

	2004	2003
	RMB'000	RMB'000
Total banking facilities available	**163,000**	71,140
Less: amounts utilised	**(14,000)**	(19,000)
Unused facilities	**149,000**	52,140

For details of the securities for the banking facilities, please refer to note 20(a).

28. SUBSEQUENT EVENT

Save as disclosed elsewhere in the combined accounts, the following events took place subsequent to 31 December 2004, and up to the date of this report:

(a) The companies comprising the Group underwent the Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. On 13 February 2005, the Company became the holding company of the Group. On 28 February 2005, the Company's shares were listed on the Main Board of the Stock Exchange following the completion of the public offer and placing of 100,000,000 shares as described in the prospectus of the Company dated 17 February 2005. The Company raised net proceeds of approximately RMB79 million from the public offer and placing of the Company's shares.

(b) 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.

(c) In March 2005, NFA Service entered into an agreement with a Shanghai local company and established a joint venture which will be principally engaged in the automobile repair and maintenance services. The registered capital of the subsidiary is RMB1,000,000, which was contributed by NFA Service and the Shanghai local company in proportion of 75% and 25% respectively.

NFA Service also entered into an agreement with the Shanghai local company to acquire its automobile repair and maintenance services business and the related assets at a consideration of RMB1,500,000.

(d) 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.

29. PARTICULARS OF SUBSIDIARIES

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Legal form of entities established in the PRC	Authorised registered capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/ place of operation
Interests directly held:						
Perfect Progress Investments Limited	British Virgin Islands 8 April 2002	–	US$50,000 Ordinary shares	US$ 500	100%	Investment holding Hong Kong
Interests indirectly held:						
Shanghai New Focus Auto Parts Co., Ltd.	The PRC 1 March 1994	Wholly-owned foreign enterprise	US$1,100,000 Registered capital	US$ 1,100,000	100%	Manufacture and sale of automotive accessories The PRC
New Focus Light and Power Technology (Shanghai) Co., Ltd.	The PRC 24 April 2001	Wholly-owned foreign enterprise	US$6,000,000 Registered capital	US$ 6,000,000	100%	Manufacture and sale of automotive accessories The PRC
Shanghai New Focus Auto Repair Services Co., Ltd.	The PRC 21 December 2000	Limited liability company	RMB3,500,000 Registered capital	RMB3,500,000	90%	Automobile repair, maintenance and restyling services; sales of automotive products The PRC

30. 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 the public offering of the Company's shares, Sharp Concept Industrial Limited held 45% equity interest of the Company.

31. APPROVAL OF ACCOUNTS

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