

NFA[®] New Focus Auto Tech Holdings Limited
新焦點汽車技術控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 360



INTERIM REPORT
2010

* For identification purpose only

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CORPORATE INFORMATION

Directors

Executive Directors

Hung Wei-Pi, John (*Chairman*)

Wu Kwan-Hong

Hung Ying-Lien

Lu Yuan Cheng

Douglas Charles Stuart Fresco

Edward B. Matthew

Non-executive Directors

Low Hsiao-Ping

Hsu Ming Chyuan

Independent non-executive Directors

Du Haibo

Zhou Tai-Ming

Uang Chii-Maw

Company Secretary

Ronie Yun Chung Cheng, ACA

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Legal Advisers

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Principal Share Registrar and Transfer Office

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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TO THE BOARD OF DIRECTORS OF NEW FOCUS AUTO TECH HOLDINGS LIMITED

(新焦點汽車技術控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 5 to 29, which comprises the condensed consolidated statement of financial position of New Focus Auto Tech Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 June 2010 and the related condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

BDO Limited

Certified Public Accountants

Lam Siu Fung

Practising Certificate Number: P05308

26 August 2010

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

| | | Unaudited Six months ended 30 June | |
|--|-------|---------------------------------------|-----------------|
| | | 2010 RMB'000 | 2009 RMB'000 |
| | Notes | | |
| Turnover | 3 | 421,838 | 276,447 |
| Cost of sales and services | | (296,233) | (199,802) |
| Gross profit | | 125,605 | 76,645 |
| Other income and gains and losses | 3 | 8,318 | 1,372 |
| Distribution costs | | (75,130) | (46,044) |
| Administrative expenses | | (36,861) | (25,945) |
| Finance costs | 4 | (2,176) | (6,720) |
| Profit/(loss) before taxation | | 19,756 | (692) |
| Income tax | 5 | (3,530) | (2,297) |
| Profit/(loss) for the period | | 16,226 | (2,989) |
| Other comprehensive income: | | | |
| Exchange differences arising on translation of overseas operations | | (408) | (303) |
| Total comprehensive income for the period | | 15,818 | (3,292) |
| Profit/(loss) attributable to: | | | |
| Owners of the Company | | 12,242 | (4,596) |
| Non-controlling interests | | 3,984 | 1,607 |
| | | 16,226 | (2,989) |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 11,883 | (4,888) |
| Non-controlling interests | | 3,935 | 1,596 |
| | | 15,818 | (3,292) |
| Earnings/(loss) per share | | | |
| – Basic | 6 | RMB0.023 | RMB(0.010) |
| – Diluted | 6 | RMB0.022 | RMB(0.010) |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position

As at 30 June 2010

| | <i>Notes</i> | As at 30 June 2010 RMB'000 (Unaudited) | As at 31 December 2009 RMB'000 (Audited) |
|---|--------------|---|--|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 174,509 | 169,656 |
| Leasehold land and land use rights | 8 | 18,429 | 18,676 |
| Investment properties | 8 | 40,698 | 40,698 |
| Goodwill | 8 | 70,390 | 70,461 |
| Other intangible assets | 8 | 21,593 | 21,719 |
| Deferred tax assets | | 54 | 55 |
| | | 325,673 | 321,265 |
| Current assets | | | |
| Trading securities | | 262 | 339 |
| Inventories | 9 | 178,037 | 144,477 |
| Trade receivables | 10 | 93,917 | 81,075 |
| Deposits, prepayments and other receivables | | 79,899 | 54,670 |
| Amount due from a related company | 11(a) | 3,343 | 34 |
| Pledged time deposits | | 2,543 | 2,563 |
| Cash and cash equivalents | | 73,496 | 82,572 |
| | | 431,497 | 365,730 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2010

| | <i>Notes</i> | As at 30 June 2010 RMB'000 (Unaudited) | As at 31 December 2009 RMB'000 (Audited) |
|--|--------------|---|--|
| Current liabilities | | | |
| Trade payables | 12 | 122,447 | 134,977 |
| Accruals and other payables | | 43,079 | 56,903 |
| Amounts due to directors | 11(b) | 61 | 61 |
| Bank borrowings, secured | 13 | 103,063 | 14,042 |
| Tax payable | | 1,194 | 2,135 |
| | | 269,844 | 208,118 |
| Net current assets | | 161,653 | 157,612 |
| Total assets less current liabilities | | 487,326 | 478,877 |
| Non-current liabilities | | | |
| Bank borrowings, secured | 13 | 12,585 | 28,370 |
| Deferred tax liabilities | | 5,746 | 5,746 |
| | | 18,331 | 34,116 |
| Net assets | | 468,995 | 444,761 |
| CAPITAL AND RESERVES | | | |
| Share capital | 15 | 55,317 | 55,003 |
| Reserves | | 356,329 | 339,283 |
| Equity attributable to owners of the Company | | 411,646 | 394,286 |
| Non-controlling interests | | 57,349 | 50,475 |
| Total equity | | 468,995 | 444,761 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

| | Share capital RMB'000 <i>(Note 15)</i> | Treasury stock RMB'000 | Share premium and other reserves RMB'000 <i>(Note 16)</i> | Retained profits RMB'000 | Attributable to owners of the Company RMB'000 | Non- controlling interests RMB'000 | Total RMB'000 |
|--|---|------------------------------|--|--------------------------------|---|---|------------------|
| Balance at 1 January 2010 | 55,003 | - | 252,222 | 87,061 | 394,286 | 50,475 | 444,761 |
| Total comprehensive income for the period | - | - | (359) | 12,242 | 11,883 | 3,935 | 15,818 |
| Contribution from non-controlling interest of a subsidiary | - | - | - | - | - | 2,939 | 2,939 |
| Repurchase and cancellation of shares | (395) | - | (6,349) | (395) | (7,139) | - | (7,139) |
| Issue of shares | 709 | - | 11,907 | - | 12,616 | - | 12,616 |
| Balance at 30 June 2010 | 55,317 | - | 257,421 | 98,908 | 411,646 | 57,349 | 468,995 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2009

| | Share capital RMB'000 (Note 15) | Treasury stock RMB'000 | Share premium and other reserves RMB'000 (Note 16) | Retained profits RMB'000 | Attributable to owners of the Company RMB'000 | Non- controlling interests RMB'000 | Total RMB'000 |
|---|--|------------------------------|---|--------------------------------|---|---|------------------|
| Balance at 1 January 2009 | 47,354 | - | 127,128 | 78,348 | 252,830 | 33,540 | 286,370 |
| Total comprehensive income | | | | | | | |
| for the period | - | - | (292) | (4,596) | (4,888) | 1,596 | (3,292) |
| Transfer of reserves | - | - | 452 | (452) | - | - | - |
| Arising from disposal of partial equity interest in a subsidiary | - | - | - | - | - | 1,796 | 1,796 |
| Contribution from non-controlling interest of a subsidiary | - | - | - | - | - | 87 | 87 |
| Dividend | - | - | - | - | - | (109) | (109) |
| Repurchase and cancellation of shares | (145) | - | (980) | (145) | (1,270) | - | (1,270) |
| Treasury stock | - | (393) | - | - | (393) | - | (393) |
| Balance at 30 June 2009 | 47,209 | (393) | 126,308 | 73,155 | 246,279 | 36,910 | 283,189 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

| | Unaudited | |
|--|--------------------------|----------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Net cash (used in)/generated from operating activities | (62,107) | 32,464 |
| Net cash used in investing activities | (15,836) | (28,859) |
| Net cash generated from/(used in) financing activities | 69,083 | (24,549) |
| Net decrease in cash and cash equivalents | (8,860) | (20,944) |
| Cash and cash equivalents at the beginning of the period | 82,560 | 95,726 |
| Effect of foreign exchange rate change | (204) | 9 |
| Cash and cash equivalents at the end of the period | 73,496 | 74,791 |
| Analysis of cash and cash equivalents: | | |
| Cash and bank balances | 73,496 | 74,797 |
| Bank overdrafts | - | (6) |
| | 73,496 | 74,791 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

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.

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

2 Basis of preparation and principal accounting policies

2.1 Basis of preparation

These unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2010 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2.2 Principal accounting policies

These unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, trading securities and derivative component of convertible bond which are carried at fair value.

The accounting policies and method of computation used in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, the following new and revised standards, amendments to standards and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2010.

| | |
|----------------------|--|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| HKFRS 1 (Amendments) | Additional Exemptions for First-time Adopters |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC)-Int 17 | Distribution of Non-cash Assets to Owners |

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the financial statements of the Group for the current or prior accounting periods.

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and principal accounting policies (Continued)

2.2 Principal accounting policies (Continued)

The Group has not early applied any of the new and revised standards, amendments or interpretations that have been issued but are not yet effective.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the financial statements in the period of their initial application.

3. Turnover, other income and gains and losses and segment information

The Group is principally engaged in the manufacture and sale of electronic and power-related automotive parts and accessories and the provision of automobile repair, maintenance and restyling services and retail distribution of merchandise goods through its service chain stores network in the Greater China Region. Revenues recognised during the period are as follows:

| | Unaudited | |
|---|--------------------------|-----------------|
| | Six months ended 30 June | |
| | 2010 RMB'000 | 2009 RMB'000 |
| Turnover | 421,838 | 276,447 |
| Other income and gains and losses: | | |
| Realised gain on trading securities | – | 116 |
| Bank interest income | 166 | 468 |
| Government subsidies | 227 | 899 |
| Gain/(loss) on disposal of property, plant and equipment | 101 | (59) |
| Fair value gain on derivative component of convertible bond (Note 14) | – | 409 |
| Net loss on redemption of convertible bond (Note 14) | – | (5,126) |
| Exchange loss on convertible bond (Note 14) | – | (168) |
| Rental income | 1,541 | 1,014 |
| Gain on sale of scrap materials | 393 | – |
| Imputed interest income from non-current earnest money deposit | 56 | 131 |
| Sampling income | 26 | 135 |
| Income from provision of repair and maintenance services | – | 438 |
| Compensation income | 1,592 | – |
| Sponsorship income | 1,099 | 621 |
| Exchange gains | 840 | 335 |
| Others | 2,277 | 2,159 |
| | 8,318 | 1,372 |
| Total | 430,156 | 277,819 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Turnover, other income and gains and losses and segment information *(Continued)*

(a) Reportable segments

The Group operates in two reportable segments, (i) the manufacture and sale of automobile accessories; and (ii) the provision of automobile repair, maintenance and restyling services. Set out below is an analysis of information of these segments:

Unaudited
Six months ended 30 June 2010

| | Manufacture and sale of automobile accessories RMB'000 | Provision of automobile repair, maintenance and restyling services RMB'000 | Eliminations RMB'000 | Consolidated RMB'000 |
|--|---|---|---------------------------------|---------------------------------|
| RESULTS | | | | |
| External sales revenue | 244,278 | 177,560 | – | 421,838 |
| Inter-segment sales revenue | 4,344 | 597 | (4,941) | – |
| External other income and gains and losses | 2,168 | 5,269 | – | 7,437 |
| Total | 250,790 | 183,426 | (4,941) | 429,275 |
| Reportable segment profit | 12,935 | 10,238 | | 23,173 |
| Interest income | 118 | 45 | – | 163 |
| Unallocated interest income | | | | 59 |
| Total interest income | | | | 222 |
| Interest expense | (2,039) | (137) | – | (2,176) |
| Depreciation and amortisation charges | (7,660) | (5,796) | – | (13,456) |
| Unallocated depreciation and amortisation charges | | | | (9) |
| Total depreciation and amortisation charges | | | | (13,465) |
| Income tax | (970) | (2,560) | – | (3,530) |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Turnover, other income and gains and losses and segment information (Continued) (a) Reportable segments (Continued)

| | Unaudited Six months ended 30 June 2009 | | | Consolidated RMB'000 |
|--|--|--|-------------------------|-------------------------|
| | Manufacture and sale of automobile accessories RMB'000 | Provision of automobile repair, maintenance and restyling services RMB'000 | Eliminations RMB'000 | |
| RESULTS | | | | |
| External sales revenue | 152,757 | 123,690 | – | 276,447 |
| Inter-segment sales revenue | 2,980 | – | (2,980) | – |
| External other income and gains and losses | 2,855 | 3,142 | – | 5,997 |
| Inter-segment other gains and losses | – | 83 | (83) | – |
| Total | 158,592 | 126,915 | (3,063) | 282,444 |
| Reportable segment profit | 7,254 | 3,411 | – | 10,665 |
| Interest income | 395 | 30 | – | 425 |
| Unallocated interest income | – | – | – | 174 |
| Total interest income | – | – | – | 599 |
| Interest expense | (2,752) | (207) | – | (2,959) |
| Unallocated interest expense | – | – | – | (3,761) |
| Total interest expense | – | – | – | (6,720) |
| Depreciation and amortisation charges | (5,350) | (4,697) | – | (10,047) |
| Unallocated depreciation and amortisation charges | – | – | – | (9) |
| Total depreciation and amortisation charges | – | – | – | (10,056) |
| Income tax | (1,109) | (1,188) | – | (2,297) |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Turnover, other income and gains and losses and segment information *(Continued)*

(b) Reconciliation of reportable segment profit or loss, and assets and liabilities

| | Unaudited | |
|---|---------------------------------|-------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Profit/(loss) before taxation | | |
| Reportable segment profit | 23,173 | 10,665 |
| Unallocated other income and net gains and losses | 881 | (4,625) |
| Unallocated corporate expenses | (4,298) | (2,971) |
| Unallocated finance costs | - | (3,761) |
| Profit/(loss) before taxation | 19,756 | (692) |
| | | |
| | Unaudited | Audited |
| | As at | As at |
| | 30 June | 31 December |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Assets | | |
| Reportable segment assets | 689,569 | 668,263 |
| Unallocated corporate assets | 67,601 | 18,732 |
| Consolidated total assets | 757,170 | 686,995 |
| Liabilities | | |
| Reportable segment liabilities | 283,304 | 237,125 |
| Unallocated corporate liabilities | 4,871 | 5,109 |
| Consolidated total liabilities | 288,175 | 242,234 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Turnover, other income and gains and losses and segment information *(Continued)*

(c) *Geographical segments*

During the period, the Group's operations and assets are located in North America, Europe, Asia Pacific and Greater China (including Taiwan).

Segment revenue from external customers of the Group and non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets ("Specified non-current assets") by geographical locations is presented as below:

| | Revenue from external customers for six months ended 30 June | | Specified non-current assets | |
|----------------------------------|---|------------------------------|--|--|
| | Unaudited 2010 RMB'000 | Unaudited 2009 RMB'000 | Unaudited As at 30 June 2010 RMB'000 | Audited As at 31 December 2009 RMB'000 |
| North America | 174,163 | 90,938 | - | - |
| Europe | 20,998 | 16,576 | - | - |
| Asia Pacific | 17,676 | 12,750 | - | - |
| Greater China (including Taiwan) | 209,001 | 156,183 | 325,619 | 321,210 |
| | 421,838 | 276,447 | 325,619 | 321,210 |

(d) *Major customers*

During the period, the Group's customer base is diversified and there was no customer with whom transactions has exceeded 10% of the Group's revenues.

4. Finance costs

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|-----------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | 2,176 | 2,959 |
| Imputed interest on convertible bond wholly repayable within five years | - | 3,761 |
| | 2,176 | 6,720 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Income tax

The amount of income tax charged to the condensed consolidated statement of comprehensive income represents:

| | Unaudited | |
|------------------------|---------------------------------|---------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Current tax – overseas | 3,530 | 2,442 |
| Deferred tax | – | (145) |
| | 3,530 | 2,297 |

No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong for the six months ended 30 June 2010 (2009: RMB Nil). Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

6. Earnings/(loss) per share

– *Basic*

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the period attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the period.

| | Unaudited | |
|--|---------------------------------|---------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| Profit/(loss) attributable to owners of the Company (RMB thousands) | 12,242 | (4,596) |
| Weighted average number of ordinary shares in issue (thousands) | 542,782 | 451,833 |

– *Diluted*

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) for the period attributable to the owners of the Company, adjusted to add the imputed interest on convertible bond, the exchange gain on convertible bond and fair value gain on the derivative component of convertible bond, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Earnings/(loss) per share *(Continued)*

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|----------------------|
| | 2010 | 2009 |
| Profit/(loss) attributable to owners of the Company and used to determine diluted earnings/(loss) per share (RMB thousands) | 12,242 | (4,596) |
| Weighted average number of ordinary shares in issue (thousands) | 542,782 | 451,833 |
| Effect of dilution – weighted average number of ordinary shares for share options (thousands) | 5,240 | – |
| Weighted average number of ordinary shares for diluted earnings/(loss) per share (thousands) | 548,022 | 451,833 [#] |

[#] The convertible bond had an anti-dilutive effect on the basic loss per share for the prior period. Accordingly, the effects of the convertible bond and the potential ordinary shares from the convertible bond were not assumed in the calculation of the diluted loss per share for the six months ended 30 June 2009.

7. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (30 June 2009: RMB Nil).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Capital expenditures

| | Property, plant and equipment | Leasehold land and land use rights | Investment properties | Goodwill | Other intangible assets |
|--|--|---|----------------------------------|-----------------|--|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Opening net carrying amount as at 1 January 2009 (audited) | 150,401 | 20,508 | 26,047 | 46,068 | 8,601 |
| Additions | 40,655 | - | - | - | - |
| Disposals | (786) | - | - | - | - |
| Depreciation/amortisation charge | (21,737) | (494) | - | - | (133) |
| Transfer | (10,298) | (1,338) | 11,636 | - | - |
| Acquisition of a subsidiary | 6,371 | - | - | 16,378 | 13,067 |
| Partial disposal of equity interest in a subsidiary | - | - | - | (502) | - |
| Exchange realignment | 764 | - | - | 115 | 184 |
| Fair value adjustment upon transfer to investment properties/fair value gain | 4,286 | - | 3,015 | - | - |
| Adjustment (Note 1) | - | - | - | 8,402 | - |
| Closing net carrying amount as at 31 December 2009 (audited) | 169,656 | 18,676 | 40,698 | 70,461 | 21,719 |
| Additions | 19,572 | - | - | - | 3 |
| Disposals | (1,283) | - | - | - | - |
| Depreciation/amortisation charge | (13,152) | (247) | - | - | (66) |
| Exchange realignment | (284) | - | - | (71) | (63) |
| Closing net carrying amount as at 30 June 2010 (unaudited) | 174,509 | 18,429 | 40,698 | 70,390 | 21,593 |

Notes:

1. It represents the adjustments to the final consideration paid in respect of an acquisition of a subsidiary in prior years, according to the respective acquisition agreements.
2. Leasehold land and land use rights, freehold land and certain buildings of the Group were pledged to secure the bank borrowings of the Group as at 30 June 2010 as further detailed in Note 13.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. Inventories

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|-------------------|---|---|
| Raw materials | 43,938 | 35,441 |
| Work-in-progress | 40,689 | 22,841 |
| Finished goods | 23,534 | 18,596 |
| Merchandise goods | 69,876 | 67,599 |
| | 178,037 | 144,477 |

10. Trade receivables

Details of the ageing analysis by invoice date are as follows:

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|------------------------------------|---|---|
| Current to 30 days | 52,010 | 41,738 |
| 31 to 60 days | 25,915 | 20,767 |
| 61 to 90 days | 8,961 | 13,362 |
| Over 91 days | 9,299 | 7,717 |
| | 96,185 | 83,584 |
| Less: allowance for doubtful debts | (2,268) | (2,509) |
| | 93,917 | 81,075 |

The average credit period to the Group's trade debtors is 30 days.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. Amounts due from related parties

(a) Amount due from a related company

The related company is Custom Accessories Asia Limited ("Custom Accessories"). Majority interests of Custom Accessories are mainly held by Mr Fresco, Mr Matthew and their close family members. Mr Fresco and Mr Matthew are directors of Custom Accessories and the Company and have beneficial interests in the Company as at the end of report period. Details of the balance with Custom Accessories are as follows:

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|---|---|---|
| Balance at beginning of period/year | 34 | 316 |
| Balance at end of period/year | 3,343 | 34 |
| Maximum amount outstanding during the period/year | 3,343 | 316 |

Amount due from Custom Accessories arises from trading activities with ageing from current to 30 days. The amount due from the related company is unsecured, interest-free and repayable on trading terms.

(b) Amounts due to directors

As at 30 June 2010 and 31 December 2009, the amounts due to directors are unsecured, interest-free and repayable on demand.

12. Trade payables

Details of the ageing analysis by invoice date are as follows:

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|--------------------|---|---|
| Current to 30 days | 89,569 | 80,517 |
| 31 to 60 days | 13,888 | 26,599 |
| 61 to 90 days | 5,433 | 12,754 |
| Over 91 days | 13,557 | 15,107 |
| | 122,447 | 134,977 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. Bank borrowings, secured

At 30 June 2010, bank borrowings were repayable as follows:

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|--|---|---|
| On demand or within one year | 103,063 | 14,042 |
| After one year but within two years | 1,288 | 16,241 |
| After two years but within five years | 2,692 | 2,778 |
| After five years | 8,605 | 9,351 |
| | 115,648 | 42,412 |
| Amount due within one year included in current liabilities | (103,063) | (14,042) |
| Amount included in non-current liabilities | 12,585 | 28,370 |

The banking facilities are secured by (i) the Group's freehold land and buildings; (ii) the Group's leasehold land and land use rights; (iii) personal guarantees from a director of the Company, two chief executives of a subsidiary, and a director of a subsidiary and her husband; (iv) pledged time deposits; and (v) corporate guarantees of the Company and a subsidiary.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Convertible bond

On 16 May 2007, the Company issued US\$12,000,000 redeemable convertible bond. The bond carries coupon interest rate of 5.2% per annum, which is payable semi-annually in arrears. The bond is convertible into ordinary shares of the Company at an initial conversion price of HK\$2.07 per conversion share and subsequently HK\$1.923 as a result of adjustments arising from the bonus issue of the Company (subject to adjustments in accordance with the terms of the convertible bond), at any time during the period commencing from the date of issue of convertible bond.

Unless previously redeemed, repurchased and cancelled or converted, any outstanding convertible bond shall be redeemed, plus any accrued and unpaid interest, on the third anniversary of the issue date of the convertible bond.

The Company has no right to make early redemption without the consent of bondholder or its designated affiliates.

The convertible bond is denominated in United States dollar ("US\$") which is different from the functional currency of the Company, the bond issuing entity. As such, the exercise of conversion option would not result in settlement by the exchange of a fixed amount of cash for a fixed number of shares of the Company. The embedded derivative of conversion option is therefore accounted for as a financial liability. The proceeds from the issue of the convertible bond of US\$12,000,000 (equivalent to RMB91,897,000) have been split into liability and derivative components. On issue of the convertible bond, the fair value of the derivative component is determined using an option pricing model and this amount is carried as a derivative component of the liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issue date and any subsequent changes in fair value of the derivative component as at the end of the reporting period are recognised in profit or loss.

On 23 February 2009, at the bondholder's request and in consideration for the bondholder's agreement to terminate the convertible bond, the Company issued a promissory note (the "Promissory Note") in favour of the bondholder whereby the Company promised to pay to the bondholder the loan of US\$12,000,000 in accordance with the terms and conditions set forth in the Promissory Note, whereby installments of US\$3,000,000 (the "First Installment"), US\$4,000,000 (the "Second Installment") and US\$5,000,000 (the "Third Installment") are repayable on 26 February 2009, 30 April 2009 and 30 June 2009, respectively. The obligations of the Company under the Promissory Note are fully and irrevocably guaranteed by a director of the Company. Details of the above transaction are set out in the Company's announcement dated 23 February 2009.

Pursuant to the terms and conditions of the Promissory Note, the Company shall be entitled to deduct US\$700,000 (equivalent to RMB4,784,000) from the amounts of repayment of the Promissory Note (the "Early Repayment Compensation") if the Company repays the Third Installment on or before 30 April 2009 after having fully repaid the First Installment and the Second Installment on or before 26 February and 30 April 2009, respectively. As the above conditions were met during the prior period, the Company was entitled to the Early Repayment Compensation of RMB4,784,000 and recognised in profit or loss.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Convertible bond (continued)

The movements of the liability and derivative components of the convertible bond are as follows:

| | Liability component of convertible bond RMB'000 | Derivative component of convertible bond RMB'000 | Total RMB'000 |
|--|---|--|------------------|
| At 1 January 2009 | 71,772 | 1,082 | 72,854 |
| Amount due within one year (interest payable included in accruals and other payables) | (4,263) | - | (4,263) |
| Amount classified as non-current liabilities as at 1 January 2009 | 67,509 | 1,082 | 68,591 |
| Imputed interest | 3,761 | - | 3,761 |
| Fair value gain | - | (409) | (409) |
| Unrealised exchange loss | 168 | - | 168 |
| Net loss on redemption of convertible bond, net of gain on the Early Repayment Compensation | 5,126 | - | 5,126 |
| Early redemption | (76,564) | (673) | (77,237) |
| At 31 December 2009 and 30 June 2010 | - | - | - |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. Share capital

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

| | Number of shares '000 | Nominal Value | |
|--|-----------------------------|---------------|---------|
| | | HK\$'000 | RMB'000 |
| At 1 January 2009 | 451,344 | 45,134 | 47,354 |
| Issue of shares on exercise of share options | 90,000 | 9,000 | 7,928 |
| Repurchase and cancellation of shares | (3,164) | (316) | (279) |
| At 31 December 2009 | 538,180 | 53,818 | 55,003 |
| Issues of shares | 8,050 | 805 | 709 |
| Repurchase and cancellation of shares | (4,492) | (449) | (395) |
| At 30 June 2010 | 541,738 | 54,174 | 55,317 |

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

| | Options (thousands) |
|---------------------|------------------------|
| At 1 January 2009 | 13,110 |
| Lapsed | (750) |
| At 31 December 2009 | 12,360 |
| Lapsed | (1,185) |
| At 30 June 2010 | 11,175 |

Share options outstanding (in thousands) at the end of the period have the following expiry dates and exercise prices:

| Expiry date | Exercise price HK\$ per share | Granted to directors '000 | Granted to employees '000 | Total '000 |
|------------------|----------------------------------|---------------------------------|---------------------------------|---------------|
| 31 December 2010 | 0.94 | – | 1,135 | 1,135 |
| 12 February 2015 | 0.94 | 10,040 | – | 10,040 |
| | | 10,040 | 1,135 | 11,175 |

There was no new share option granted during the six months ended 30 June 2010.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. Share premium and other reserves

| | Share premium RMB'000 | Statutory reserve fund RMB'000 | Reorg- anisation reserve RMB'000 | Enterprise expansion fund RMB'000 | Others, including share options reserve and property revaluation reserve RMB'000 | Capital redemption reserve RMB'000 | Exchange reserve RMB'000 | Total RMB'000 |
|--|-----------------------------|---|---|--|--|---|--------------------------------|------------------|
| At 1 January 2009 | 100,851 | 26,893 | 2,738 | 2,756 | 2,472 | 23 | (8,605) | 127,128 |
| Total comprehensive income for the period | - | - | - | - | 3,215 | - | 1,732 | 4,947 |
| Issue of shares | 119,819 | - | - | - | - | - | - | 119,819 |
| Repurchase and cancellation of shares | (2,794) | - | - | - | - | 279 | - | (2,515) |
| Lapse of share options | - | - | - | - | (89) | - | - | (89) |
| Transfer of reserves | - | 2,630 | - | - | - | - | - | 2,630 |
| Recognition of equity-settled-share | - | - | - | - | 302 | - | - | 302 |
| At 31 December 2009 | 217,876 | 29,523 | 2,738 | 2,756 | 5,900 | 302 | (6,873) | 252,222 |
| Total comprehensive income for the period | - | - | - | - | - | - | (359) | (359) |
| Issue of shares | 11,907 | - | - | - | - | - | - | 11,907 |
| Repurchase and cancellation of shares | (6,744) | - | - | - | - | 395 | - | (6,349) |
| At 30 June 2010 | 223,039 | 29,523 | 2,738 | 2,756 | 5,900 | 697 | (7,232) | 257,421 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. Commitments

(a) Commitments under operating lease arrangements

The Group as lessee

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

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|--------------------------------------|---|---|
| Within one year | 27,939 | 33,061 |
| After one year but within five years | 123,356 | 101,609 |
| After five years | 19,518 | 21,940 |
| | 170,813 | 156,610 |

The Group as lessor

The Group has future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|--------------------------------------|---|---|
| Within one year | 2,564 | 3,218 |
| After one year but within five years | 5,172 | 6,958 |
| After five years | 7,454 | 7,322 |
| | 15,190 | 17,498 |

(b) Capital commitments

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|--|---|---|
| Construction of buildings – contracted but not provided for | 152 | 1,982 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. Related party transactions

Apart from the transactions or balances as disclosed in Notes 11 and 13, the Group had the following significant related party transactions:

| | Unaudited | |
|-------------------------------------|--------------------------|-----------------|
| | Six months ended 30 June | |
| | 2010 RMB'000 | 2009 RMB'000 |
| Sale of goods to Custom Accessories | 2,621 | 6,490 |

In the opinion of the Company's directors, the above sale of goods was made at the Group's usual list prices discounted to reflect the quantity of purchase and the relationships between the parties.

19. Significant events after the end of the reporting period

- (a) On 17 June 2010, the Group entered into an equity transfer agreement with the vendors (independent third parties) for the acquisition of 51% equity interest in 遼寧新天成實業有限公司 (Liaoning Xin Tian Cheng Industrial Co., Ltd.) for an aggregate consideration of RMB56,100,000 (subject to adjustment) payable in cash. On 16 July 2010, the acquisition has been completed. Details of this transaction were disclosed in the Company's announcement dated 17 June 2010.

The valuation of the assets acquired and liabilities assumed as well as cost of acquisition is pending for finalisation and therefore, financial information in relation to this acquisition has not been disclosed in these interim financial statements.

- (b) As New Focus Richahaus Co. Ltd ("New Focus Richahaus"), a subsidiary of the Company as at 30 June 2010, has achieved certain specified performance targets in terms of turnover and net profit respectively by the end of each of the specified periods, pursuant to the terms of the sale and purchase agreement in relation to the Group's acquisition of equity interest in New Focus Richahaus in prior years, Perfect Progress Investments Limited ("PPI"), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, is obliged to pay two chief executives of New Focus Richahaus the relevant consideration and would be settled as to (i) NT\$5,000,000 (equivalent to approximately HK\$1,219,000) by way of cash; and (ii) NT\$12,617,691 (equivalent to approximately HK\$3,076,193) by way of issue of new shares in New Focus Richahaus.

On 16 August 2010, PPI entered into an agreement with the two chief executives of New Focus Richahaus pursuant to which the parties have agreed to amend the settlement terms of the above relevant consideration. Pursuant to the agreement, the relevant consideration in the aggregate amount of NT\$17,617,691 (equivalent to approximately HK\$4,295,193) would be paid by PPI to the two chief executives of New Focus Richahaus by way of cash. It was agreed under the agreement that the relevant consideration shall be used solely to satisfy funding required for the purchase of 7.68% of the existing issued share capital of New Focus Richahaus from PPI, by the two chief executives of New Focus Richahaus. Further details are set out in the Company's announcement dated 16 August 2010.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. Significant events after the end of the reporting period *(continued)*

- (c) On 26 August 2010, the Company entered into an equity transfer agreement with the vendors (independent third parties) pursuant to which the Company has agreed to acquire and the vendors have agreed to sell 51% equity interest in 浙江歐特隆實業有限公司 (Zhejiang Autoboom Industrial Co., Ltd.), at a consideration of RMB87,950,000 (subject to adjustment) payable in cash. Details of this transaction were disclosed in the Company's announcement dated 26 August 2010.

The valuation of the assets acquired and liabilities assumed as well as cost of acquisition is pending for finalisation and therefore, financial information in relation to this acquisition has not been disclosed in these interim financial statements.

20. Approval of financial statements

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 26 August 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group focuses on the operation of automotive chain services network in the Greater China region, adopting a unified vertical integrated business model, covering from innovative product research and development, production and manufacturing, brand building, to sales channel expansion and merchandise retail sales and service. The Group strives to take the market-leading position in the industry.

Results Highlights

Revenue

For the six months ended 30 June 2010 ("the Period"), the Group recorded a consolidated turnover of approximately RMB421,838,000, representing an increase of 52.59% compared to the corresponding period of 2009 (corresponding period of 2009: approximately RMB276,447,000).

Gross profit and gross margin

Gross profit for the Period was approximately RMB125,605,000, up approximately 63.88% compared to the corresponding period of 2009 (corresponding period of 2009: approximately RMB76,645,000); gross margin increased to approximately 29.78%, representing an increase of approximately 1.78 percentage point as compared to that of the corresponding period of 2009 (corresponding period of 2009: approximately 28%).

Expenses

Distribution costs for the Period were approximately RMB75,130,000 (corresponding period of 2009: approximately RMB46,044,000), representing an increase of approximately 63.17%. The increase was mainly attributable to:

- the increase in marketing expenses due to the active exploration of sales channels and promotion for own brand products;
- the corresponding increase in marketing expenses due to the consolidation of the results of Yonglonghang in Shenzhen during the Period;
- the corresponding increase in marketing expenses due to the opening of four new Super Stores in Taiwan and Shenzhen;

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses for the Period were approximately RMB36,861,000 (corresponding period of 2009: approximately RMB25,945,000), representing an increase of approximately 42.07% as compared to the corresponding period of 2009. The increase was mainly due to:

- the salaries and benefits for new employees;
- the consolidation of the administrative expenses of Yonglonghang in Shenzhen during the Period;
- the depreciation of the Group's manufacturing plants;
- the fees paid to the intermediary company for the mergers and acquisitions, the maintenance fee for the Taiwan depository receipts and the Group's investment in research and development for the Period.

Operating profit

Operating profit for the Period was approximately RMB21,932,000 (corresponding period of 2009: approximately RMB6,028,000), representing a surge of approximately 263.84% as compared to the corresponding period of last year.

Finance costs

Net finance costs amounted to approximately RMB2,176,000 (corresponding period of 2009: approximately RMB6,720,000), down approximately 67.62% as compared to the corresponding period of last year. The decrease was mainly attributable to the absence of the interest expenses for the convertible bonds in the corresponding period of 2009 of approximately RMB3,761,000.

Taxation

Income tax expenses were approximately RMB3,530,000 (corresponding period of 2009: approximately RMB2,297,000), representing an increase of approximately 53.68%, mainly due to the relatively significant increase in the profit of the Group compared to the corresponding period of 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to shareholders

Profit attributable to shareholders was approximately RMB12,242,000, with earnings per share of approximately RMB2.3 cents; compared to a loss of approximately RMB 4,596,000 for the corresponding period of 2009. The dramatic leap in the profit attributable to shareholders manifests the Group's success in entering a phase of significant growth.

Financial status and liquidity

As at 30 June 2010, net current assets of the Group amounted to approximately RMB161,653,000 (31 December 2009: approximately RMB157,612,000) and current ratio was approximately 1.60 (corresponding period of 2009: approximately 1.76). Gearing ratio, calculated by dividing total liabilities by total assets, was approximately 38.1% (corresponding period of 2009: approximately 35.3%). Total bank borrowings of the Company were approximately RMB115,648,000 (corresponding period of 2009: approximately RMB42,412,000).

The Group maintained healthy and adequate operating cash flow, bank deposits and banking facilities to finance its daily operation. Additional funds will be obtained through appropriate financing channels for the merger and acquisition and investment opportunities for expansion into the domestic market of the Greater China region in the future.

Financial guarantees and pledge of assets

As at 30 June 2010, the net book values of property, plant and equipment and leasehold land and land use rights pledged as securities for the Group's bank borrowings totalled approximately RMB106,307,000 (31 December 2009: approximately RMB108,719,000).

Material acquisitions and disposals of subsidiaries and associated companies

On 17 June 2010, the Company entered into an equity transfer agreement with the shareholders of Liaoning Xin Tian Cheng Industrial Co., Ltd.* (遼寧新天成實業有限公司), pursuant to which the Company successfully acquired 51% equity interests in Liaoning Xin Tian Cheng Industrial Co., Ltd at a consideration of RMB56,100,000 (subject to adjustment). On 16 July 2010, the acquisition has been completed.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

As New Focus Richahaus Co. Ltd (“New Focus Richahaus”), a subsidiary of the Company as at 30 June 2010, has achieved certain specified performance targets in terms of turnover and net profit respectively by the end of each of the specified periods, pursuant to the terms of the sale and purchase agreement in relation to the Group’s acquisition of equity interest in New Focus Richahaus in prior years, Perfect Progress Investments Limited (“PPI”), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, is obliged to pay two chief executives of New Focus Richahaus the relevant consideration and would be settled as to (i) NT\$5,000,000 (equivalent to approximately HK\$1,219,000) by way of cash; and (ii) NT\$12,617,691 (equivalent to approximately HK\$3,076,193) by way of issue of new shares in New Focus Richahaus.

On 16 August 2010, PPI entered into an agreement with the two chief executives of New Focus Richahaus pursuant to which the parties have agreed to amend the settlement terms of the above relevant consideration. Pursuant to the agreement, the relevant consideration in the aggregate amount of NT\$17,617,691 (equivalent to approximately HK\$4,295,193) would be paid by PPI to the two chief executives of New Focus Richahaus by way of cash. It was agreed under the agreement that the relevant consideration shall be used solely to satisfy funding required for the purchase of 7.68% of the existing issued share capital of New Focus Richahaus from PPI, by the two chief executives of New Focus Richahaus. Further details are set out in the Company’s announcement dated 16 August 2010.

Significant investments

During the Period, the Group has no material investments.

Exchange risk

During the Period, the settlement currency of the Group was mainly USD. In order to minimise foreign exchange risk, the Group fixed its exchange rate with procurement contracts and adjusted its quotation policy, enabling the transfer of costs to both up and down streams, thus reducing the effects of fluctuations in exchange rate. The Directors consider that the Group has no significant exchange risk.

Contingent liabilities

As at 30 June 2010, the Group has no significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and remuneration policy

As at 30 June 2010, the Group employed a total of 3,691 (30 June 2009: 2,530) full-time employees, of which 631 (30 June 2009: 510) were managerial staff. The Group is committed to the recruitment of talented staff to enrich its expertise. In order to attract and retain outstanding employees, the Group provides benefits such as medical insurance and housing allowances in addition to the various mandatory pension schemes stipulated by the municipal government.

The Group also operates a provident fund scheme registered under Chapter 485 of the Laws of Hong Kong for all of its Hong Kong employees.

Outstanding employees will also be granted discretionary bonuses and share options as incentives.

Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: nil).

Business progress

During the Period, AUTOLIFE had made the following progress:

- Penetrate the northeast Bohai Rim region of China to complete the layout of “Golden Cross” across the Greater China region.

Pursuant to the Group’s expansion strategies, AUTOLIFE started to engage in the wholesale and logistic system of automotive accessories in the first half of 2010. The completion of the merger and acquisition of Xin Tian Cheng in Northeast China, the second largest nationwide large scale membership chain store in the automotive aftermarket, means that the Group’s presence has stretched into the Bohai Rim region. Xin Tian Cheng has a total of four large scale wholesale chain, located in Shenyang, Changchun, Anshan and Dalian in Northeast China respectively, and is principally engaged in the wholesale of automotive accessories for second-tier cities, with a customer base of over 1,200 stores. The business model of the Group has successfully expanded from large scale retail chain stores into membership wholesale chain in the mid and upstream markets. This comprehensive program for the operation and development of industrial chain will build a firm foundation for enhancing the value chain of the Group’s overall automotive services and its rapid expansion in the Greater China region in the future. As at 30 June 2010, AUTOLIFE has completed its “Golden Cross” layout across the Greater China region, including Shanghai, Taiwan, Beijing, Shenyang, Shenzhen and Chengdu.

MANAGEMENT DISCUSSION AND ANALYSIS

- The Group dominated the large-scale self-operated store in the automotive aftermarket sector in Asia.

The number of self-operated Super Stores increased from 42 as at the end of 2009 to 51 as of 30 June 2010, not only maintaining its pioneer position in the large-scale chain self-operated store market in China in terms of operation scale (number of stores and operating revenue), but has also become a leader of large-scale self-operated store in the automotive aftermarket in Asia in terms of number of stores. The rapid upsurge in the number of Super Stores provides customers with one-stop automotive services with an extensive geographical coverage. Our persistence in upholding neat storefront, professional technologies, comprehensive services, affordable prices and full product range has laid concrete ground for the continuous growth in sales and profit in 2010.

- Taiwan Region: in 2010, the Taiwan headquarters continued to expand its network by adding 3 stores to the existing 17 Super Stores in 2009, maintaining its leadership position in Taiwan region in terms of customer retention and brand recognition.
- Beijing Region: the Beijing headquarters continued to adjust its business model by strengthening its marketing and promotion activities, marking an approximately 36% same store increase in sales in the first half of 2010 compared with the corresponding period in 2009. Net profit for the first half of 2010 recorded an increase of 128% compared with the corresponding period of 2009. The adjustment of the business model of the Beijing headquarters proved effective and is now enjoying the industry's leading position in Beijing.
- Shenzhen Region: As at the end of June 2010, one additional store was opened in the region, increasing the number of large-scale chain self-operated stores to 8 stores from 7 stores in 2009. Yonglonghang in Shenzhen has become the number one customer maintenance and service store designated by insurance companies in Shenzhen, ranking top amongst industry peers in terms of number of members and public recognition.

MANAGEMENT DISCUSSION AND ANALYSIS

- Over 30% same store growth compared to the corresponding period in 2009

All services segments, including auto cosmetics, sales of auto amenities, sales and maintenance, decoration and modification, posted a significant same store growth from the corresponding period in 2009. During the Period, all services segments recorded a growth of more than 30%, in particular the auto cosmetics segment saw the highest growth rate, generating remarkable contributions to the overall increase in the gross profit of the Group.

Prospects

In the first half of 2010, automotive sales in China surpassed 9 million, a leap of more than 40% compared to the corresponding period in 2009, and continued to be the largest automotive sales market in the world. Automotive aftermarket also began to step into a phase of intense growth. Key operating strategies of the Group for the second half of 2010 are as follows:

- 1: Emphasising both quality and quantity of the Golden Cross of the Greater China region: the Group will explore cross-provincial, new business areas through mergers and acquisitions of profitable businesses. By basing on the successful examples of New Focus Richahaus in Taiwan and Aiyihang in Beijing, the Group will continue to replicate this profitable business model. Following the successful penetration into the northeastern Bohai Rim in the first half of 2010, the Jiangsu and Zhejiang regions will be the next expansion target. The Group will expand its existing territory as well as profitability based on the principle of maintaining both quality and quantity.
- 2: Continuing to expand Super Stores: in order to strengthen its existing leading position in terms of its self-operated stores, the Group will continue to set up chain stores in Beijing, Chengdu, Shenzhen and Taiwan, as well as significantly increase the Group's foothold in each individual region. In addition, as a leading operator of automotive aftermarket retail chain services in the Greater China region, the Group will continue to implement its expansion plans to extend its exposures, and will explore potential merger and acquisition opportunities with high profitability in Jiangsu and Zhejiang regions in the second half of 2010, targeting to increase the number of large-scale self-operated Super Stores from 51 as at 30 June 2010 to over 60 by the end of 2010 so as to further extend the Company's network. With prudent assessment the Group will only set up chain stores that can bring substantial contribution to the operating profits of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

- 3: Perfecting customer satisfaction: through internal upgrades of professional expertise, diversified and quality products and friendly services, the Group will focus on enhancing customer loyalty and confidence, a fundamental element for the sustained growth of the Group. It aims to achieve a higher same store growth in terms of customer flow and average transaction volume of AUTOLIFE in 2010 as compared to the corresponding period in 2009, so as to promote a significant increase in the operating revenue and profits for the full year of 2010 compared to the previous year.

- 4: Concluding centralised purchasing to enhance efficiency: the Group will duly complete its integration of the internal financial and information technology systems in 2010. In addition, leveraging on the synergies generated from its one-stop service model covering upstream to midstream markets following the Group's successful acquisition of Xin Tian Cheng in Northeast China, the Group will further implement cross-provincial centralised purchasing. Not only will it effectively increase purchase volume, but also will diversify the product range, thus effectively lowering the cost of each store and consequently increasing the gross profit margin and net profit margin of the Group.

- 5: Further enhancing the penetration of own brand products: in 2009, NFA achieved fruitful results from its effort in domestic sales and marketing of its own brand products through direct sales channels. In 2010, under continued strategic marketing, NFA's own brand products are all set to take off in the end-customer market.

Leveraging on the 5 continuous operating strategies mentioned above, the Group has emerged as a leader in the automotive aftermarket chain in the Greater China region and in order to maximise its profitability, the Group has introduced 2 additional operating strategies for the year 2010:

- 6: National distributorship of renowned brands: in light of the ongoing expansion of sales channels, leveraging on the Group's intense and comprehensive sales channels, to tap into the business of distribution of various brands, and introduce nationally and internationally renowned brandnames into the PRC market, while also focusing on generating substantial contribution to operating revenue from the domestic markets in the Greater China region.

MANAGEMENT DISCUSSION AND ANALYSIS

7: Vertical integration of business model: based on the one-stop service model brought about by the Group's acquisition of Xin Tian Cheng in 2010, combining the advantage of parallel operation of its large scale membership chain stores and end consumer chain stores, and successfully establishing a vertically-integrated business model, the Group will seek to share the existing own brands in various regions amongst different sales channels, benefiting consumers in different regions and providing consumers with more diversified and reasonably-priced product range, thus retaining existing customers and their loyalty to the Group in various regions.

Leveraging on the 7 strategies above, the Group has successfully grasped the robust development opportunities in the automotive aftermarket in the first half of 2010 as a starting point, not only maintained its leading position in the automotive aftermarket chain services in the Greater China region, but also surpassed its Japanese competitors, establishing itself as the largest self-operated chain store operator in the automotive aftermarket in Asia. The Group is confident that, through the seven major operating strategies of the Group, the Group will continue to achieve significant growth both in operating revenue and profits, as well as secure its absolute leadership in the overall automotive aftermarket.

OTHER INFORMATION

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares or Debentures of the Company and its Associated Corporations

As at 30 June 2010, the interests and short positions of each of the directors of the Company (the "Directors") and chief executives of the Company in the 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 ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which the Directors and chief executives of the Company were taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Interests in shares of the Company

| Name | Capacity/ Nature of interest | Number of shares interested (other than under equity derivatives) <i>(Note 1)</i> | Number of shares interested under equity derivatives | Total number of shares | Approximate percentage of issued shares |
|--------------------------------------|--|---|---|------------------------------|---|
| Mr. Hung Wei-Pi, John | Interest in a controlled corporation <i>(Note 2)</i> | 177,256,120 (L) | Nil | 177,256,120 (L) | 32.72% |
| Mr. Douglas Charles Stuart Fresco | Interest in a controlled corporation <i>(Note 3)</i> | 53,590,690 (L) | Nil | 53,590,690 (L) | 9.89% |
| | Beneficial Owner | 3,665,115 (L) | Nil | 3,665,115 (L) | 0.68% |
| Mr. Lu Yuan Cheng | Beneficial Owner | 805,035 (L) | 3,240,000 (L) <i>(Note 4)</i> | 4,045,035 (L) | 0.75% |
| Ms. Hung Ying-Lien | Beneficial Owner | 383,145 (L) | 3,400,000 (L) <i>(Note 4)</i> | 3,783,145 (L) | 0.70% |
| Mr. Wu Kwan-Hong | Beneficial Owner | 513,935 (L) | 3,400,000 (L) <i>(Note 4)</i> | 3,913,935 (L) | 0.72% |

OTHER INFORMATION

Notes:

1. The letter "L" denotes a long position in the shares.
2. These shares were registered in the name of and beneficially owned by Sharp Concept Industrial Limited, the entire issued share capital of which was 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 were registered in the name of and beneficially owned by Golden Century Industrial Limited, the entire issued share capital of which was 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.
4. Details of these equity derivatives are set out in sub-section (b) below.

(b) Interests in the underlying shares of the Company through unlisted and physically settled equity derivatives (as defined in the SFO)

Certain Directors were granted share options under the share option scheme adopted by the Company on 13 February 2005. Share options granted to the Directors by the Group to subscribe for shares of the Company which were outstanding as at 30 June 2010 are as follows:

| Name | Capacity/ Nature of interest | Number of underlying shares in respect of | | Exercise period | Grant price | Exercise price |
|--------------------|---------------------------------|---|-------------------|--------------------|----------------|-------------------|
| | | options granted | but not exercised | | | |
| Ms. Hung Ying-Lien | Beneficial Owner | 3,400,000 (L) | | 1 January 2006 to | HK\$10.00 | HK\$0.94 |
| | | | | 12 February 2015 | (all) | (per share) |
| Mr. Wu Kwan-Hong | Beneficial Owner | 3,400,000 (L) | | 1 January 2006 to | HK\$10.00 | HK\$0.94 |
| | | | | 12 February 2015 | (all) | (per share) |
| Mr. Lu Yuan-Cheng | Beneficial Owner | 3,240,000 (L) | | 1 January 2006 to | HK\$10.00 | HK\$0.94 |
| | | | | 12 February 2015 | (all) | (per share) |

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

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Save as disclosed above, as at 30 June 2010, to the knowledge of the Directors and chief executives 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 in the register maintained by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

So far as the Directors and chief executives of the Company are aware, as at 30 June 2010, the interests and short positions of the persons, other than Directors and chief executives of the Company, in the shares and underlying shares of the Company, as notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

| Name of Substantial shareholder | Capacity/ Nature of interest | Number of | Number of | Total number of shares | Approximate percentage of issued shares |
|------------------------------------|---------------------------------|---|--|------------------------------|---|
| | | shares interested (other than under equity derivatives) | shares interested under equity derivatives | | |
| | | <i>(Note 1)</i> | | | |
| Sharp Concept Industrial Limited | Beneficial owner | 177,256,120 (L) | Nil | 177,256,120 | 32.72% |
| Ms. Jin Xiao-Yan | Family interest <i>(Note 2)</i> | 177,256,120 (L) | Nil | 177,256,120 | 32.72% |
| Golden Century Industrial Limited | Beneficial owner | 53,590,690 (L) | Nil | 53,590,690 | 9.89% |

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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 is wholly and beneficially owned by Mr. Hung Wei-Pi, John.

Save as disclosed above, the Directors are not aware of any person, other than the Directors or chief executives 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 which are required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30 June 2010.

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 operations.

There have been no changes in the terms of the Scheme during the six months ended 30 June 2010. Detailed terms of the Scheme were disclosed in the 2005 annual report of the Company.

As at 30 June 2010, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 11,175,000 shares. The total number of shares available for issue under the Scheme (excluding options already granted) is 16,445,000 shares, representing approximately 3.04% of the total issued share capital of the Company as at that date.

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Details of the share options granted under the Scheme as at 30 June 2010 are as follows:

| Name of option holder | Date of grant of share option | Exercise period of share option | Exercise price of share option (per share) | Closing price on date of grant (per share) | Number of underlying shares subject to options exercised since 1 January 2010 | Number of underlying shares subject to options cancelled since 1 January 2010 | Number of underlying shares subject to options outstanding as at 30 June 2010 | |
|---|-------------------------------------|---|---|---|---|---|---|------------|
| | | | | | | | | |
| Ms. Hung Ying-Lien Executive Director | 28/2/2005 | 1/1/2006– 12/2/2015 <i>(Note 1)</i> | HK\$0.94 | HK\$0.94 | 3,400,000 | – | – | 3,400,000 |
| Mr. Wu Kwan-Hong Executive Director | 28/2/2005 | 1/1/2006– 12/2/2015 <i>(Note 1)</i> | HK\$0.94 | HK\$0.94 | 3,400,000 | – | – | 3,400,000 |
| Mr. Lu Yuan-Cheng Executive Director | 28/2/2005 | 1/1/2006– 12/2/2015 <i>(Note 1)</i> | HK\$0.94 | HK\$0.94 | 3,240,000 | – | – | 3,240,000 |
| Continuous contractual employees in aggregate | 28/2/2005 | From 1/1/2007 <i>(Note 2)</i> | HK\$0.94 | HK\$0.94 | 2,320,000 | – | 1,185,000 | 1,135,000 |
| Total | | | | | 12,360,000 | – | 1,185,000 | 11,175,000 |

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Notes:

1. *Those outstanding 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 to other employees are exercisable within periods ranging from 1 year to 5 years subject to such performance targets or conditions as determined by the Board.*

Arrangements to Purchase Shares or Debentures

Save as disclosed above and save as disclosed in the section headed “Share Option Scheme”, at no time during the Period 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, or were there any such rights exercised by them; or was the Company, any of its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Purchase, Sale and Redemption of the Company's Listed Securities

During the Period, the Company repurchased 4,492,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited under the general mandate to repurchase shares granted by the shareholders at the annual general meeting of the Company held on 3 June 2009. Save as disclosed, there were no purchases, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries during the Period.

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Details of the repurchase of shares by the Company during the Period are as follows:

| Month | Highest price (HK\$) | Lowest price (HK\$) | Average price (HK\$) | Number of shares repurchased | Consideration paid (HK\$) |
|---------------|--------------------------------|-------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| January 2010 | 1.74 | 1.68 | 1.72 | 844,000 | 1,447,157 |
| February 2010 | 1.90 | 1.78 | 1.85 | 2,416,000 | 4,464,677.35 |
| April 2010 | 1.80 | 1.79 | 1.80 | 1,232,000 | 2,211,865 |

The Board of Directors considered that the repurchase of shares by the Company would lead to an enhancement of the net asset value per share of the Company and was in the best interest of the Company and its shareholders.

Corporate Governance

Save as disclosed below, in the opinion of the Directors, the Company has complied with the code provisions of the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the Period.

Under A.2.1 of the Code, "the roles of chairman and chief executive officer should be separated and should not be performed by the same individual". Mr. Hung Wei-Pi, John concurrently takes up the posts of chairman and chief executive officer of the Company. Such deviation is due to the fact that the day-to-day management of the Group is led by Mr. Hung. The Board considers that this arrangement provides the Group with strong and consistent leadership and allows for effective and efficient planning and implementation of business strategies and decisions.

OTHER INFORMATION

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions of Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). To ensure the Directors' dealings in the securities of the Company are conducted in accordance with the Model Code, a committee (the "Securities Committee") of the Board comprising Mr. Hung Wei-Pi, John as chairman and Ms. Hung Ying-Lien was set up to deal with such transactions. Prior to any dealing in the securities of the Company, a Director is required to notify the chairman of the Securities Committee or in the case of dealings by Mr. Hung Wei-Pi, John himself, notify Ms. Hung Ying-Lien in writing and obtain a written acknowledgement from the Securities Committee. Having made specific enquiry of all Directors by the Securities Committee of the Company, all Directors confirmed that they had complied with the Model Code regarding Directors' securities transactions throughout the Period.

Audit Committee

The accounting information given in this interim report has not been audited but has been reviewed by the Audit Committee of the Company.

By Order of the Board

New Focus Auto Tech Holdings Limited

Hung Wei-Pi, John

Chairman

Hong Kong, 26 August 2010