

CHAIRMAN'S STATEMENT



Introduction

With the high growth in the PRC economy, the demands for automotive aftermarket products and services have been increasing at a breathtaking rate, most notably since 2002. The PRC automotive market is now the third largest in the world in terms of number of automobiles sold and the number of automobiles in use continues to increase. Both the huge potentials and the lack of leading brands in the PRC automotive aftermarket present endless opportunities especially to the early entrants.

Being the first listed company in Hong Kong focusing, inter alia, on the development of the provision of automotive aftermarket products and services in the PRC, in addition to maintaining the

steady and sustainable growth in the manufacturing and sales of electronic and power-related automotive parts and accessories (the "Manufacturing Business") and in order to grasp the opportunities presented by the high growth in the PRC automotive aftermarket, after extensive research, the Group decided in 2002 to invest heavily in the development of an automotive aftermarket services chain stores (the "Chain Stores Business"), with a view to becoming a pioneer in this industry.

Leveraging its in-depth understanding of the PRC's automotive aftermarket service sector, the benefits of having a head start and the valuable experience accumulated over the years, the Group has formulated a master game plan by fully committing itself to establishing a leading brand name in the PRC and expanding the distribution network for its Chain Stores Business through acquisitions and formation of strategic alliances, thereby consolidating the fragmented market, securing a sizable market share and becoming a significant player in this industry. The Group has also invested heavily in building and perfecting its central infrastructure (the "Headquarter") with the intention of providing an efficient and scalable framework to support the future expansion of its distribution network. The functions of such Headquarter include the development of "NFA" products and equipment, the sourcing of products and equipment for its dealership, cross-region training services, cross-region logistics, management support for its nationwide distribution network (including the support for acquisitions and franchising activities) and nationwide brand promotion. It is our belief that the successful implementation of this strategy

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will position the Group for becoming a leading player in the PRC automotive aftermarket services chain stores sector and bring to its shareholders significant long-term rewards.

Looking back, the Group encountered a number of internal and external challenges. Externally, the increase in raw material prices and the revaluation of the Renminbi have put negative pressure on the Group's gross profit margin. Internally, the IPO exercise and the maintenance of the continuing listing status of the Company led to a substantial increase in operating expenses. The expiry of the full tax exemption period for one of the subsidiaries, as a result of which profit tax rate increased from zero tax rate to 12% in 2005, had also put significant downward pressure on the Group's net profit growth. Despite facing such challenges, with the support of our dedicated staff, we continued to strengthen our Headquarter functions. By responding quickly to new product development and by developing new customer relationships, the Group managed to maintain a satisfactory profit margin and achieve encouraging improvements in all of the principal business segments.

Results and dividend policy

- The Group recorded a turnover of approximately RMB507,471,000 for the Year, representing an increase of approximately 42% compared to that of 2004.
- Turnover generated from the Manufacturing Business was approximately RMB480,959,000, representing an increase of 41% compared to that of 2004.
- Turnover generated from the Chain Stores Business was approximately RMB26,512,000, while turnover generated from the sales of products through the Group's chain store network was approximately RMB6,181,000, representing an increase of 66% and 99% respectively compared to those of 2004.
- The operating profit for the year was approximately RMB66,019,000, representing an increase of 29% compared to that of 2004.
- The profit attributable to shareholders for the year was approximately RMB55,618,000, representing an increase of 11% compared to the that of 2004.

In addition to enhancing our shareholders' long term capital gain, the Group also attaches great importance in providing a reasonable short term return for our shareholders by ensuring that our dividend payout is in line with the growth of profit. The Group's 2005 Annual General Meeting will be held on Monday, 22 May 2006 and the Directors have recommended a dividend of HK\$0.08 per share, representing a 2.6% increase compared with the 2004 special dividend level.

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Operations

During the year, the Group's Manufacturing Business continued its rapid growth. Through intense promotion, the Group's Chain Stores Business has also established its core competitive advantages and a solid foundation for future expansion.

Manufacturing and sales of electronic and power-related automotive parts and accessories

The Group continued its healthy growth in the Manufacturing Business. Turnover and segment results increased by 41% and 34% respectively. The average five year growth rates for turnover and segment results have reached 31% and 28% respectively.

Such growth was a result of:

1. the Group's ability to leverage its competitive advantages in terms of new design and product development. Being able to commercialize new products within a short space of time also means that the Group is able to maintain its profit margin even in times of rising costs; and
2. the Group has a broad and stable worldwide sales and distribution network. Sustainable and continuous growth was reported in all its target markets, including North America, Europe and the PRC. In addition to its long-term distribution channels with major brand names like Wal-Mart, Costco, SAM's Club, Home Depot, SEARS, Carrefour, Metro, B&Q, the Group's increase in turnover was also attributable to its rapidly-expanding "Autolife" chain store network.

The automotive aftermarket services chain stores business

The PRC market is unique because of its geographical diversity and its unsynchronized pace of economic development amongst different regions. Catering for this particular situation of the PRC market and with reference to the success of global automotive aftermarket service chain operators, the Group has formulated a "Headquarter – District Centres – Chain Stores" operating framework. The Group's operating income in this business segment is primarily generated from product sales and services rendered in the stores that the Group operates directly and from sales and royalty fees generated from its franchise partners.

In order to achieve long term competitive advantages, the Group has been focusing on the development of "NFA" products and equipment; sourcing of products and equipment for its dealership; cross-region training services; cross-region logistics support; the Headquarter support for its nationwide distribution network (including the support of its acquisitions and franchising activities) and brand promotion. Through strategic acquisitions, the Group has been rapidly expanding its distribution network for its Chain Stores Business. The size of this network increased from 39 stores as at the end of 2004 to 200 stores by the end of 2005. The Group has formed a strategic alliance with the Carrefour (China) and was also granted distribution rights to set up sales points in the Sinopec Corp's petrol stations and seven sales points have already been established. The Directors consider that these collaborations have significant positive implications in relation to the Group's brand building and the expansion of its nationwide distribution network.

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Strategy for achieving sustainable growth

The Group will continue its focus on the business of automotive aftermarket products and services and its expansion in the PRC market, with a view to achieving fast and yet sustainable growth and maximizing its shareholders return in the long run.

Manufacturing and sales of electronic and power related automotive parts and accessories

The principal strategy for the Manufacturing Business is to improve gross profit margin for the Group's products by improving operating efficiency. It is equally important for the Group to identify and explore new markets with great potentials. The Group adopts the "Blue Ocean Market" strategy which encompasses:

1. the continuing development of competitive advantages in different product areas and establishment of production facilities in the PRC with a view to maximizing profit and minimizing costs, and
2. concentrating our effort in developing inverters and High Intensity Discharge ("HID") light ballasts and related products. As the Directors are confident that the widespread use of electronic appliances in motor vehicles will result in inverters becoming a standard feature in more and more new models of motor vehicles. International automotive giants such as Toyota and Volkswagen have already started to include inverters in some of their new models. The Directors are confident that HID light ballasts are being widely used as headlights in motor vehicles due to its ability

to improve comfort and road safety substantially. The Directors believe that an increasing number of new models of motor vehicles will incorporate HID lights as a standard feature. The increasing demand in the original equipment manufacture market for inverters and HID light ballasts means that they will become the major contributors to the growth of our Manufacturing Business.

The automotive aftermarket services chain stores business

With four years of accumulated experience and commitments in its Chain Stores Business, the Group strongly believes that it has identified an optimum operating model for its "Autolife" chain stores going forward. Our experience also makes us appreciate that, in order to succeed in this business, economy of scale is the key. To achieve economy of scale, it is absolutely fundamental to have firstly, scalable and flawless Headquarter functions to support future growth; and secondly, a sizeable distribution network with unique attributes that is customised for local requirements.

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The Group builds up its district centers by collaborating with local service providers with their own competitive advantages in their designated territories. In order to enhance their strengths & mitigate their shortcomings, the Group provides these local service providers with Headquarter technical and logistic support. The Group has identified significant market potential presented by the South-western regions of the PRC. These regions have a high concentration of motor vehicles but are served by sub-standard local service providers. The "Autolife" operating model coupled with the local resources will enable the Group to optimise its expansion and penetration strategies.

We anticipate that there will be 350 "Autolife" chain stores in the PRC by the end of 2006. By the end of 2007, we anticipate that the Group will have a network of 500 stores and "Autolife" will reach its breakeven point. Our ultimate target is to build a network of 3,000 stores covering the whole of the PRC by the end of 2011. With the growth of the Group's network, the importance of the Headquarter support will become apparent and the upfront investments will be rewarded with improved efficiency and profit margin in the long run. The Directors believe that this will provide the Group with unique and unparalleled competitive advantages over its competitors.

With our significant presence in the market and our superior quality of services, we are confident that as "Autolife" matures in 2007, it will contribute significantly to the profit of the Group through various income streams, typically through royalty fees, product sales, advertising revenue, insurance income, brand licensing fees and shelf revenue.

Prospects

The Group is confident in the automotive aftermarket sector in the PRC. It will continue its efforts in making "Autolife" chain stores the market leader in the automotive aftermarket service chain stores sector in the PRC and will strive to make "NFA" a leading brand in automotive aftermarket products and services in the PRC. Our determination is strong and our vision is clear. On behalf of the board of directors, I would like to take this opportunity to extend my sincere gratitude to all our employees, franchisees, shareholders, customers and business partners for their continuing support over the years. I sincerely hope to work closely with everyone, and build a bright future for New Focus Group with enthusiastic effort.

Hung Wei-Pi, John

Chairman

Hong Kong, 21 April 2006