1 ORGANISATION

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”), which was completed on 13 February 2005, 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.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

Following the completion of the public offering, the Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 28 February 2005.

The Group engages in manufacturing and sales of automotive accessories, automobile repair, maintenance and restyling services. The Group’s manufacturing plants are established in Shanghai, China.

These consolidated financial statements are presented in thousands of Renminbi (Rmb’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 April 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Group resulting from the Reorganisation referred to in note 1 above is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group since 1 January 2004. In the opinion of the Directors, the consolidated financial statements prepared on the above basis present fairly the results, cash flows and state of affairs of the Group as a whole.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of financial assets, financial liabilities and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Change in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) *New HKFRS did not result in substantial change:*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, and 33 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures;

– HKASs 2, 7, 8, 10, 16, 23, 27, 33 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities have been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity's financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

(b) *HKAS17*

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of revised HKAS 17 resulted in a reclassification of balance sheet at 31 December 2005 and 2004 by:

	As at 31 December	
	2005	2004
	RMB'000	RMB'000
Decrease in property, plant and equipment	**(17,769)**	(18,162)
Increase in leasehold land and land use rights (Note 17)	**17,769**	18,862

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) *HKFRS 2*

Prior to 2005, the Group had no share option scheme. The HKFRS 2 was adopted since grant of share options were first granted on 28 February 2005, from when the Group expenses the cost of share options in the income statement during the vesting period.

(d) *HKAS 32 and HKAS 39*

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Trade and other receivables were previously carried at cost less provision for doubtful debts.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the profit and loss account over the period of the borrowings using the effective interest method. Borrowings were previously carried at cost.

The above changes in accounting policy do not have any material effect on the financial statements.

(e) *HKAS 40*

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the income statement as part of other gains.

Prior to 2005, the Group had no investment property. The HKAS40 was adopted after certain owner occupied properties of the Group were transferred to investment properties in March 2005.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(f) HKFRS 3, HKAS 36 and HKAS 38

The adoption of HKFRS 3, HKAS 36 and HKAS 38 result in the change of the accounting policy relating to the accounting policies of goodwill. The Group ceased amortisation of goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the costs of goodwill. From 1 January 2005 onwards, positive goodwill arising from an acquisition is no longer subjected to amortisation but is tested annually for impairment, as well as when there are indications of impairment. From 1 January 2005 onwards, HKFRS 3 requires the Group to recognise immediately in the income statement the excess of net fair value of those items acquired over the cost of the acquisition.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information. Any adjustment should be made to the retained earnings at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after the adoption date on 1 January 2005.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The Company has not early adopted the following new/revised standards, interpretations or amendments of HKFRS that have been issued but are mandatory only for accounting period beginning on or after 1 January 2006 or later periods. The Directors consider that HKAS39, HKFRS1, HKFRS 7 and HKFRS-Int 4 are relevant to the Group's operations. It is expected that the adoption of such Standards and Interpretations will not result in significant changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rate - Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains A Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Business segment is chosen as the primary segment of the Company.

2.4 Foreign currency translation

(a) *Functional currency translation*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in Renminbi (RMB) which is the Company's functional and presentation currency.

(b) *Transaction and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

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

Construction in progress comprises building on which construction work has not been completed. Construction in progress is carried at cost which includes cost of 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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment properties of the Group represent apartments and villas held for capital appreciation.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

Changes in fair values are recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment properties *(Continued)*

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the income statement. Subsequent changes in fair value of this item is recognised in the income statement.

2.7 Intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) *Trademark and franchise contract*

Trademark and franchise contract are shown at historical cost. Trademark and franchise contract have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademark and franchise contract over their estimated useful lives of 10 years.

2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 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 using weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Employee benefits – shared based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.16 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.

2.17 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Research and development

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 the 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 assets 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.

2.19 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(a) *Sales of goods – wholesale*

Sales of goods are recognized when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) *Sales of goods – retail*

Sales of goods are recognized when a Group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such fees are included in distribution costs.

(c) *Render of services*

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Revenue recognition *(Continued)*

(d) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method.

(e) *Government grants*

Grants from the government are recognised at their fair value when there is reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

2.20 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are expensed in the income statement on a straight-line basis over the period of the lease.

Leasehold land and land use right are amortised on a straight line basis over the unexpired period of the right granted.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in current year. Management believes that the presentation in the current year is a fairer representation of the Group's activities.

3 FINANCIAL RISK MANAGEMENT

Financial assets of the Group mainly includes short-term deposits and bank balances, trade receivables, amounts due from related companies, and prepayment, deposits and other receivables. Financial liabilities of the Group include bank loans, trade payables and other payables.

(a) – Foreign exchange risk

As significant part of the business revenue is settled in foreign currencies, the fluctuation of the RMB exchange rate may affect the business operations of the Group. As at 31 December 2005, the Group believes that such fluctuation of RMB does not have any material adverse effect on the current operating results and financial position of the Group. The Group used currency borrowing to hedge its foreign currency exposure.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk

The Group has concentration of credit risk with respect to trade receivables, as over 80% of the Group's trade receivables are in respect of the top five customers. The credit terms ranges from 30 days to 90 days and the aging of trade receivables from the top five customers as at 31 December 2005 is within 90 days.

(c) Liquidity risk

The Group adopts prudent liquidity risk management through maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The directors of Company believe that cash from operations and short-term bank borrowings will be sufficient to meet the Group's operating cashflow.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and long-term bank borrowings, the Group’s income and operating cash flows are substantially independent of changes in the market interest rates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimation of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from current prices in an active market for properties of different nature, condition or location adjusted to reflect those differences.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) *Impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations by each balance sheet date.

(d) *Impairment of trade receivable*

The Group's management determines the provision for impairment of trade receivable. This estimate is based on the credit history of its customers and the current market condition. Management will reassess the provision by each balance sheet date.

4.2 Critical judgements in applying the entity's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

5 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 ended 31 December 2005 are as follows:

	2005 RMB'000	2004 RMB'000
Turnover		
Sales of goods	**480,959**	340,778
Render of service	**26,512**	15,951
	507,471	356,729
Other gains, net		
Interest income from bank deposits	**737**	108
Gain on disposal of investment properties	**1,704**	–
Fair value gains on investment properties	**4,637**	–
Advertising income	**582**	–
Government subsidies	**3,576**	486
Others	**781**	84
	12,017	678
Total revenues	**519,488**	357,407

(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 inter-segment sales or other transactions between the business segments during the year ended 31 December 2005 (2004: nil).

5 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

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

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

	2005 Manufacturing and sales of automobile accessories RMB'000	Provision of automobile repair, maintenance and restyling services RMB'000	Total RMB'000
Segment revenues			
Turnover	480,959	26,512	507,471
Other gains, net	5,094	–	5,094
	486,053	26,512	512,565
Segment results	77,252	(7,914)	69,338
Unallocated other gains			6,923
Unallocated costs			(10,242)
Operating profit			66,019
Finance costs			(477)
Profit before taxation			65,542
Income tax expense			(9,924)
Profit for the year			55,618
Segment assets	258,703	42,585	301,288
Unallocated corporate assets			24,622
Total assets			325,910
Segment liabilities	83,770	9,093	92,863
Unallocated corporate liabilities			1,378
Total liabilities			94,241
Capital expenditure	34,783	5,695	40,478
Depreciation and amortisation charge	8,260	1,779	10,039

5 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	2004		
	Manufacturing and sales of automobile accessories RMB'000	Provision of automobile repair, maintenance and restyling services RMB'000	Total RMB'000
Segment revenues			
Turnover	340,778	15,951	356,729
Other gains, net	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
Income tax expense			(37)
Profit for the year			49,881
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

5 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

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

Segment assets consist primary of leasehold land and land use rights, property, plant and equipments, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation, investment properties, and cash balance of the Group.

Segment liabilities comprise operating liabilities. They exclude deferred taxation liabilities.

Unallocated gains primarily represent gain on disposal of investment properties and fair values gains on investment properties. Unallocated costs primarily represent corporate expenses and staff expenses in respect of employee share option scheme.

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights and intangible assets (including property, plant and equipment and intangible assets acquired through acquisition of businesses). (note 31)

5 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:

	2005	2004
	RMB'000	RMB'000
Segment turnover		
North America	**364,296**	242,510
Europe	**48,277**	29,625
Asia Pacific	**33,250**	35,106
Greater China (including Taiwan)	**61,648**	49,488
Total	**507,471**	356,729
Segment results		
North America	**58,017**	44,591
Europe	**10,914**	5,359
Asia Pacific	**9,394**	8,509
Greater China (including Taiwan)	**18,487**	16,931
Total	**96,812**	75,390
Unallocated other gains	**8,441**	108
Unallocated costs	**(39,234)**	(24,445)
Operating profit	**66,019**	51,053

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 inter-segment sales between the geographical segments for the year ended 31 December 2005 (2004: nil).

6 OPERATING PROFIT

Operating profit is stated after charging the following:

	2005 RMB'000	2004 RMB'000
Cost of inventories sold	**385,816**	261,791
Write off of inventories	**643**	486
Auditors' remuneration	**1,080**	480
Depreciation of property, plant and equipment	**9,928**	5,221
Amortisation of leasehold land and land use right	**393**	275
Less: capitalised as construction in progress	**(287)**	–
	106	275
Amortisation of trademarks (included in administrative expenses)	**5**	–
Exchange losses	**2,190**	570
Loss on disposal of property, plant and equipment	**–**	110
Operating leases – land and building	**5,370**	4,431
Impairment expenses on receivables	**297**	140
Research and development cost	**5,409**	4,038

7 FINANCE COST

	2005 RMB'000	2004 RMB'000
Interest on short-term bank loans	**477**	1,135

8 INCOME TAX EXPENSE

The amount of taxation charged to the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
Current taxation – PRC enterprise income tax	**9,137**	–
Deferred income taxation *(Note 20)*	**787**	37
	9,924	37

8 INCOME TAX EXPENSE *(Continued)*

(a) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong during the year ended 31 December 2005 (2004: nil).

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

For the year ended 31 December 2004, NFA Parts was qualified as an Export Oriented Enterprise and was therefore exempted from local income tax and entitled to a 50% reduction in corporate income tax. Accordingly, corporate income tax was provided at a rate of 12%. For the year ended 31 December 2005, NFA Parts is no longer qualified as Export Oriented Enterprises, it is thus subject to an applicable corporate income tax rate of 24% and a local tax rate of 3%, resulting in an aggregate income tax rate of 27% for the year ended 31 December 2005.

(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 entitled to enjoy 50% reduction in corporate income tax at a rate of 12% for the year ended 31 December 2005 (2004: nil).

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

As a domestic enterprise, NFA Service is subject to an applicable corporate income tax rate of 33%. For the year ended 31 December 2005, NFA Service was in a loss-making position, accordingly, no income tax has been provided (2004: Nil).

(iv) *Newly acquired or established subsidiaries (Notes 19 and 31)*

The three subsidiaries newly acquired or established by NFA Service during the year ended 31 December 2005 are domestic enterprises and are subject to applicable corporate income tax rate of 33%. For the year ended 31 December 2005, these subsidiaries did not have taxable income, accordingly, no income tax has been provided.

8 *INCOME TAX EXPENSE (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:

	2005	2004
	RMB'000	RMB'000
Profit before taxation	**65,542**	49,918
Tax calculated at domestic applicable tax rates (27%)	**17,696**	11,980
Effect of preferential tax treatments *(Note 8 (b))*	**(10,629)**	–
Effect of tax exemptions *(Note 8 (b))*	**–**	(13,513)
Unrecognised tax losses	**2,561**	1,045
Income not subject to taxation	**–**	(90)
Expenses not deductible for tax purpose	**296**	615
	9,924	37

9 *PROFIT FOR THE YEAR*

The consolidated profit for the year includes a profit of approximately RMB36,837,000 (2004: a loss of approximately RMB60,000) dealt with in the financial statements of the Company.

10 EARNINGS PER SHARE

– **Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company (RMB thousands)	**55,618**	50,327
Weighted average number of ordinary shares in issue (thousands)	**383,333**	300,000
Basic earnings per share (RMB per share)	**0.145**	0.168

– **Diluted**

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and share options. For the share options, a calculation is carried out to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above compared with the number of shares that would have been issued assuming the exercise of the share options is as follows:

	2005	2004
Profit attributable to equity holders of the Company and used to determine diluted earnings per share (RMB thousands)	**55,618**	50,327
Weighted average number of ordinary shares in issue (thousands)	**383,333**	300,000
Adjustments for – share options (thousands)	**3,150**	Not applicable
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**386,483**	Not applicable
Diluted earnings per share (RMB per share)	**0.144**	Not applicable

11 DIVIDENDS

	2005 RMB'000	2004 RMB'000
Dividend paid prior to the initial public offering (a)	–	25,190
Special dividend paid in 2005 of HK$0.078 per ordinary share (b)	33,072	–
Final, proposed, of HK$0.08 per ordinary share (c)	33,098	–
	66,170	25,190

(a) The dividends paid prior to the initial public offering of the Company's shares for the year ended 31 December 2004 represented the dividends paid by the Company's subsidiaries to their then shareholders.

(b) At a meeting held on 25 April 2005, the directors proposed a special dividend of HK$0.078 per ordinary share and HK$31,200,000 (equivalent to RMB33,072,000) in total for 2005. This dividend has been reflected as an appropriation of retained earnings for the year ended 31 December 2005.

(c) At a meeting held on 21 April 2006, the directors proposed final dividend of HK$0.08 per ordinary share and HK$32,000,000 in total for 2005, these dividends have not been reflected as an appropriation of retained earnings for the year ended 31 December 2005.

12 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2005 RMB'000	2004 RMB'000
Wages and salaries	**56,524**	32,503
Retirement benefit costs (note 13)	**1,897**	1,167
Staff and workers' bonus and welfare fund (i)	**–**	2,388
Other social welfare	**2,808**	2,199
Meal allowances	**3,724**	2,519
Labour protection fee	**967**	562
	65,920	41,338

(i) 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 (the "PRC GAAP"). Appropriation of staff and workers' bonus and welfare fund is determined at the discretion of the board of directors and is charged to income statement 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 was the appropriation of staff and workers' bonus and welfare fund made by NF Light & Power. For the year ended 31 December 2005, no appropriation of staff and workers' bonus and welfare fund was made by any of the companies in the Group.

13 RETIREMENT BENEFIT COSTS

The PRC employees of the Group participate in a defined contribution retirement plan organized 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 RMB1,897,000 for the year ended 31 December 2005 (2004: RMB1,167,000). There was no forfeited contributions throughout the year ended 31 December 2005 (2004: nil).

14 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2005 and 2004 is set out below:

	2005			
Name of Director	**Fee**	**Salary**	**Share option**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Executive directors				
– Hung Wei-Pi, John (i)	–	2,119	–	2,119
– Wu Kwan-Hong (i)	–	855	151	1,006
– Hung Ying-Lien (i)	–	689	151	840
– Lu Yuan Cheng (i)	–	350	146	496
– Douglas Charles Stuart Fresco (i)	–	53	–	53
– Norman L. Matthew (i)	–	53	–	53
– Jin Xiao-Yan (i) (iii)	–	30	–	30
– Liao Jung-Chun (i) (ii)	–	20	–	20
Non-executive directors				
– Horng Jian-Bie (i)	–	50	–	50
Independent non-executive directors				
– Du Haibo (i)	50	–	–	50
– Zhou Tai-Ming (i)	53	–	–	53
– Ma Fei (i) (ii)	20	–	–	20
– Uang Chii-Maw (i)	50	–	–	50
	173	4,219	448	4,840

14 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Directors' and senior management's emoluments *(Continued)*

	2004			
Name of Director	Fee	Salary	Other Benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
– Hung Wei-Pi, John	–	420	–	420
– Wu Kwan-Hong	–	216	–	216
– Hung Ying-Lien	–	204	–	204
– Liao Jung-Chun	–	276	–	276
– Jin Xiao-Yan	–	24	–	24
	–	1,140	–	1,140

(i) Appointed on 13 February 2005

(ii) Resigned on 30 June 2005

(iii) Resigned on 5 September 2005

No discretionary bonuses, inducement fees, employer's contribution to pension scheme or compensation for loss of office as directors were given to any of the directors during the year ended 31 December 2005 (2004: nil).

None of the Directors have waived or agreed to waive any emoluments paid by the Group during the year ended 31 December 2005 (2004: nil).

14 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2005 and 2004 included four (2004: four) directors whose emoluments are reflected in the analysis presented in (a) above. The emoluments paid or payable to the remaining one (2004: one) non-director are as follows:

	2005	2004
	RMB'000	RMB'000
Basic salaries and other allowances	**168**	300
Discretionary bonuses	**–**	–
Retirement benefit costs	**–**	–
	168	300

The emoluments of the one (2004: one) highest paid non-directors fell within the band of nil to RMB1,040,583 (equivalent to approximately HK$1,000,000).

15 PROPERTY, PLANT AND EQUIPMENT

GROUP

	Construction in progress	Land use rights	Buildings	Leasehold improve-ments	Plant and machinery	Motor vehicles	Office equipment, furniture and fixtures	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004								
Cost	14,882	4,443	19,722	1,943	13,997	2,548	5,819	63,354
Accumulated depreciation	–	(363)	(3,260)	(129)	(4,581)	(851)	(2,786)	(11,970)
Net book amount	14,882	4,080	16,462	1,814	9,416	1,697	3,033	51,384
Reclassified to leasehold land and land use right (Note (b))	(14,343)	(4,080)	–	–	–	–	–	(18,423)
At 1 January 2004 (restated)	539	–	16,462	1,814	9,416	1,697	3,033	32,961
Year ended 31 December 2004 (restated)								
Opening net book amount (restated)	539	–	16,462	1,814	9,416	1,697	3,033	32,961
Additions	78	–	2,247	1,434	5,291	713	1,307	11,070
Transfer upon completion	(405)	–	405	–	–	–	–	–
Disposals	–	–	–	–	(147)	–	(11)	(158)
Depreciation	–	–	(1,020)	(279)	(2,734)	(345)	(843)	(5,221)
Closing net book amount as at 31 December 2004 (restated)	212	–	18,094	2,969	11,826	2,065	3,486	38,652

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	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
Year ended 31 December 2005								
Opening net book amount (restated)	212	–	18,094	2,969	11,826	2,065	3,486	38,652
Capitalisation of amortization of leasehold land and land use right (Note 6)	287	–	–	–	–	–	–	287
Acquisition of a subsidiary and businesses (Note 31)	–	–	51	297	537	259	509	1,653
Fair value adjustment before transfer to investment properties	–	–	1,213	–	–	–	–	1,213
Transfer to investment properties (Note 16)	–	–	(17,781)	–	–	–	–	(17,781)
Other additions	14,624	–	661	1,067	14,990	2,966	2,818	37,126
Transfer upon completion	(12,472)	–	12,472	–	–	–	–	–
Disposals	(37)	–	(2)	(34)	(635)	(337)	(65)	(1,110)
Depreciation	–	–	(1,248)	(451)	(6,626)	(469)	(1,134)	(9,928)
Closing net book amount as at 31 December 2005	**2,614**	**–**	**13,460**	**3,848**	**20,092**	**4,484**	**5,614**	**50,112**

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The buildings were stated on the historical cost basis.

(b) Included in the balance of construction in progress as at 1 January 2004 there was an amount of Rmb14,343,000 for the land use right of a parcel of land located in Qingpu District. The balances for all the land use rights have been retrospectively adjusted and transferred to leasehold land and land use right according to HKAS17 (Note 2.1(b)).

COMPANY

	Office equipment, furniture and fixtures
Year ended 31 December 2005	
Opening net book amount	–
Additions	116
Closing net book amount as at 31 December 2005	**116**

16 INVESTMENT PROPERTIES

	2005 RMB'000	2004 RMB'000
Beginning of the year	–	–
Transfer from property, plant and equipment	17,781	–
Disposals	(1,433)	–
Fair value gains	4,637	–
End of year	20,985	–

According to a board resolution dated 10 March 2005, the NF Light & Power and NFA Parts transferred 27 apartments and 3 villas (the "Apartments and Villas") respectively from property, plant and equipment to investment properties in view of the booming property market. According to a board resolution dated 25 October 2005, the NF Light & Power transferred an office building (the "Office Building") from owner-occupied property to property held for rental.

16 INVESTMENT PROPERTIES *(Continued)*

The Apartments and Villas were revaluated at 31 December 2004 by Vigers Appraisal & Consulting Limited International Property Consultant ("Vigers"), an independent qualified valuer, on an open market value basis. In a subsequent letter issued on 11 April 2006, Vigers, confirmed that after taking into consideration of all the relevant information and the market conditions, there is no material change in fair values of the Apartments and Villas for the period from 31 December 2004 to 31 March 2005. The difference of Rmb 1,163,000 between the fair value and the carrying amount of the then Apartments and Villas as at 10 March 2005 was recorded in the other reserve. During the period from 10 March 2005 to 31 December 2005, 9 apartments have been disposed and the related fair value gains of Rmb 202,000 was released from the reserve account.

The Office Building was revalued on 25 October 2005, by Shanghai Dahua Assets Appraisal Co., Ltd. ("Dahua"), an independent qualified valuer, on an open market value basis. The difference of Rmb50,000 between the revalued result and the then carrying amount of the Office Buildings as at 25 October was recorded in the other reserve.

As at 31 December 2005, the Apartments and Villas were revalued by Dahua on an open market value basis. The movement of Rmb4,637,000 on the fair values from 10 March 2005 to 31 December 2005 was recognised as other gains in the income statement.

No valuation was performed on the Office Building as at 31 December 2005, as there was no significant difference in fair values during the period from 25 October 2005 to 31 December 2005.

17 LEASEHOLD LAND AND LAND USE RIGHT

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005	2004
	RMB'000	RMB'000
Outside Hong Kong held on:		
Leases of between 10 to 50 years	**17,769**	18,162
Opening (Note 2.1(b) and 15(b))	**18,162**	18,423
Additions (Note)	**–**	14,357
Disposal (Note)	–	(14,343)
Amortisation of prepaid operating lease payment	**(393)**	(275)
	17,769	18,162

17 LEASEHOLD LAND AND LAND USE RIGHT *(Continued)*

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

Note: 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 balance of leasehold land and land use right as at 31 December 2005 and 31 December 2004 includes the acquisition amount of Rmb14,343,000 for the New Land. As of the date of these financial statements, the title of the New Land has been granted to NF Light & Power by Shanghai Qingpu however the issuance of the land use right certificate is still in process.

18 INTANGIBLE ASSETS

	Goodwill	Trademarks	Franchise contracts	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Net book amount as at 1 January 2004 and 2005	–	–	–	–
Addition from acquisition of subsidiaries and businesses (Note 31)	2,787	1,299	400	4,486
Amortisation for the year	–	(5)	–	(5)
Net book amount as at 31 December 2005	**2,787**	**1,294**	**400**	**4,481**

19 INVESTMENT IN AND LOANS TO SUBSIDIARIES

(a) Investment in subsidiaries

	2005	2004
	RMB'000	RMB'000
Investments, at cost		
Unlisted shares	**131,717**	–

19 INVESTMENT IN AND LOANS TO SUBSIDIARIES *(Continued)*

(a) Investment in subsidiaries *(Continued)*

As at 31 December 2005, the Company had direct and indirect interests in the following subsidiaries:

Company name	Country/place and date of incorporation	Legal form of entities established in 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	The 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	RMB23,500,000 Registered capital	RMB23,500,000	90%	Automobile repair, maintenance and restyling services; sales of automotive products The PRC
Shanghai Likeliang Auto Service Co., Ltd.	The PRC 23 March 2005	Limited liability company	RMB1,000,000 Registered capital	RMB1,000,000	95%	Automobile repair, maintenance and restyling services; sales of automotive products The PRC

19 INVESTMENT IN AND LOANS TO SUBSIDIARIES *(Continued)*

(a) Investment in subsidiaries *(Continued)*

Company name	Country/place and date of incorporation	Legal form of entities established in PRC	Authorised registered capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/ place of operation
Shanghai Hualiang Vocational and Technical Training School (Note 31, 9(a))	The PRC March 2004	Civilian sponsored non enterprise unit	RMB1,000,000 Registered capital	RMB1,000,000	100%	Automobile repair, maintenance and restyling services training The PRC
Shanghai Beforly Investment Management Limited (Note 31)	The PRC 7 July 2005	Limited liability company	RMB1,000,000 Registered capital	RMB1,000,000	99%	Automobile repair, maintenance and restyling services; sales of automotive products The PRC

(b) Loans to a subsidiary

The loans to a subsidiary represented loans to NFLight & Power with principals of HK$26,000,000 and HK$40,000,000 which are due on 12 September 2006 and 31 December 2006 respectively, carrying interest rate of Hong Kong Dollar Prime Lending Rate plus 3%. Subsequent to 31 December 2005, the directors of the Company determined to extend the repayment dates of the above loans to NF Light & Power as these loans are intended to be used for continuous development of the manufacturing and sale of automotive parts and accessories business according to the share offer proceeds usage plan. The related foreign exchange loss of RMB1,233,000 of the loans as a result of the year end currency translation was recorded as other reserves of the Company (Note 28).

20 DEFERRED INCOME TAX

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

	Inventory provision RMB'000	Provision on warranty RMB'000	Loss on property written off subject to tax approval RMB'000	Total RMB'000
At 31 December 2004 and 1 January 2005	31	6	13	50
Charged to income statement (note 8)	(5)	–	(13)	(18)
At 31 December 2005	**26**	**6**	**–**	**32**

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

In accordance with PRC tax law, tax losses may be carried forward against future taxable income for a period of five years. As at 31 December 2005, the Group had tax losses carried forward of approximately Rmb9,486,000 (2004: Rmb4,354,000) which will expire between 2008 and 2010, available to set off against the Group's future taxable income. For the year ended 31 December 2005, the Group did not recognise Rmb 2,561,000 (2004: Rmb1,045,000) of deferred tax asset arising from the tax losses available as management is of the view that it was not probable that such tax losses would be realised before they expire.

Deferred tax liabilities:

	Fair value gain on investment properties RMB'000	Accrued subsidy income RMB'000	Total RMB'000
At 31 December 2004 and 1 January 2005	–	–	–
Charged to income statement (note 8)	(577)	(192)	(769)
At 31 December 2005	(577)	(192)	(769)

All deferred tax liabilities are to be settled within 12 months.

21 INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	**22,282**	20,621
Work in progress	**12,830**	8,324
Finished goods	**8,113**	627
Merchandise goods	**14,844**	17,101
	58,069	46,673

22 TRADE RECEIVABLES

Details of the ageing analysis are as follows:

	2005 RMB'000	2004 RMB'000
Current to 30 days	**30,964**	29,851
31 to 60 days	**25,115**	18,405
61 to 90 days	**2,859**	2,111
Over 91 days	**3,987**	3,431
	62,925	53,798
Less: provision for impairment of receivables	**(1,050)**	(753)
	61,875	53,045

The carrying amount of trade receivables as of 31 December 2005 approximate their fair value.

The credit terms range from 30 days to 90 days.

23 AMOUNT DUE FROM/TO RELATED PARTIES

GROUP

Amount due from a related party:

Name		2005 RMB'000	2004 RMB'000
Custom Accessories Asia Limited ("Custom Accessories")	Balance at 1 January	**486**	640
	Balance at 31 December	**68**	486
	Maximum amount outstanding during the year	**4,337**	2,015

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

Amount due from Custom Accessories arising from trading activities with aging from current to 90 days. It is unsecured, interest-free and has no fixed terms of repayment.

The carrying value of amount due from a related party approximated its fair value.

COMPANY

Amount due from a subsidiary:

Name	2005 RMB'000	2004 RMB'000
Perfect Progress Investment Limited ("Perfect Progress")	**10,400**	10

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

23 AMOUNT DUE FROM/TO RELATED PARTIES *(Continued)*

Amount due from Perfect Progress as at 31 December 2005 represents a dividend of HKD10,000,000 appropriated to the Company according to a board resolution dated 16 November 2005.

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

The carrying value of amount due from a subsidiary approximated its fair value.

COMPANY

Amount due to subsidiaries:

Name	**2005**	2004
	RMB'000	RMB'000
Perfect Progress	**207**	1,123
NFA Parts	**78**	5,400
NF Light & Power	**718**	2,763
	1,003	9,286

Amounts due to subsidiaries is unsecured, interest-free and has no fixed terms of repayment.

The carrying value of amounts due to subsidiaries approximated their fair value.

24 AMOUNT DUE FROM/TO DIRECTORS

GROUP

Amount due from a director:

Name		2005 RMB'000	2004 RMB'000
Wu Kwan-Hong	Balance at 1 January	–	–
	Balance at 31 December	5	–
	Maximum amount outstanding during the year	5	–

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

The carrying value of amount due from a director approximated its fair value.

Amount due to directors:

Name	2005 RMB'000	2004 RMB'000
Douglas Charles Stuart Fresco	2	10
Hung Wei-Pi, John	–	184
	2	194

Amounts due to Douglas Charles Stuart Fresco and Hung Wei-Pi, John, directors of the Company, are unsecured, interest-free and have no fixed terms of repayment.

The carrying value of amount due to directors approximated its fair value.

24 AMOUNT DUE FROM/TO DIRECTORS *(Continued)*

COMPANY

Amount due from a director:

Name		**2005** **RMB'000**	2004 RMB'000
Hung Wei-Pi, John	Balance at 1 January	**18**	16
	Balance at 31 December	**–**	18
	Maximum amount outstanding during the year	**31**	18

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

The carrying value of amount due from a director approximated its fair value.

Amount due to a director:

Name	**2005** **RMB'000**	2004 RMB'000
Douglas Charles Stuart Fresco	**–**	5

Amount due to Douglas Charles Stuart Fresco, a director of the Company, is unsecured, interest-free and has no fixed terms of repayment.

The carrying value of amount due to a director approximated its fair value.

25 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

	2005 RMB'000	2004 RMB'000
Term deposits denominated in Rmb	**20,000**	-

The effective interest rate on term deposits, with maturity of 6 months, was 2.07% per annum for the year ended 31 December 2005 (2004: nil).

26 CASH AND CASH EQUIVALENTS

GROUP **Name**	**2005** **RMB'000**	2004 RMB'000
Cash at bank and in hand	**43,616**	23,205
Bank deposits	**51,000**	14,500
	94,616	37,705
Less: term deposits with initial term of over three months (note 25)	**(20,000)**	–
Cash and cash equivalents	**74,616**	37,750
Denominated in:		
RMB	**54,394**	22,755
USD	**16,950**	5,957
HK$	**3,202**	9,038
EUR	**70**	–
	74,616	37,750

(i) The effective interest rate on short-term bank deposits, with maturity period of 7 days, was 1.62% per annum for the year ended 31 December 2005 (2004:1.62%)).

(ii) The Group's cash and cash equivalents denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

COMPANY

As at 31 December 2005, the cash and cash equivalents of the Company consist of cash at bank and in hand denominated in HK$.

27 SHARE CAPITAL

As discussed in note 2.1, for the purpose of these financial statements, the Group is considered as a continuing entity as if the Group structure after the Reorganisation had been in existence from 1 January 2004.

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

	Number of shares	Nominal value HK$'000
Authorised:		
Ordinary shares of HK$0.1 each upon incorporation (i)	3,500,000	350
Increased in authorised share capital (ii)	1,996,500,000	199,650
Ordinary shares of HK$0.1 each	2,000,000,000	200,000

	Number of shares	Nominal value HK$'000	Nominal value RMB'000
Issued and fully paid:			
Ordinary shares of HK$0.1 each allotted and issued nil paid (iii)	1	–	–
Ordinary shares of HK$0.1 each allotted and issued (iii)	9	–	–
On acquisition of Perfect Progress (iv)	90	–	–
Capitalisation of reorganisation reserve (v)	299,999,900	30,000	31,800
Initial Public offering (vi)	100,000,000	10,000	10,600
Employee share option scheme (value of service provided) (vii)	–	–	–
Ordinary shares of HK$0.1 each	400,000,000	40,000	42,400

27 SHARE CAPITAL *(Continued)*

(i) The Company was incorporated in the Cayman Islands on 15 May 2002 with an authorised share capital of HK$350,000 divided into 3,500,000 ordinary shares of HK$0.1 each.

(ii) 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$0.1 each which rank pari passu with the existing shares.

(iii) 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 Norman Matthew LLC ("NMLLC").

(iv) 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.

(v) 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 Sharp Concept, Golden Century and NMLLC in proportion.

(vi) On 28 February 2005, the Company completed its public offering of 100,000,000 shares and the Company's shares were listed on the Main Board of The Stock Exchange Hong Kong Limited.

27 SHARE CAPITAL *(Continued)*

(vii) Share options

The Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to employees who contribute to the success of the Group's operation.

On 28 February 2005, the Company granted share options of 23,780,000. The exercise price of the granted options is equal to the closing price of the shares on the date of grant. There are 10 vesting periods ending on consecutive years ending on 31 December 2006 to 31 December 2014 and period ending 12 February 2015. The options are exercisable starting from 1 January 2006 to 12 February 2015 subject to accomplishing performance targets or conditions, as determined by the board of directors of the Company.

On 5 July 2005, additional share options of 1,710,000 were granted to a consultant of the Company and employees at the average closing prices of five consecutive days before the grant date. The vesting period is ending on 31 December 2008. The options are exercisable starting from 1 January 2006 to 31 December 2008 subject to accomplishing performance targets or conditions, as determined by the board of directors of the Company. .

Movements in the number of share options outstanding are as follows:

	Options (thousands)
At 1 January 2005	–
Granted on 28 February 2005	23,780
Granted on 5 July 2005	1,710
Lapsed	(1,950)
At 31 December 2005	**23,540**

27 SHARE CAPITAL *(Continued)*

(vii) Share options *(Continued)*

Share options outstanding at the end of the year have the following expiry date and exercise prices:

		Share options			
	Exercise price	Granted to	Granted to	Granted to	
Expiry date	**HK$ per share**	**Directors**	**Consultant**	**Employees**	**Total**
		(thousands)	(thousands)	(thousands)	(thousands)
31 December 2006	0.94	1,600	–	1,720	3,320
31 December 2008	0.94	–	–	3,360	3,360
31 December 2008	1.01	–	300	1,410	1,710
31 December 2010	0.94	–		4,750	4,750
12 February 2015	0.94	10,400	–	–	10,400
		12,000	300	11,240	23,540

The fair value of options granted during the year determined using the Black-Scholes valuation model was RMB1,279,000. The significant inputs into the model were share price of HK$0.94 at the grant date and HK$1.01 at the average closing prices of the five consecutive day before the grant date, exercise price shown above, standard deviation of expected share price returns of 29.87%, expected life of options of 1.8 years to 10 years and annual risk-free interest rate of 1.81% to 3.83%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the period from 28 February 2005 (date of listing) to 31 December 2005.

28 RESERVES

GROUP

	Share premium	Reor-ganisation reserve (note b)	Statutory Reserve fund (note a)	Enterprise expansion fund	Others	Retained earnings	Total
	RMB'000	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
Group reorganization	–	4	–	–	–	–	4
Transfer to share capital (note 27(v))	–	(31,800)	–	–	–	–	(31,800)
At 1 January 2004 – restated on merger basis (note 2.1)	(2,050)	2,738	7,641	2,756	–	56,878	67,963
Share issuance expenses	(5,947)	–	–	–	–	–	(5,947)
Profit for the year	–	–	–	–	–	50,327	50,327
Transfer to statutory reserves	–	–	5,820	–	–	(5,820)	–
Dividends (note 11)	–	–	–	–	–	(25,190)	(25,190)
At 31 December 2004	(7,997)	2,738	13,461	2,756	–	76,195	87,153
Initial Public offering (note 27(vi))	89,040	–	–	–	–	–	89,040
Share issuance expense	(11,760)	–	–	–	–	–	(11,760)
Fair value gains arising from transfer from property, plant and equipment to investment properties	–	–	–	–	1,213	–	1,213
Release of fair value gains due to disposal of investment properties	–	–	–	–	(202)	–	(202)
Profit for the year	–	–	–	–	–	55,618	55,618
Transfer to reserves (a)	–	–	6,408	–	–	(6,408)	–
Employee share option scheme:							
– value of employee services	–	–	–	–	1,279	–	1,279
Dividends (note 11)	–	–	–	–	–	(33,072)	(33,072)
At 31 December 2005	**69,283**	**2,738**	**19,869**	**2,756**	**2,290**	**92,333**	**189,269**

Representing:	
– 2005 final dividend proposed	33,098
– Others	59,235
Retained earnings as at 31 December 2005	**92,333**

28 RESERVES *(Continued)*

GROUP *(Continued)*

(a) NFA Parts and NF Light & Power are wholly foreign owned enterprises established in the PRC and hence are required to transfer no less than 10% of the profit after taxation, as determined in accordance with the PRC GAAP, 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 capital.

(b) The reorganisation reserve of the Group represents:

(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;

(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;

(iv) on 13 February 2005, an aggregate of 90 shares were allotted and issued by the Company in exchange for the 100% of share interest in Perfect Progress (the "Transferring Interest") (Note 27(iv)). The difference of RMB4,000 between the nominal value of the shares of issued by the Company and the Transferring Interests' share of the fair value of Perfect Progress pursuant to the Reorganisation is accounted for as reorganisation reserve of the Group; and

(v) on 13 February 2005, the Directors of the Company were authorised to capitalise HK$29,999,990 towards paying up in full at par 299,999,900 shares for allotment (Note 27(v)).

28 RESERVES *(Continued)*

COMPANY

	Share premium RMB'000	Contributed surplus RMB'000	Others RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2004	(2,050)	–	–	(1,413)	(3,463)
Share issuance expenses	(5,947)	–	–	–	(5,947)
Loss for the year	–	–	–	(60)	(60)
At 31 December 2004	(7,997)	–	–	(1,473)	(9,470)
Public offering (note 27(vi))	89,040	–	–	–	89,040
Share issuance expense	(11,760)	–	–	–	(11,760)
Effect of reorganisation (Note 1)	–	131,717	–	–	131,717
Transferred to share capital (Note 27(v))	–	(31,800)	–	–	(31,800)
Profit for the year	–	–	–	36,837	36,837
Exchange difference on loans to a subsidiary (Note 19(b))	–	–	(1,233)	–	(1,233)
Employee share option scheme:					
– value of employee services	–	–	1,279	–	1,279
Dividends (note 11)	–	–	–	(33,072)	(33,072)
At 31 December 2005	**69,283**	**99,917**	**46**	**2,292**	**171,538**
Representing:					
– 2005 final dividend proposed				33,098	
– Others				(30,806)	
Retained earnings as at 31 December 2005				**2,292**	

29 TRADE PAYABLES

Details of the ageing analysis are as follows:

	2005	2004
	RMB'000	RMB'000
Current to 30 days	**38,829**	31,881
31 to 60 days	**20,352**	15,897
61 to 90 days	**253**	533
Over 91 days	**858**	707
	60,292	49,018

30 BANK BORROWINGS

		2005	2004
		RMB'000	RMB'000
Unsecured	*(a)*	**9,927**	–
Secured	*(b)*	**–**	14,000

(a) Unsecured loans as at 31 December 2005 represent loan of USD1,230,000 borrowed by NF Light & Power at a rate of 5.05% per annum, which are guaranteed by NFA Parts and repayable on 21 September 2006. The carrying amount of borrowings as at 31 December 2005 and 2004 approximated their fair values.

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

	2005	2004
Interest rate per annum	**–**	4.78% to 5.31%
Repayment term	**–**	6 to 12 months
Securities	**–**	Property, plant & equipment and land use rights with aggregate net book value of RMB19,748,000

31 BUSINESS COMBINATION

(a) Acquisition of a subsidiary – Shanghai Hualiang Vocational and Technical Training School (the "School")

On 1 May 2005, the Group acquired 100% of the capital of the School from Shanghai You Cheng Auto Service Company Ltd. ("You Cheng"), a private company incorporated in PRC which previously owned the interest of the School. The acquired business contributed revenue of approximately RMB332,000 and a loss of approximately RMB97,000 for the period from 1 May 2005 to 31 December 2005. The revenue and profit before tax of the School for the period from 1 January 2005 to the date of acquisition are not presented as there were no proper accounting books and records kept before the acquisition.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
Cash	120
Fair value of net liabilities assumed – shown as below	35
Goodwill (Note 18)	155

The assets and liabilities arising from the acquisition are as follows:

	Fair value of net liabilities assumed
Cash and cash equivalents	53
Property, plant and equipment (Note 15)	96
Prepaid operating lease payments	6
Inventories	80
Receivables	10
Payables	(280)
Net liabilities assumed	(35)
Purchase consideration settled in cash	120
Cash and cash equivalents in subsidiary acquired	(53)
Cash outflow on acquisition	67

The carrying amount of the acquiree's assets and liabilities are not presented as there were no proper accounting books and records kept before the acquisition.

31 BUSINESS COMBINATION *(Continued)*

(b) Acquisition of business from You Cheng:

On 1 May 2005, the Group acquired certain business and related assets from You Cheng, which engages in operating franchise stores providing automobile repair, maintenance and restyling services and sales of automotive products. The acquired business contributed revenue of approximately RMB193,000 and net profit of approximately RMB54,000 for the period from 1 May 2005 to 31 December 2005. The revenue and profit before tax of You Cheng for the period from 1 January 2005 to the date of acquisition are not presented as there were no proper accounting books and records kept before the acquisition.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
Cash	1,380
Fair value of net assets acquired – shown as below	(281)
Goodwill (Note 18)	1,099

The goodwill is attributable to the profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of business from You Cheng.

The fair values of assets and liabilities of the acquired business as at the date of acquisition:

	Fair value of net assets acquired
Property, plant and equipment (Note 15)	130
Inventories	80
Receivables	71
Net assets acquired	281
Purchase consideration settled in cash	1,380
Cash and cash equivalents acquired	–
Cash outflow on acquisition	1,380

The carrying amount of the acquiree's assets and liabilities are not presented as there were no proper accounting books and records kept before the acquisition.

31 BUSINESS COMBINATION *(Continued)*

(c) Acquisition of a subsidiary – Shanghai Beforly Investment Management Limited (the "Beforly")

On 8 November 2005, the Group acquired 99% of the share capital of the Beforly, which was established on 7 July 2005 with registered capital of Rmb 1,000,000 at a consideration of Rmb 990,000. Beforly had no revenue or net profit before the acquisition as it had not commenced business since its establishment.

Details of net assets of Beforly acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
Cash	990
Fair value of net assets acquired – shown as below	(990)
Goodwill	–

The fair value of assets and liabilities arising from the acquisition of Beforly are as follows:

	Fair value of net assets acquired
Property, plant and equipment (Note 15)	327
Inventories	128
Receivable	755
Cash and cash equivalents	9
Payables	(219)
Net assets acquired	1,000
Less: 1% owned by minority share holder	(10)
Purchase consideration settled in cash	990
Cash and cash equivalents in subsidiary acquired	(9)
Cash outflow on acquisition	981

The carrying amounts of the acquiree's assets and liabilities approximated the fair value on the date of acquisition.

31 BUSINESS COMBINATION *(Continued)*

(d) Acquisition of businesses by Beforly

During the period from 8 November 2005 to 15 November 2005, Beforly acquired the businesses from two local companies which were engaged in operating franchise stores providing automobile repair, maintenance and restyling services and sales of automotive products. The acquired businesses of Beforly contributed the Group revenue of approximately Rmb1,041,000 and net loss of approximately Rmb72,000 for the period from 15 November 2005 to 31 December 2005. The revenue and profit before tax of the two local entities for the period from 1 January 2005 to the date of acquisition are not presented as there were no proper accounting books and records kept before the acquisition.

Details of net assets and goodwill acquired by Beforly from the two local entities are as follows:

	RMB'000
Purchase consideration:	
Cash	4,593
Fair value of net assets acquired – shown as below	(3,060)
Goodwill (Note 18)	1,533

The goodwill is attributable to the profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of business from the two local entities.

The fair value of assets and liabilities arising from the acquisition are as follows:

	Fair value of net assets acquired
Property, plant and equipment (Note 15)	1,100
Intangible assets – trademarks (Note 18)	1,299
Intangible assets – franchise contracts (Note 18)	400
Inventories	261
Net assets acquired	3,060
Purchase consideration settled in cash	4,593
Cash to be paid and recorded in other payables	(4,394)
Cash outflow on acquisition	199

The carrying amounts of the acquiree's assets and liabilities are not presented as there were no proper accounting books and records kept by the local companies before the acquisition.

There were no acquisitions for the year ended 31 December 2004.

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2005 RMB'000	2004 RMB'000
Profit for the year	**55,618**	49,881
Adjustments for:		
Income tax expense	**9,924**	37
Depreciation of property, plant and equipments	**9,928**	5,221
Loss on disposal of property, plant and equipments	**–**	110
Gain on disposal of investment properties	**(1,704)**	–
Fair value gains on investment properties	**(4,637)**	–
Amortisation of leasehold land and land use rights	**106**	275
Amortisation of trademarks	**5**	–
Expense of share-based payments	**1,279**	–
Interest income	**(737)**	(108)
Interest expenses	**477**	1,135
Change in working capital	**70,259**	56,551
Increase in inventories	**(10,847)**	(15,675)
(Increase)/decrease in trade receivables	**(8,749)**	3,573
(Increase)/decrease in prepayments, deposits and other receivables	**(29,972)**	26,059
Decrease in amount due from a related party	**418**	154
Increase in amount due from a director	**(5)**	–
Decrease in amount due to a director	**–**	3,022
Increase/(decrease) in trade payables	**11,274**	(16,653)
Increase in accruals and other payables	**5,303**	1,151
(Decrease)/increase in amounts due to directors	**(192)**	71
Net cash inflow generated from operating activities	**37,489**	58,253

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Net cashflows arising from the acquisition of subsidiaries and businesses are disclosed in Note 31.

	Note	Net cash outflows Rmb'000
Acquisition of the School	31(a)	67
Acquisition of You Cheng	31(b)	1,380
Acquisition of Beforly	31(c)	981
Acquisition businesses by Beforly	31(d)	199
		2,627

(c) Analysis of changes in financing:

	Dividend payable RMB'000	Share Capital RMB'000	Minority interests RMB'000	Loans RMB'000
At 1 January 2004	4,251	4	190	19,000
Minority interests' share of loss	–	–	(446)	–
Dividend declared	25,190	–	–	–
Transfer from share premium	–	31,796	–	–
Cash outflows	(21,454)	–	–	(5,000)
At 31 December 2004 and 1 January 2005	7,987	31,800	(256)	14,000
Dividend declared	33,072	–	–	–
Initial Public offering	–	10,600	–	–
Cash inflows, including new bank loans	–	–	256	46,927
Cash outflows, including repayment of bank loans	(40,762)	–	–	(51,000)
At 31 December 2005	**297**	**42,400**	**–**	**9,927**

33 COMMITMENTS

(a) Commitments under operating leases

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

	2005 RMB'000	2004 RMB'000
Within one year	**3,847**	5,058
In the second to fifth year inclusive	**14,803**	18,852
After the fifth year	**–**	6,745
	18,650	30,655

As at 31 December 2005, the Company had no commitments under operating leases (2004: nil).

(b) Capital commitments

	2005 RMB'000	2004 RMB'000
Property, plant and equipment		
– Contracted but not provided for	**6,250**	–

As at 31 December 2005, the Company had no capital commitments (2004: nil).

34 RELATED PARTY TRANSACTIONS

(a) Name of related party and nature of relationship

Name	**Relationship with the Company**
Custom Accessories	Company invested by certain directors of the Company

(b) Related party transactions carried out during the year

Apart from the transactions or balances as disclosed in notes 23 and 24, the Group had the following significant related party transactions:

	2005 **RMB'000**	2004 RMB'000
Sales of goods to Custom Accessories	**7,449**	4,822
Key management compensation (note 14)		
– Basic salary and other allowances	**4,392**	1,140
– Share-based payment	**448**	–
	4,840	1,140

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.

35 CONTINGENT LIABILITIES

The Group and the Company had no material contingent liabilities as at 31 December 2005 (2004: nil).

36 BANKING FACILITIES

The Group's banking facilities are as follows:

	2005	2004
	RMB'000	RMB'000
Total banking facilities available	150,000	163,000
Less: amounts utilised (Note 30)	(9,927)	(14,000)
Unused facilities	140,073	149,000

As at 31 December 2005, there was no pledge of assets for the banking facilities.

37 EVENTS AFTER THE BALANCE SHEET DATE

On 5 April 2006, Perfect Progress entered into an agreement (the "Agreement") with An Bo Trading Company Limited ("An Bo") to establish a joint venture company in Shandong Province (the "Joint Venture"), the PRC. According to the Agreement, the registered capital of the joint venture is USD1,900,000, 51% of which will be contributed by Perfect Progress, in the form of cash, and the other 49% will be contributed by An Bo, in the form of building, leasehold land and land use rights. The Joint Venture will be engaged in manufacturing and sales of automobile accessories. As at the date of these financial statements, the application for establishment of the Joint Venture is still in progress.