



# REPORT OF THE DIRECTORS

The directors (“Directors”) of New Focus Auto Tech Holdings Limited (the “Company”) are pleased to present their annual report for the year ended 31 December 2005 (the “Year”) and the audited consolidated financial statements (“Consolidated Financial Statements”) of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2005 (as if the Company had been the holding company of the companies comprising the Group since 1 January 2004).

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

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 comprising the Group on 13 February 2005. In order to inform shareholders of the Company the consolidated financial information and position of the Group, the Consolidated Financial Statements have been included in this annual report as if the Company had been the holding company of the companies comprising the Group since 1 January 2004. Further details of the Reorganisation as well as the basis of preparation of the Consolidated Financial Statements are set out in notes 1 and 2 to the Financial Statements.

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.

## ***Principal Activities***

The Group is principally engaged in the manufacturing and sale of electronic and power-related automotive parts and accessories, and the retail distribution of merchandise through its service chain stores network in the PRC automotive aftermarket.

Details of the principal activities of the subsidiaries of the Company are set out in note 19 to the Financial Statements.

## ***Results and Dividends***

The consolidated results of the Group for the Year are set out in the consolidated income statement on page 43. An analysis of turnover and segment results for the Year by geographical regions and business segments is set out in note 5 to the Financial Statements.

The Directors recommended the payment of a final dividend for the year ended 31 December 2005 of HK\$0.08 per share.



# REPORT OF THE DIRECTORS

## ***Property, Plant and Equipment***

Details of the movements of property, plant and equipment of the Group during the year are set out in note 15 to the Financial Statements.

## ***Investment Properties***

The details of the properties held by the Group for investment purposes during the year, including an office building located at Rooms 1 and 4, 16th Floor, Jianhui Building, 922 Hengshan Road, Xujiahui District, Shanghai, the PRC for office purposes held on long leases under two certificates of real estate ownership, are set out in note 16 to the Financial Statements.

## ***Share Capital***

Details of the issued share capital of the Company and its movements since the Company's incorporation along with the relevant explanations are set out in note 27 to the Financial Statements.

## ***Reserves***

The current Group structure as at 31 December 2005 was not in existence until 13 February 2005. Movements of reserves of the Group and the Company on a consolidated basis are set out in note 28 to the Financial Statements.

## ***Distributable Reserves***

Under the Companies Law of the Cayman Islands, share premium amounting to approximately RMB69 million is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2005, the Company had retained earnings and contributed surplus available for distribution to Shareholders amounting to approximately RMB2 million and RMB100 million respectively.

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

The register of members will be closed from Tuesday, 16 May 2006 to Monday, 22 May 2006 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Monday, 15 May 2006.

# 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 and Chief executive officer</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)
Douglas Charles Stuart Fresco	(appointed on 13 February 2005)
Norman L. Matthew	(appointed on 13 February 2005)
Liao Jung-Chun	(appointed on 13 February 2005 and resigned on 30 June 2005)
Jin Xiao-Yan	(appointed on 13 February 2005 and resigned on 6 September 2005)

### **Non-executive Directors**

Hong Jian-Bie	(appointed on 13 February 2005 and resigned on 21 April 2006)
Low Hsiao-Ping	(appointed on 21 April 2006)

### **Independent non-executive Directors**

Du Haibo	(appointed on 13 February 2005)
Zhou Tai-Ming	(appointed on 13 February 2005)
Uang Chii-Maw	(appointed on 13 February 2005)
Ma Fei	(appointed on 13 February 2005 and resigned on 30 June 2005)

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

In accordance with Article 87(1) of the Company's articles of association, Mr. Wu Kwan-Hong, Ms. Hung Ying-Lien and Mr. Zhou Tai-Ming will retire by rotation at the forthcoming annual general meeting of the Company. In accordance with Article 86(3) of the Company's articles of association, Mr. Low Hsiao-Ping, who was appointed by the Board as a non-executive Director on 21 April 2006, will hold office until the forthcoming annual general meeting and shall then be eligible for re-election. All such Directors 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

## ***Director's Service Contracts***

Each of Mr. Hung Wei-Pi, John, Mr. Wu Kwan-Hong, Ms. Hung Ying-Lien, Mr. Lu Yuan Cheng, 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 the respective letters of appointment of the non-executive Director, namely, Mr. Low Hsiao-Ping and the independent non-executive Directors, namely, Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw, each of them is appointed for a term of three years subject to retirement by 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, a former 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. On 12 July 2005, the transfer of 10% equity interest in NFA Service was completed upon satisfying all conditions of the agreement, as such, Ms. Jin Xiao-Yan no longer holds any interest in NFA Service. Ms. Jin Xiao-Yan resigned as an executive Director of the Company on 6 September 2005.

Save as disclosed above and save as disclosed in note 34 to the Financial Statements 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 subsisted during the Year.

# REPORT OF THE DIRECTORS

## **Share Option Scheme**

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 operation. 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.

The grant of 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.

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 holding period 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.

# REPORT OF THE DIRECTORS

## Share Option Scheme (Continued)

As at 31 December 2005, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 23,540,000 shares. The total number of shares available for issue under the Scheme (excluding options already granted) is 16,460,000 shares, representing approximately 4.1% of the total issued share capital of the Company on that date.

As at 31 December 2005, details of options granted under the Scheme are as follows:

Name of option holder	Date of grant	Exercise period	Exercise price (per share)	Closing price of share on date of grant (per share)	Number of shares subject to options granted since 1 January 2005	Number of shares subject to options lapsed/cancelled since 1 January 2005	Number of shares subject to outstanding options as at 31 December 2005
Mr. Wu Kwan-Hong <i>Executive Director</i>	28 February 2005	1 January 2006 to 12 February 2015 (Note 1)	HK\$0.94	HK\$0.94	4,000,000		4,000,000
Ms. Hung Ying-Lien <i>Executive Director</i>	28 February 2005	1 January 2006 to 12 February 2015 (Note 2)	HK\$0.94	HK\$0.94	4,000,000		4,000,000
Mr. Lu Yuan Cheng <i>Executive Director</i>	28 February 2005	1 January 2006 to 12 February 2015 (Note 3)	HK\$0.94	HK\$0.94	4,000,000		4,000,000
Continuous contract employees in aggregate	28 February 2005	From 1 January 2006 (Note 4)	HK\$0.94	HK\$0.94	11,780,000	1,950,000 (Note 5)	9,830,000
Continuous contract employees in aggregate	5 July 2005	From 1 January 2006 (Note 4)	HK\$1.01	HK\$1.00	1,710,000		1,710,000
Total					25,490,000	1,950,000	23,540,000



# REPORT OF THE DIRECTORS

## Share Option Scheme (Continued)

Notes:

1. 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.
2. 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.
3. 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.
4. Share options 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.
5. Options lapsed due to termination of employment.

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

As at 31 December 2005, the interests or short positions of each of the Directors and chief executives 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")), which were required to be recorded in the register maintained by the Company under Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to 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, were as follows:

### (i) The Company

#### (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)	Percentage of issued shares
Mr. Hung Wei-Pi, John	Interest in a controlled company (Note 2)	180,000,000(L)	45%
Mr. Douglas Charles Stuart Fresco	Interest in a controlled company (Note 3)	60,000,000(L)	15%

# REPORT OF THE DIRECTORS

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

### **(b) Interests in the underlying shares of the Company through equity derivatives**

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 31 December 2005 were as follows:

Name	Nature of interest	Number of underlying shares in respect of options granted	Exercise period	Price for grant	Exercise price	Percentage of issued share capital of the Company (%)
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)	1%
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)	1%
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)	1%

Notes:

The letter "L" denotes a long position in underlying shares.

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

As at 31 December 2005, 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 2005, the Directors were not aware of any disclosure of interests or short positions of the persons, other than Directors and chief executives of the Company, in the shares and underlying shares of the Company, as required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or the interests of persons directly or indirectly holding 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 members of the Group were as follows:

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
Sharp Concept Industrial Limited	Beneficial owner	180,000,000(L)	Nil	180,000,000	45%
Ms. Jin Xiao-Yan	Family interest (Note 2)	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 3)	60,000,000(L)	Nil	60,000,000	15%
Ms. Linda Fresco	Family interest (Note 4)	60,000,000(L)	Nil	60,000,000	15%

### *Notes:*

1. The letter "L" denotes a long position in the shares.
2. Ms. Jin Xiao-Yan is the wife of Mr. Hung Wei-Pi, John, an executive Director. Under the SFO, she is deemed to be interested in all the shares of the Company held by Sharp Concept Industrial Limited which in turn is wholly and beneficially owned by Mr. Hung Wei-Pi, John.
3. 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%.
4. 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 Golden Century Industrial Limited which in turn is wholly and beneficiary owned by Mr. Douglas Charles Stuart Fresco.

# REPORT OF THE DIRECTORS

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

Save as disclosed above, the Directors are not aware of any person, other than a Director 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 members of the Group as at 31 December 2005.

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

Save as disclosed above and under 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, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

## ***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.

## ***Sale, Purchase 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.

## ***Connected Transactions***

During the Year, 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.

# REPORT OF THE DIRECTORS

## **Connected Transactions (Continued)**

Prior to 12 July 2005, NFA Service was 90% indirectly owned by the Company and 10% owned by Ms. Jin Xiao-Yan, who was then 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 agreed to 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.

On 12 July 2005, the transfer of 10% equity interest in NFA Service was completed upon satisfying all conditions of the agreement and Ms. Jin Xiao-Yan no longer held any interest in NFA Service.

Pursuant to Rule 14A.33(3) of the Listing Rules, before the completion of the said transfer (the "Completion of the NFA Service Transfer"), the Property Lease Agreement constituted a connected transaction that fell within the de minimis thresholds. Such a transaction, accordingly, was exempt from compliance with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Upon the Completion of the NFA Service Transfer on 12 July 2005, NFA Service became the wholly-owned subsidiary of the Company and the Property Lease Agreement ceased to be a connected transaction.

## **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. Based on the business projections of the Group, 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. As the 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 would not 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 transactions under the Custom Accessories Sales Agreement constituted continuing connected transactions exempt from the independent shareholders' approval requirement for the Company following the Listing under Rule 14A.34 of the Listing Rules.

# REPORT OF THE DIRECTORS

## **Connected Transactions (Continued)**

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.

### **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. Based on the business projections of the Group, the maximum aggregate annual sales by NFA Parts and NF Light & Power to NFA Service under the NFA Service Sales Agreement would 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. As 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 transactions under NFA Service Sales Agreement constituted non-exempt continuing connected transactions for the Company and would be subject to reporting, announcement and independent Shareholders' approval.

Upon the Completion of the NFA Service Transfer on 12 July 2005, the transactions under the NFA Service Sales Agreement ceased to be connected transactions.

### **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.

As 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 would 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 was not exempted under Rule 14A.66 of the Listing Rules and would be subject to reporting, announcement and independent Shareholders' approval requirements under Rule 14A.63 of the Listing Rules.

# REPORT OF THE DIRECTORS

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

Upon the Completion of the NFA Service Transfer on 12 July 2005, the Loan Agreement ceased to be a connected transaction.

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 2005 and confirmed that:

- (a) the Custom Accessories Sales Agreement and in the cases of NFA Service Sales Agreement and Property Lease Agreement, during the period between 1 January 2005 and 12 July 2005, were entered into by the Group in its ordinary and usual course of business;
- (b) the Custom Accessories Sales Agreement and in the cases of NFA Service Sales Agreement, Property Lease Agreement and Loan Agreement during the period between 1 January 2005 and 12 July 2005, 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 Custom Accessories Sales Agreement, and in the cases of NFA Service Sales Agreement, Property Lease Agreement, and Loan Agreement during the period between 1 January 2005 and 12 July 2005, 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.

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.



# REPORT OF THE DIRECTORS

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

Sales to the Group's five largest customers accounted for 71% of the total sales for the year, whereas sales to the largest customer accounted for 36%. Purchases from the Group's five largest suppliers accounted for 27% of the total purchases for the year, whereas purchases from the largest supplier accounted for approximately 9%.

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.

## ***Public Float***

As at the date of this annual report, based on public information available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float, being 25% of the issued share capital of the Company as required under the Listing Rules.

## ***Auditors***

The Consolidated Financial Statements 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, 21 April 2006