

**NFA**<sup>®</sup>

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



ANNUAL REPORT  
**2008**

# CONTENTS

|  |            |
|--|------------|
| <b>Corporate Information</b>                           | <b>2</b>   |
| <b>Chairman's Statement</b>                            | <b>3</b>   |
| <b>Management Discussion and Analysis</b>              | <b>6</b>   |
| <b>Profiles of the Directors and Senior Management</b> | <b>14</b>  |
| <b>Corporate Governance Report</b>                     | <b>17</b>  |
| <b>Report of the Directors</b>                         | <b>21</b>  |
| <b>Independent Auditors' Report</b>                    | <b>32</b>  |
| <b>Consolidated Income Statement</b>                   | <b>34</b>  |
| <b>Consolidated Balance Sheet</b>                      | <b>35</b>  |
| <b>Balance Sheet</b>                                   | <b>37</b>  |
| <b>Consolidated Statement of Changes in Equity</b>     | <b>39</b>  |
| <b>Consolidated Cash Flow Statement</b>                | <b>41</b>  |
| <b>Notes to the Financial Statements</b>               | <b>43</b>  |
| <b>Financial Summary</b>                               | <b>118</b> |

# CORPORATE INFORMATION

## **Directors**

### **Executive Directors**

Hung Wei-Pi, John (*Chairman*)  
Wu Kwan-Hong  
Hung Ying-Lien  
Lu Yuan Cheng  
Douglas Charles Stuart Fresco  
Norman L. Matthew

### **Non-executive Directors**

Low Hsiao-Ping  
Li Jung Hsing  
Irene Shih

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

Du Haibo  
Zhou Tai-Ming  
Uang Chii-Maw

### **Company Secretary and Qualified Accountant**

Ronie Yun Chung Cheng, ACA

### **Registered Office**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111 Cayman Islands

### **Principal Place of Business in Hong Kong**

Unit 1201, Hollywood Plaza  
610 Nathan Road  
Kowloon  
Hong Kong

## **Auditors**

Shu Lun Pan Horwath Hong Kong CPA Limited  
20th Floor, Central Plaza  
18 Harbour Road  
Wan Chai, Hong Kong

## **Legal Advisers**

Jones Day  
29/F, Edinburgh Tower  
The Landmark,  
15 Queen's Road Central  
Hong Kong

## **Principal Share Registrar and Transfer Office**

Butterfield Bank (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

## **Branch Share Registrar and Transfer Office in Hong Kong**

Computershare Hong Kong Investor Services  
Limited  
46/F., Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## **Stock Code**

360

## **Websites**

<http://www.nfa360.com>

# CHAIRMAN'S STATEMENT

On behalf of the management team of the Group (the "Group" refers to the Company and its subsidiaries), it is my honour to express my sincere gratitude to every shareholders, customers, all our staff and parties who are supportive to the Group. I would like to take this opportunity to present the operating results of the Group for the year 2008 and its future prospect for the year 2009.

## **Results Performance and Dividend Policy**

The manufacturing business of New Focus Auto Tech Holdings Limited (the "Company") focuses on the manufacturing of innovative products in respect of auto green lighting and automotive electronic power, while its chain retail business is committed to providing professional automotive aftermarket services.

For the year ended 31 December 2008, the consolidated turnover of the Group amounted to RMB707,426,000, representing a decrease of 7.3% as compared to the corresponding period of 2007; while its gross margin increased from 18.39% in 2007 to 23.41%.

Operating profit was RMB21,476,000, representing a growth of 34.67% as compared to the corresponding period last year; profit attributable to shareholders was approximately RMB10,922,000 and earnings per share were RMB2.42 fen.

Among which, the consolidated turnover of NFA, an alias of the manufacturing business of the Group, amounted to RMB485,062,000, representing a decrease of approximately 16.0% as compared to the corresponding period of 2007, while the gross margin was 16.35%, up approximately 14.5% as compared to the corresponding period last year.

The consolidated turnover of AUTOLIFE, an alias of the chain retail business of the Group, amounted to RMB222,364,000, representing a growth of approximately 19.5% as compared to the corresponding period of 2007. It realized an operating profit of RMB1,901,000, representing a remarkable leap from the negative figure of RMB4,813,000 recorded in the corresponding period last year.

Autolife contributed 31.43% to the consolidated turnover of the Group, representing an increase of 7 percentage points from 2007, further consolidating its leading position in the automotive chain retail industry in the PRC.

In order to ensure a healthy and active development momentum of the Group amidst the ever-changing macro economy, the Board unanimously believes that the preservation of sufficient cash is essential to the long-term benefits of the Company and the shareholders, therefore, the Board does not recommend any payment of dividend for this year.

## **Business Progress**

### **Automobile green lighting and electronic power manufacturing business – NFA**

During 2008, due to the economic crisis triggered by the credit crunch, the demand in North America market drastically decreased and the confidence of consumers wavered, causing many enterprises principally engaged in export business forced to close. The export of certain products of NFA was inevitably affected. During the period, the significant price fluctuation of the raw materials and the appreciation of RMB had exerted pressure on the export business of NFA.

# CHAIRMAN'S STATEMENT

Before the out burst of the sub-prime loan crisis, the NFA management had already foreseen an unfavourable economic development in the second half of 2008, and thus made timely adjustment on its operating strategies, setting a key corporate target for maintaining and enhancing the gross margin of the products, as well as implementing cost control measures, thereby realizing increase of 14.5% in gross margin as compared to the corresponding period last year. Such a result symbolized the strong and flexible management capability of the management of NFA and their risk resistance capacity under such unfavourable economic situation.

The operating strategies of the management mainly consisted the followings:

1. discontinued the manufacturing of some low margin products; optimized resource allocation with focus on the manufacturing and sales of high margin products. In light of the above, the decrease in turnover was partly attributable to the measures actively implemented by the management to enhance operating profit;
2. implemented stringent control on costs and expenses; adopted various measures such as fixing raw material prices so as to mitigate the impact caused by the fluctuation of raw material prices; streamlined the whole processes from research and development, procurement to manufacturing to ensure effective cost reduction in every steps of the processes;

3. explored new business channel and sales model. Despite the resultant increase in management and marketing expenses to a certain extent, such effort had paved a solid foundation for the future development of sales channels, and the result is expect to be revealed in 2009;

During the period under review, the management of NFA had made active respond to the pressure and impact exerted by the rapid change in the macro-economic environment, adhered to its stable and aggressive development strategy, and made timely adjustment on the operation objective. As such, it realized a growth of profit margin of over 10%. On 15 December 2008, NFA obtained the filed approval from the relevant State authority, which confirmed its qualification of being a high and new technology enterprise in Shanghai for the year 2008. Consequently, NFA is entitled to a preferential tax rate in accordance with the relevant regulations of the PRC.

## **The Automotive Aftermarket Chain Retail Business – Autolife**

As a pioneer and leader among the chain service providers in the automotive aftermarket in the PRC, Autolife has full confidence on the development prospect of the automotive aftermarket in the PRC and adhere to its mission of providing convenient and professional services to automobile enthusiasts.

# CHAIRMAN'S STATEMENT

During the period under review, the turnover and gross profit of Autolife increased 19.5% and 49.12% respectively, and the operating profit of Autolife reached RMB1,901,000 during the period, representing a remarkable leap from the negative figure of RMB4,813,000 recorded in the corresponding period last year. Such results reflect not only the realization of its strategy of becoming the leader in the Great China region in terms of store network and sales income, but also symbolizing the initial results of such development strategy.

During the period under review, Autolife achieved the following milestones:

1. the number of directly operating Super stores increased from 23 in 2007 to 34. The rapid growth in the number of Super stores laid a solid foundation for the continuous growth of sales scale and profit margin in 2009;
2. there were in aggregate more than 390 franchised stores throughout the PRC, which further optimizing the service network;
3. during the period under review, the integration of procurement and information system by the service business by leveraging on the scale of economy had become effective, thereby enhancing the profitability of single store and fundamentally realizing breakeven for the service business.

During the period under review, Autolife adhered to its 5-year strategic plan. Based on the market segmentation, it had formulated a sound profit-making model through concrete experience and paved the way for rapid growth in the near future.

## **Future Prospects**

Although the global economic depression will sustain in 2009 and the export industry will continue to face challenges. The management team of NFA will continue its emphasis on increasing the operating profit and strengthening the internal control. Through cost saving measures in every operating procedure, efficiency enhancement and continual reduction of operating costs and expenses, NFA will endeavor to achieve better return in 2009.

With further improvement and expansion of the service network and well-defined profit-making model, it is expected that Autolife will further realize the profitability and scale of economy of its chain outlets in 2009 by leveraging on the edge of scale of economy and optimizing internal resource integration.

## **Appreciation**

I would like to take this opportunity to express my sincere gratitude to all shareholders, staff and parties who have shown their concern to the Group for their continuing support in 2008.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Overview**

The manufacturing business of the Company focuses on the manufacturing of innovative products in respect of green lighting and electronic power, while its chain retail business is committed to providing professional automotive aftermarket products and services for car owners.

## **Results Highlights**

### **Revenue**

As at 31 December 2008, the Group recorded a consolidated turnover of approximately RMB707,426,000. (2007:RMB763,451,000)

The consolidated turnover of NFA, amounted to approximately RMB485,062,000 (2007: RMB577,441,000), representing a decrease of approximately 16.0% as compared to the corresponding period of 2007. The decrease was mainly because the Company's prompt adjustment on the sales strategies in light of the unfavourable macro-economic condition, with an aim to maintain and boost its overall gross margin by discontinuing the production of low margin products.

For AUTOLIFE, the consolidated turnover amounted to approximately RMB222,364,000 (2007: RMB186,010,000), representing a growth of approximately 19.5% as compared to the corresponding period of 2007. At present, the share of sales from the chain retail business in the Group's consolidated turnover increased from 24.36% in the corresponding period last year to 31.43%.

### **Gross Profit and Gross Margin**

The overall gross profit of the Group was RMB165,621,000 (2007: RMB140,384,000), up 17.98% as compared to that of 2007. Gross margin increased from 18.39% in 2007 to 23.41%.

Among which, the gross profit of NFA, amounted to approximately RMB79,284,000 (2007: RMB82,486,000). In spite of the twofold pressure arising from the appreciation of RMB and the significant price fluctuations of raw materials, the overall gross margin of NFA reached 16.35%, representing a growth of 14.5% as compared to the corresponding period of 2007.

The gross profit of AUTOLIFE, was approximately RMB86,337,000 (2007: RMB57,898,000), representing an increase of approximately 49.12% as compared to that of 2007, while its overall gross margin reached 38.8%, representing a growth of 24.76% as compared to the corresponding period of 2007.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Expenses**

Sales and marketing expenses for the period were approximately RMB89,973,000 (2007: approximately RMB70,348,000), representing a growth of 27.90%. The increase was mainly attributable to:

- the increase of marketing expense due to the active exploration of direct sales channels by NFA;
- the corresponding increase in marketing expenses due to the addition of 8 Super stores in the regional headquarters in Taiwan by Autolife;
- the corresponding increase in marketing expenses due to the addition of 3 Super stores in the regional headquarters in Beijing by Autolife.

During the period, the administrative expenses were approximately RMB65,901,000 (2007: RMB70,287,000), representing a decrease of approximately 6.2% as compared to the corresponding period of 2007. It was mainly due to further efforts made by the management to control expenses in respond to the adverse effect from the financial crisis.

## **Operating profit**

The operating profit of the Group was approximately RMB21,476,000 (2007: approximately RMB15,947,000), representing an increase of 34.67% as compared to the corresponding period last year.

The reason for the significant increase in the operating profit of the Group was that amidst the unfavourable market conditions caused by the ever-changing macro-economic environment, the notably sluggish economic growth and the occurrence of severe natural disasters, the management was able to take stock of the situation and adhere to its prudent and flexible operating strategy with an aim to boost the gross margin of the products and discontinue the production of low margin products, as well as implementing strict control on the production cost and various types of expenditures. All these measures ensure healthy growth of the operating profit.

## **Finance costs**

Net finance costs amounted to approximately RMB15,562,000 (2007: approximately RMB8,732,000), up 78.22%. The increase was mainly attributable to:

- the interest expenses for the whole year amounting to approximately RMB13,508,000 assumed in respect of the issue of US\$12,000,000 convertible bonds;

# MANAGEMENT DISCUSSION AND ANALYSIS

- the restrictive currency policy implemented by the PRC government during the first half of 2008 to prevent inflow of hot money and to cool down the overheating economy, which generated hurdle for smooth settlement and remittance of capitals from overseas, resulting to a significant increase of the finance cost of the company as compared to that of last year.

## **Taxation**

- Income tax expense was approximately RMB4,996,000 (2007: approximately RMB1,067,000), representing a growth of 368.23%, which was mainly due to the following:
  - the preferential income applicable to NFA had expired at the end of 2007. In accordance with the policy effective from 1 January 2008, the NFA L&P was granted by the Shanghai government the qualification of being a “national high and new technology enterprise”, thus enjoying a applicable income tax rate of 15%, representing an increase of approximately 3 percentage points as compared to the tax rate of 12% in 2007;
  - the income tax exemption period of Shangdong Longsheng had expired in 2007, thus the applicable tax rate for 2008 was 12.5%;

- as at the end of 2007, the regional headquarters in Taiwan of the service business had offset all losses incurred in the previous years. The applicable tax rate for 2008 was 25%.

## **Profit attributable to shareholders**

Profit attributable to shareholders was approximately RMB10,922,000 (2007: RMB17,849,000) and earnings per share was RMB2.42 fen (2007: RMB3.99 fen).

## ***Financial status and liquidity***

The Group had maintained stable financial status during the period. During the period of review, the current assets of the Group maintained at a healthy level.

The cash flow generated from the operating activities of the Group was RMB18,434,000 (2007: outflow of RMB12,308,000).

The net current assets was approximately 116,203,000 (2007: approximately RMB163,844,000), with a liquidity ratio of 1.47 (2007: 1.57). The decrease of the net current assets was due to completion of the construction of the third factory of NFA .

Gearing ratio calculated by dividing total liabilities by total assets was 53.6% (2007: 57.4%).

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2008, the total bank borrowings of the Company were RMB110,289,000 all of which are made in RMB (2007: approximately RMB102,423,000).

The Group maintains a strong and healthy cash flow, bank deposits and bank facilities, which are sufficient to finance its working capital, capital expenditure and future investment.

During the period under review, cash expenditures used in the investing activities of the Group were approximately RMB63,717,000 (2007: RMB42,100,000), which was attributable to the construction of the third factory of NFA and the expansion of the service chain stores.

## **Exchange risk**

During the period under review, the settlement currency of the Group was mainly USD. In order to minimize exchange risk, the Group entered into with the principle banks the forward currency contracts and currency swap contracts, fixed exchange rate by entering into procurement contracts and adjusted the quotation policy in order to transfer the cost pressure to both up and down streams. The Group has no material exposure to foreign exchange risks.

## **Employees and remuneration policy**

As at 31 December 2008, the Group employed a total of 2,679 full-time employees, of which 319 were managerial staff. In order to attract and retain the stability of the core team and managerial staff, the Group intends to grant more options to a majority of staff out of the 15,380,000 share options available, thereby further reinforcing the responsibility and stability of the employees of the Company.

## **Business Review**

### **Automobile green lighting and electronic power manufacturing business – NFA**

During 2008, with the adverse macro-economic environment sustained since 2007. NFA had to face huge challenges, including:

- the continuing and intensifying fluctuation in the prices of major raw materials needed in the manufacturing business;
- the aggregated appreciation of RMB to USD exchange rate of approximately 6%;
- the wavering consumer confidence caused by the global financial crisis;
- the restrictive currency policy adopted by the PRC government;
- the significant slow-down of the economic growth in the second half of the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

Under the sophisticated and ever-changing economic environment, NFA is highly confident to the huge business opportunities arising from the emerging markets in the Greater China region. The management was able to maintain stable development momentums by insistently implementing its strategy of “developing the automotive parts and accessories market and OEM markets in the PRC, and switching its focus from the manufacturing of diversified products to specializing in automobile electronic and green lighting products”, as well as implementing its healthy and flexible operating measures.

First of all, active and prudent marketing strategies had been pursued to optimize both export and domestic sales channels:

(1) Setting up additional overseas direct sales channels for NFA products;

- NFA had established sales office in North America to directly provide timely pre-sale and after-sales service to customers;
- The establishment of such sales office could help NFA to keep abreast of the market trend of North America and obtain more market information;

(2) Actively developing the automotive after market in the PRC:

- during the period under review, the sales generated from the automotive parts and accessories market in the Greater China region amounted to approximately 13% of the total sales of NFA;

- NFA had sustained development and comprehensively optimized three key series of products, namely automotive converters, chargers and POWER PACK in order to maintain and strengthen the competitive edges of these products.

Secondly, NFA had adopted various measures to actively respond to the unfavourable macro economic conditions, thereby enabling a steady growth of the gross margin of NFA products of 14.5% as compared to that of 2007;

(1) Streamlining production lines and perfecting price quotation strategy:

- In light of the advantages such as lower labour costs and preferential tax rate of the Shandong factory, the production of lower margin POWER PACK and JUMP START products will be gradually transferred to Shandong factory, which could help increasing the gross profit margin of the products by 4% to 5%;
- Increasing selling prices by 8%-10% , NFA had continued to adopt the price quotation strategy adjusted in 2007. To a certain extent, this had mitigated the impact of substantial price fluctuations of raw materials;

# MANAGEMENT DISCUSSION AND ANALYSIS

- (2) Directly supplying stocks to two large-scale chain retailers in North American region since the first half of 2008, and arranging substantial cooperation with another large-scale chain retailer;
- (3) Enhancing production capacity, optimizing resource allocation as well as further upgrading product quality:
  - the construction of a new production base in Shanghai was completed at the end of December 2008 and had commenced operation since early 2009;
  - comparing to the original production base in Shanghai, the production capacity of phase I of the new base increased by over 15%, and due to the upgrade of production automation, the optimization of product quality and production efficiency was maximized.

During the period under review, the macro environment and the increasing raw material price and labour costs had made adverse impact on numerous production-oriented enterprises. The NFA management has adopted healthy and flexible operating strategy under such unfavourable macro environment. In addition to the effective implementation of the forward-looking strategy plans, the smooth executions of the abovementioned responsive measures were also the reason for the healthy growth in gross profit.

## **Automotive aftermarket chain retail business – AUTOLIFE**

Autolife is committed to providing professional automotive aftermarket services. After five years of market exploration, its development strategy had been transformed from initial expansion of scale to the exaltation of brand name value, and from expansion of chain store number to improvement of chain store profitability.

The operation mode of Autolife chain store network was adjusted into two main categories: Super stores and Convenient stores. Other than the steady growth in the turnover of the service business, the turnover reached RMB222,364,000 (2007: approximately RMB186,010,000) during the period under review, with operating profits amounted to approximately RMB1,901,000 (2007: approximately operating loss of RMB4,813,000).

During the period under review, Autolife emphasized on the systems integration of product procurement, technical research and development, human resources management and information by exerting the scale of economy of its chain networks, thereby, enabling Autolife to differentiate itself from other peers in terms of the commodity prices, the technical services and the convenience of services.

# MANAGEMENT DISCUSSION AND ANALYSIS

Firstly, building on the established Shanghai base and regional headquarters in the Greater China region, the Group had been committed to developing a store network in the region in order to provide support such as technical support and service support to directly operating stores and franchised stores in the region;

- the regional headquarters in Beijing: in 2008, the regional headquarters in Beijing had actively developed new network channels by adding 3 Super stores to the original 12 Super stores in 2007. The number of retained customers and the brand awareness both ranked number one among the automotive chain store industry in Beijing;
- the regional headquarters in Taiwan, in 2008, 5 more Super stores were added through merger and acquisition and 3 more Super stores were added by self-development. There are currently 15 Super stores in total, which realized the integration of Taiwan region, and further consolidated the leading position in Taiwan in terms of the scale of store network, turnover and the brand awareness;
- the regional headquarters in Shanghai: as at the end of 2008, there were totally 3 stores in Shanghai. By devoting more emphasis on the enhancement of turnover and operating profit of single store, it had achieved steady development which accomplished advantages regarding its services and brand;
- the regional headquarters in Chengdu: during 2008, there were 2 Super stores in Chengdu. This paved a solid foundation for the future network and channel development of Autolife in the Southwestern region.

As at the end of December 2008, Autolife had 34 directly operating Super stores, representing an increase of 11 stores as compared to the corresponding period last year. The successful expansion and establishment of directly operating Super stores had symbolized a guarantee of steady growth in the turnover and operating profit of Autolife.

Secondly, building on its regional headquarters spanning various key regions and cities such as Beijing, Shanghai, Zhejiang, Guangdong, Tianjin, Nanjing, Jiangsu and Chengdu, and using its directly operating Convenient stores as sample, Autolife had extended its network of franchised stores to the surrounding cities. As at the end of December 2008, there were over 390 franchise stores.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Future Prospects***

### **Automobile green lighting and electronic power manufacturing business – NFA**

The Group will be committed to grasping the opportunities brought by the robust development of the automobile aftermarket in the PRC and further enhancing the market share of NFA in the automobile aftermarket in the PRC in 2008. In addition to perfecting the development of its 5 key product series, the Group will continue to maintain its research and development edge in the manufacturing industry and focus on the research, development and manufacturing of green power related automobile electronic power products.

Building on the development milestone that NFA has become the first-tier OEM supplier for various renowned automotive manufacturers in the world and the PRC, the management will exert the advantages of the existing business platform to carry out corresponding business chain integration. Through its established sales channels, the Group will strive to diversify its product variety in order to increase the operation scale of NFA.

Despite the expected unfavourable economic condition in 2009, the management of NFA is confident that, through sound and flexible operating strategy, the healthy growth of the manufacturing business will be sustained.

### **Automotive aftermarket chain retail business – AUTOLIFE**

With the completion of strategic planning for the regional headquarters, the profit model of Super Stores became specific and the scale of economy of the chain store network is being achieving gradually. Autolife has already realized break-even in 2008.

The service business will sustain its development strategy of store network expansion and profitability enhancement. On one hand, it will improve the profitability of headquarters and every chain network by optimizing resources and management integration. On the other hand, the management of the service business will strive to identify and cooperate with quality Super Store operators in the region in order to expand the service network. In addition, leveraging on the solid experiences in the industry and resources advantage of these quality operators, together with the operational and financial supports from the headquarters of the service business, both the expansion of service network and enhancement of profitability will be achieved.

# PROFILES OF THE DIRECTORS AND SENIOR MANAGEMENT

## **Executive Directors**

### **Mr. Hung Wei-Pi, John** (*Chairman*)

Mr. Hung, aged 48, is one of the founders and the chairman and president of the Company. He is primarily responsible for the management of the board of Directors and formulation of the future development strategies and planning of the Group.

He graduated from Chung Yuan Christian University (台灣中原大學) with a bachelor's degree in commerce in 1982. Prior to establishing Shanghai New Focus Auto Parts Co., Ltd. ("NFA Parts"), Mr. Hung was the founder and general manager of New Focus Line Limited. In March 1994, Mr. Hung established NFA Parts. He assumed the positions of both the director and general manager and has actively participated in NFA Parts' daily operations. In 2001, Mr. Hung established Shanghai New Focus Auto Repair Services Co., Ltd. ("NFA Service"). Mr. Hung is the brother of Ms. Hung Ying-lien and the brother-in-law of Mr. Wu Kwan-Hong.

### **Mr. Wu Kwan-Hong**

Mr. Wu, aged 48, is an executive Director and he is responsible for the overall business development and operational management of the manufacturing business of the Group.

He graduated from Taiwan Feng Chia University (台灣逢甲大學) with a bachelor's degree in banking insurance in 1984. Prior to joining the Group, Mr. Wu was the manager in the areas of warehousing management and procurement of New Focus Line Limited from 1990 to 1998. He formally joined NFA Parts as vice general manager in April 1998, and has participated in business planning and management. He is the spouse of Ms. Hung Ying-Lien and the brother-in-law of Mr. Hung Wei-Pi, John.

### **Ms. Hung Ying-Lien**

Ms. Hung, aged 43, is an executive Director, vice-president and chief financial controller of the Group and she is responsible for the duties of the chief financial controller of the Group and the overall business development and operational management of the chain stores business.

She graduated from Taiwan Fu Jen Catholic University (台灣輔仁大學) with a bachelor's degree in accountancy in 1988. She has extensive experience in the retail and wholesale service sector and in the finance field. Prior to joining the Group, Ms. Hung had been working for various positions, in a supermarket chain stores in Taiwan from 1991 to 2001 in the areas of wholesaling operations, human resources management, products management, inventory logistics and financial management. Ms. Hung joined the Group in July 2001. She is currently in charge of the management of financial budget and capital management of the Group and the operation of NFA Service. She is the sister of Mr. Hung Wei-Pi, John and the spouse of Mr. Wu Kwan-Hong.

### **Mr. Lu Yuan Cheng**

Mr. Lu, aged 48, is an executive Director and the chief technology officer of the manufacturing business of the Group. He is responsible for the research and development of new technologies and products.

Mr. Lu graduated from the Light Sources and Illumination Engineering Department of Shanghai Fudan University with a master's degree in 1993. He is a member of Shanghai Vacuum Society and council member of the Professional Transportation Lightings and Optical Signals Committee (交通運輸照明和光信號專業委員會) of China Illuminating Engineering Society. He also takes up certain research and teaching works for the China Eastern Technology University and has extensive cooperative relationship in the technical field with various academies in Shanghai. Mr. Lu is involved in the development of certain projects supported by the Shanghai Spark Programme (上海星火計

## PROFILES OF THE DIRECTORS AND SENIOR MANAGEMENT

劃) and Torch Progame (火炬計劃). In particular, the HID development project has passed expert assessment and received subsidy from the Ministry of Education of the PRC. 15 patents are registered for the products developed. Mr. Lu joined NFA Parts in 1996.

### **Mr. Douglas Charles Stuart Fresco**

Mr. Fresco, aged 64, is an executive Director and one of the founders of the Group.

He has extensive experience in the distribution of automotive products. He is one of the founders of Custom Accessories Asia Limited ("Custom Accessories") in 1982 in Hong Kong, which is engaged in the wholesale and distribution of automotive accessories for the US and European aftermarkets. Since the establishment of NFA Parts in March 1994, Mr. Fresco has been responsible for expanding the overseas market for the Group's products. He also acts as one of the Company's authorised representatives in Hong Kong.

### **Mr. Norman L. Matthew**

Mr. Matthew, aged 57, is an executive Director and one of the founders of the Group.

He graduated from the law school of the Loyola University in the US with a degree of Juris Doctor. He joined Custom Accessories in 1983. Mr. Matthew has over 20 years of experience in the distribution of automotive products. Since the establishment of NFA Parts in March 1994, Mr. Matthew has been responsible for exploring overseas market opportunities and strategic partnership with a particular emphasis on the US market.

### **Non-executive Director**

#### **Mr. Low Hsiao-ping**

Mr. Low, aged 55, is a non-executive Director. He graduated from the NihonBunka University (日本文化大學) and Kuwasuwa Kenkyujo (桑澤研究所). Mr. Low has joined Qiu's Group (邱氏集團) since 1981 and is currently a general manager of

Yung Han Financial Consultant Co., Ltd. in Taiwan (永漢理財顧問有限公司), Chuang Wen Co, Ltd. in Taiwan (創文股份有限公司), Tianjin Yongli Jianji International Trade Co., Ltd. (天津永立建機國際貿易有限公司) and a director-general of Yung Han Short-term Tutorial Course in Taiwan (永漢語文短期補習班總幹事) and a council member of Yung Han Golf Course in Taiwan (永漢高爾夫理事). He joined the Group in April 2006.

### **Mr. Li Jung Hsing**

Mr. Li, aged 55, is a graduate of National Taiwan Ocean University. He has held previous positions as Special Assistant to Chairman of Trust-Mart China, Vice-President of A-Best Hypermarket China, Commercial Director of Makro Taiwan and Managing Director of MINIT Group South East Asia (covering Hong Kong, Singapore, Taiwan and Thailand). He joined the Group in May 2007.

### **Ms. Irene Shih**

Ms. Shih, aged 42, is a graduate of Columbia University in the United States ("US") with a master's degree in Economics. From 1997 to 2005, she worked at China Development Industrial Bank and focused on communications and semiconductor investments. She has 11 years of venture capital experience in over 20 investment cases in the US and China. She joined the Group in May 2007.

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

#### **Mr. Du Haibo**

Mr. Du, aged 39, is an independent non-executive Director. He graduated from Zhengzhou University (鄭州大學) in 1989. Mr. Du graduated from 中歐國際工商管理學院 in 2005 and obtained a EMBA degree. He has 17 years of professional experience in accounting and auditing and is a senior auditor, senior accountant. He has obtained the professional qualification as a registered accountant, registered tax agent and land valuer. Mr. Du was the vice-chairman of Lingbao County Auditors (靈寶縣審計師事務所) and Henan C.P.A. (河南審計事務所). He is the legal representative of Henan Zheng Yong C.P.A. Limited (河南正永會計師事務所有限公司) and an independent non-executive director of two listed companies in the

## PROFILES OF THE DIRECTORS AND SENIOR MANAGEMENT

PRC, namely, 河南太龍制藥股份有限公司 listed on the Shanghai Stock Exchange and Henan Shuanghui Investment & Development Company Limited listed on the Shenzhen Stock Exchange. Mr. Du joined the Group in February 2005.

### **Mr. Zhou Tai-Ming**

Mr. Zhou, aged 69, is an independent non-executive Director. He graduated from Fudan University (復旦大學) with a degree in electrical physics in 1964 and has become a professor there in the department of physics since 1996. He was appointed as a member of the expert team of “electrical appliances in lightings” under the Science and Technology Committee (科學技術委員會) of the PRC Light Industry Ministry (中華人民共和國輕工業部) in 1990, the officer of the Professional Transportation Lightings and Optical Signals Committee of China Illuminating Engineering Society in 2000, and the consultant of the Shanghai Government Sourcing Administration Office (上海市政府採購辦公室) in 2003. Mr. Zhou joined the Group in February 2005.

### **Mr. Uang Chii-Maw**

Mr. Uang, aged 58, is an independent non-executive Director. He graduated from the University of Pennsylvania with a doctorate degree in electrical engineering. He is a professor

of electronics at I-Shou University in Taiwan and is an expert in optics and microcontroller, specialising in structural design of computer system, disposal of optoelectric signals and design of mechatronic system. Mr. Uang has been the adviser of several high technology companies. He joined the Group in February 2005.

### **Senior Management**

#### **Mr. Ronie Yun Chung Cheng**

Mr. Cheng, aged 36, is the qualified accountant and company secretary of the Group.

He graduated from the University of Warwick with a bachelor's degree in accounting and financial analysis. Prior to joining the Group, Mr. Cheng has 6 years experience in public practice accounting in the UK and in Hong Kong. Mr. Cheng also has 5 years of experience in fund management. Mr. Cheng is an associate of the Institution of Chartered Accountant of England and Wales. He joined the Group in May 2006.

# CORPORATE GOVERNANCE REPORT

## **Introduction**

The Board of Directors (the “Board” or the “Directors”) believes that good corporate governance practices are an essential element in guiding the growth and management of the business of the Group. Since the listing of the shares of the Company on 28 February 2005 and subject to the deviations disclosed in this report, the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the “Code”) by establishing a formal and transparent procedure to protect and maximize the interests of shareholders.

## **Directors’ Securities Transactions**

The Company has adopted a code of conduct regarding securities transactions of Directors no less exacting than the required standard set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by directors (the “Code”). To ensure the Directors’ dealings in the securities of the Company are conducted in accordance with the Model Code and the 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 during the period under review.

## **Board of Directors**

The Board currently comprises six executive Directors and six non-executive Directors, of which three of them are independent:

### **Executive Directors**

Mr. Hung Wei-Pi, John  
Mr. Wu Kwan-Hong  
Ms. Hung Ying-Lien  
Mr. Lu Yuan Cheng  
Mr. Douglas Charles Stuart Fresco  
Mr. Norman L. Matthew

### **Non-executive Directors**

Mr. Low Hsiao-Ping  
Mr. Li Jung Hsing  
Ms. Irene Shih

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

Mr. Du Haibo  
Mr. Zhou Tai-Ming  
Mr. Uang Chii-Maw

Matters which are reserved to be discussed and approved by the Board include the following:

- corporate strategy
- annual and interim results
- risk management
- major acquisitions disposals and capital transactions
- other significant operational and financial matters

Under A.2.1 of the Code, “the roles of chairman and chief executive officer should be separate 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.

# CORPORATE GOVERNANCE REPORT

Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations. Each executive Director is delegated individual responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The independent non-executive Directors will bring independent views to the Board and share their knowledge and experience with the other members of the Board. Apart from the letters of appointment appointing the non-executive Directors each for a term of three years, none of them has any form of service contract with the Company or any of its subsidiaries.

The Board has implemented appropriate measures and internal control procedures to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity. The senior management personnel are obliged to supply the Board with adequate information in a timely manner to enable the Board to make informed decisions. Each of the Directors has a right to obtain such records of the Company as are necessary to enable them to make informed decisions. Biographical details of the Directors as well as relationships among members of the Board are set out under the section headed "Profiles of the Directors and senior management" in this annual report.

The names of the Directors and individual attendance of each Director at each regular board meeting during the year are as follows:

| <b>Executive Directors</b>   | <b>Attendance</b> |
|--|-------------------|
| Mr. Hung Wei-Pi, John<br><i>(Chairman and<br/>Chief executive officer)</i> | 4/4               |
| Mr. Wu Kwan-Hong   | 4/4               |
| Ms. Hung Ying-Lien   | 4/4               |
| Mr. Lu Yuan Cheng  | 4/4               |
| Mr. Douglas Charles Stuart Fresco  | 4/4               |
| Mr. Norman L. Matthew  | 4/4               |
| <b>Non-executive Directors</b>   |                   |
| Mr. Low Hsiao-Ping   | 4/4               |
| Mr. Li Jung Hsing  | 4/4               |
| Ms. Irene Shih   | 4/4               |
| <b>Independent Non-executive Directors</b>                                 |                   |
| Mr. Du Haibo   | 4/4               |
| Mr. Zhou Tai-Ming  | 4/4               |
| Mr. Uang Chii-Maw  | 4/4               |

Apart from the regular board meetings during the Year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items in advance of each of the board meetings and minutes of meetings afterwards.

## **Remuneration, Examination and Nomination Committee**

The remuneration committee of the Company was established on 13 February 2005 with written terms of reference as suggested under the provisions of the Code. The Remuneration Committee, which has changed its name as Remuneration, Examination and Nomination Committee on 4 December 2005, was established with written terms of reference suggested under the code provisions of the Code and it consists of five members, namely Mr. Hung Wei-Pi, John, Ms. Hung Ying-Lien, and three Independent Non-executive Directors, Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-

# CORPORATE GOVERNANCE REPORT

Maw, all of whom are independent non-executive Directors. The chairman of the Remuneration, Examination and Nomination Committee is Mr. Hung Wei-Pi, John. The principal duties of the Remuneration, Examination and Nomination Committee include recommendation of appropriate persons to the Board in selection of directors and senior management, and the evaluation of the performance and making of recommendations on the remuneration package of the Directors and the senior management and the evaluation and making of recommendations on the Share Option Scheme and other employee benefit arrangements.

Remuneration, Examination and Nomination Committee shall convene meetings at least once a year, and to formulate the remuneration policy for Directors and Senior Management and Remuneration, Examination and Nomination Committee will ensure the remuneration determined are corresponding to the duties and responsibilities and in line with normal market rules. Remuneration, Examination and Nomination Committee shall further ensure that neither directors nor any of their associates involve in determining their respective compensation.

Details of the attendance of the Remuneration, Examination and Nomination Committee meetings during the period under review are as follows:

| <b>Members</b>        | <b>Attendance</b> |
|-----------------------|-------------------|
| Mr. Hung Wei-Pi, John | 1/1               |
| Ms. Hung Ying-Lien    | 1/1               |
| Mr. Du Haibo          | 1/1               |
| Mr. Zhou Tai-Ming     | 1/1               |
| Mr. Uang Chii-Maw     | 1/1               |

The Remuneration, Examination and Nomination Committee had considered and reviewed the existing terms of service contracts of the executive Directors and appointment letters of the non-executive Directors. The Remuneration, Examination and Nomination Committee considers that the existing terms of service contracts of the

executive Directors and appointment letters of the non-executive Directors and independent non-executive Directors are fair and reasonable.

All Directors are appointed for a fixed term. The articles of association of the Company required that one-third of the Directors (including executive and non-executive Directors) shall retire each year. The Directors to retire each year shall be those appointed by the Board during that year and those who have been longest in office since their election or re-election. A retiring director is eligible for re-election.

### **Auditors' remuneration**

During the year, the fees paid/payable to Shu Lun Pan Horwath Hong Kong CPA Limited (the "Auditors") in respect of their audit services amounted to approximately RMB1,380,000 in respect of the service for 2008 audit. In addition, the Company engaged the Auditors to perform certain agreed-upon procedures in relation to its financial statements during the year. Other than that, the Auditors did not provide other non-audit services.

### **Audit Committee**

The audit committee (the "Audit Committee") has three members, namely Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw. Mr. Du Haibo has been appointed as the chairman of the Audit Committee. The duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee meets at least twice a year. A special meeting may be called at the discretion of the Audit Committee or the request of the Board to review significant internal control or financial issues. The functions of Audit Committee are reviewing important accounting policies and supervising the preparation of financial reports of

# CORPORATE GOVERNANCE REPORT

the Group, monitoring the performance of both the internal and external auditors, reviewing and examining the effectiveness of the Group's financial reporting procedure and internal controls, ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board.

Details of the attendance of the Audit Committee meetings during the period are as follows:

| <b>Members</b>    | <b>Attendance</b> |
|-------------------|-------------------|
| Mr. Du Haibo      | 2/2               |
| Mr. Zhou Tai-Ming | 2/2               |
| Mr. Uang Chii-Maw | 2/2               |

The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2008 and the audited annual results for the year ended 31 December 2008, and was of the view that the preparation of such results were in compliance with the relevant accounting standards and requirements as well as disclosure requirements.

## **Strategy, Investment and Financing Decision Making Committee**

The Strategy, Investment and Financing Decision Making Committee of the Company (the "Strategy, Investment and Financing Decision Making Committee") consist of six members, namely Mr. Hung Wei-Pi, John, Mr. Wu Kwan-Hong, Ms. Hung Ying-Lien, Mr. Lu Yuan Cheng, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw. Mr. Hung Wei-Pi, John was appointed chairman of the Strategy, Investment and Financing Decision Making Committee. The duties of the Strategy, Investment and Financing Decision Making Committee include formulating and revising the Group's future development strategies, making procedures and enhancing the effectiveness and quality of important decision making procedures. The Strategy, Investment and Financing Decision Making Committee shall convene meetings subject to important investment and financing matters.

During the year, the Group was not involved in any corporate action that requires the involvement of the Strategy, Investment and Financing Decision Making Committee.

## **Directors' and Auditors' Responsibilities for the Consolidated Financial Statements**

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on pages 32 and 33.

## **Internal Control**

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meetings periodically to discuss financial, operational and risk management control.

## **Investors Relations**

The Company has disclosed all necessary information to the shareholders in compliance with Listing Rules. Meetings are held with the investors periodically. The Company also replied the enquires from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

## **Auditors**

During the year, the performance of the Auditors has been reviewed and the Company has proposed to reappoint the Auditors.

# REPORT OF THE DIRECTORS

The directors (“Directors”) of New Focus Auto Tech Holdings Limited (the “Company”) are pleased to present their annual report for the year ended 31 December 2008 (the “Year”) and the audited consolidated financial statements (“Financial Statements”) of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2008.

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

The Company was incorporated in the Cayman Islands on 15 May 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the group reorganisation (the “Reorganisation”) as detailed in section 4 headed “Corporate Reorganisation” in Appendix VI to the prospectus dated 17 February 2005 (the “Prospectus”) of the Company in preparation of the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of other companies comprising the Group on 13 February 2005.

## ***Principal Activities***

The Group is principally engaged in the manufacturing and sales of electronic and power-related automobile parts and accessories, and the provision of automobile repair, maintenance and restyling services and the retail distribution of merchandise through its service chain stores network in the Greater China region.

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

## ***Results and Dividends***

The consolidated results of the Group for the Year are set out in the consolidated income statement on page 34. An analysis of turnover and segment results for the Year by geographical regions and business segments is set out in note 5 to the Financial Statements.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: Nil).

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

Details of the movements of property, plant and equipment of the Group during the Year are set out in note 14 to the Financial Statements.

## ***Investment Properties***

Details of the movements of investment properties of the Group during the Year are set out in note 16 to the Financial Statements.

## ***Share Capital***

Details of the issued share capital of the Company and its movements during the year along with the relevant explanations are set out in note 28 to the Financial Statements.

# REPORT OF THE DIRECTORS

## **Reserves**

Movements of reserves of the Group and the Company on a consolidated basis are set out in note 29 to the Financial Statements.

## **Distributable Reserves**

Under the Companies Law of the Cayman Islands, share premium amounting to approximately RMB100,851,000 is distributable to shareholders, subject to the condition that immediately following the date on which the distribution of dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2008, the Company had distributable reserve available for distribution to Shareholders amounting to approximately RMB169,414,000.

## **Closure of Register of Members**

The register of members will be closed from Monday, 1 June 2009 to Wednesday, 3 June 2009 (both days inclusive), during which period no transfer of shares will be registered.

## **Directors**

The Directors who held office during the year and up to the date of this report were:

### **Executive Directors**

Hung Wei-Pi, John (*Chairman and Chief executive officer*)

Wu Kwan-Hong

Hung Ying-Lien

Lu Yuan Cheng

Douglas Charles Stuart Fresco

Norman L. Matthew

### **Non-executive Directors**

Low Hsiao-Ping

Li Jung Hsing

Irene Shih

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

Du Haibo

Zhou Tai-Ming

Uang Chii-Maw

# REPORT OF THE DIRECTORS

## **Directors** (Continued)

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

In accordance with Article 87(1) of the Company’s articles of association, Mr. Hung Wei-Pi, John, Mr. Lu Yuan Cheng, Mr. Douglas Charles Stuart Fresco and Mr. Zhou Tai-Ming will retire by rotation at the forthcoming annual general meeting of the Company. All such Directors being eligible, offer themselves for re-election.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence. The Company considers that all of its independent non-executive Directors are independent.

## **Director’s Service Contracts**

Each of Mr. Hung Wei-Pi, John, Mr. Wu Kwan-Hong, Ms. Hung Ying-Lien, Mr. Lu Yuan Cheng, Mr. Douglas Charles Stuart Fresco and Mr. Norman L. Matthew, being the executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 13 February 2005. Each of the executive Directors has entered into a new services contract for a second term of three years commencing 13 February 2008, subject to retirement by rotation in accordance with the articles of association of the Company.

Pursuant to the respective letters of appointment of the non-executive Directors, namely, Mr. Low Hsiao-Ping, Mr. Li Jung Hsing and Ms. Irene Shih and the independent non-executive Directors, namely, Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw, each of them is reappointed for a term of three years commencing 13 February 2008 subject to retirement by rotation in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors had entered into service contracts with the Company which were not determinable by the Company within one year without compensation (other than statutory compensation).

## **Directors’ Interests in Contracts**

Save as disclosed in the section headed “Connected Transactions” in this report, none of the Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Year.

## **Management Contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the Year.

# REPORT OF THE DIRECTORS

## **Share Option Scheme**

The Company conditionally adopted a share option scheme (the “Scheme”) on 13 February 2005 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operation. Eligible participants of the Scheme include the Directors, employees, suppliers, customers and business or strategic alliance partners of the Group. The Scheme became effective on 28 February 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme is 40,000,000 shares, representing 10% of the shares of the Company in issue as at the date of listing of the Company and as at the date of this annual report, unless approval for refreshing the 10% limit from the Company’s shareholders has been obtained. The maximum number of shares issued and to be issued under share options to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

The grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company’s shares at the date of the grant) in excess of HK\$5 million, are subject to shareholders’ approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK\$10 in total by the grantee. The exercise period of the share options granted is determined by the Directors, save that such a period shall not be more than 10 years from the date of grant of the share options subject to the provisions for early termination as set out in the Scheme. Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum holding period or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of (i) the nominal value of a share of the Company on the date of grant; (ii) the closing price of the Company’s shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of the share options; and (iii) the average Stock Exchange closing price of the Company’s shares for the five business days immediately preceding the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

As at 31 December 2008, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 13,110,000 shares. The total number of shares available for issue under the Scheme (excluding options already granted) is 14,510,000 shares, representing approximately 3.21% of the total issued share capital of the Company on that date.

# REPORT OF THE DIRECTORS

## Share Option Scheme (Continued)

As at 31 December 2008, details of options granted under the Scheme are as follows:

| Name of option holder                           | Date of grant    | Exercise period                                       | Exercise price (per share) | Closing price of share on date of grant (per share) | Number of shares subject to options outstanding as at 1 January 2008 | Number of shares subject to options lapsed/ cancelled as at 1 January 2008 | Number of options exercised since 1 January 2008 | Number of shares subject to outstanding options as at 31 December 2008 |
|---|------------------|---|----------------------------|---|--|--|--|--|
| Mr. Wu Kwan-Hong<br><i>Executive Director</i>   | 28 February 2005 | 1 January 2006 to 12 February 2015<br><i>(Note 1)</i> | HK\$0.94                   | HK\$0.94  | 3,400,000  | –  | –  | 3,400,000  |
| Ms. Hung Ying-Lien<br><i>Executive Director</i> | 28 February 2005 | 1 January 2006 to 12 February 2015<br><i>(Note 1)</i> | HK\$0.94                   | HK\$0.94  | 3,400,000  | –  | –  | 3,400,000  |
| Mr. Lu Yuan Cheng<br><i>Executive Director</i>  | 28 February 2005 | 1 January 2006 to 12 February 2015<br><i>(Note 1)</i> | HK\$0.94                   | HK\$0.94  | 3,240,000  | –  | –  | 3,240,000  |
| Continuous contract employees in aggregate      | 28 February 2005 | From 1 January 2006<br><i>(Note 2)</i>                | HK\$0.94                   | HK\$0.94  | 4,480,000  | 1,380,000  | 30,000   | 3,070,000  |
| Continuous contract employees in aggregate      | 5 July 2005      | From 1 January 2006<br><i>(Note 2)</i>                | HK\$1.01                   | HK\$1.00  | 800,000  | 800,000  | –  | 0  |
| Total   |                  |   |                            |   | 15,320,000   | 2,180,000  | 30,000   | 13,110,000   |

### Notes:

- None of the share option was exercised during the period from 1 January 2008 to 31 December 2008 and the remaining share options are exercisable during the period from 1 January 2009 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.
- Share options granted to other employees are exercisable within periods ranging from 1 year to 2 years subject to such performance targets or conditions as determined by the Board.

# REPORT OF THE DIRECTORS

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

As at 31 December 2008, the interests or short positions of each of the Directors and chief executives of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be recorded in the register maintained by the Company under Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he is taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, were as follows:

### (i) The Company

#### (a) Interest in shares of the Company

| Name                                 | Capacity/Nature of interest               | Number of shares<br>in which interested<br>(other than under<br>equity derivatives)<br>(Note 1) | Percentage of<br>issued shares |
|--------------------------------------|---|---|--------------------------------|
| Mr. Hung Wei-Pi, John                | Interest in a controlled company (Note 2) | 177,256,120(L)  | 39.26%                         |
| Mr. Douglas Charles<br>Stuart Fresco | Interest in a controlled company (Note 3) | 57,095,805(L)   | 12.65%                         |
| Ms. Hung Ying Lien                   | Personal                                  | 383,145   | 0.08%                          |
| Mr. Lu Yuan Cheng                    | Personal                                  | 805,035   | 0.18%                          |
| Mr. Norman L. Matthew                | Personal                                  | 20,744,350(L)   | 4.59%                          |
| Mr. Wu Kwang Hong                    | Personal                                  | 513,935(L)  | 0.11%                          |

#### Notes:

- The letter "L" denotes a long position in the shares.
- These shares are registered in the name of and beneficially owned by Sharp Concept Industrial Limited, the entire issued share capital of which is registered in the name of and beneficially owned by Mr. Hung Wei-Pi, John. Under the SFO, Mr. Hung Wei-Pi, John is deemed to be interested in all the shares of the Company held by Sharp Concept Industrial Limited.
- 53,590,690 shares are registered in the name of and beneficially owned by Golden Century Industrial Limited, the entire issued share capital of which is registered in the name of and beneficially owned by Mr. Douglas Charles Stuart Fresco. Under the SFO, Mr. Douglas Charles Stuart Fresco is deemed to be interested in all the shares of the Company held by Golden Century Industrial Limited. The remaining 3,505,115 shares are registered in the name of Mr. Douglas Charles Stuart Fresco.

# REPORT OF THE DIRECTORS

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

### (i) The Company (Continued)

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

Certain Directors were granted share options under the share option scheme of the Company dated 13 February 2005. Share options granted to the Directors to subscribe for shares of the Company which were outstanding on 31 December 2008 were as follows:

| Name               | Nature of interest | Number of underlying shares in respect of options granted | Exercise period                       | Price for grant        | Exercise price          | Percentage of issued share capital of the Company (%) |
|--------------------|--------------------|---|---------------------------------------|------------------------|-------------------------|---|
| Mr. Wu Kwan-Hong   | Beneficial owner   | 3,400,000(L)  | 1 January 2007 to<br>12 February 2015 | HK\$10.00<br>(for all) | HK\$0.94<br>(per share) | 0.75%   |
| Ms. Hung Ying-Lien | Beneficial owner   | 3,400,000(L)  | 1 January 2007 to<br>12 February 2015 | HK\$10.00<br>(for all) | HK\$0.94<br>(per share) | 0.75%   |
| Mr. Lu Yuan Cheng  | Beneficial owner   | 3,240,000   | 1 January 2007 to<br>12 February 2015 | HK\$10.00<br>(for all) | HK\$0.94<br>(per share) | 0.72%   |

*Notes:*

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

### (ii) The associated corporation

As at 31 December 2008, to the knowledge of the Company, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

# REPORT OF THE DIRECTORS

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

As at 31 December 2008, the Directors were not aware of any disclosure of interests or short positions of the persons, other than Directors and chief executives of the Company, in the shares and underlying shares of the Company, as required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or the interests of persons directly or indirectly holding 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other members of the Group were as follows:

| Name                              | Capacity/Nature of interest  | Number of shares in which interested (other than under equity derivatives)<br>(Note 1) | Number of shares in which interested under equity derivatives | Total number of shares | Percentage of issued shares |
|-----------------------------------|------------------------------|--|---|------------------------|-----------------------------|
| Sharp Concept Industrial Limited  | Beneficial owner             | 177,256,120  | Nil   | 177,256,120            | 39.26%                      |
| Ms. Jin Xiao-Yan                  | Family interest<br>(Note 2)  | 177,256,120  | Nil   | 177,256,120            | 39.26%                      |
| Mr. Douglas Charles Stuart Fresco | Family interest<br>(Note 3)  | 57,095,805   | Nil   | 57,095,805             | 12.65%                      |
| Golden Century Industrial Limited | Beneficial owner<br>(Note 3) | 53,590,690   | Nil   | 53,590,690             | 11.87%                      |
| Ms. Linda Fresco                  | Family interest<br>(Note 3)  | 57,095,805   | Nil   | 57,095,805             | 12.65%                      |

### Notes:

- The letter "L" denotes a long position in the shares.
- 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 Mr. Douglas Charles Stuart Fresco and by Sharp Concept Industrial Limited which in turn is wholly and beneficially owned by Mr. Hung Wei-Pi, John.
- Mrs. Linda Fresco is the wife of Mr. Douglas Charles Stuart Fresco, an executive Director. Under the SFO, she is deemed to be interested in all the shares of the Company held by Golden Century Industrial Limited which in turn is wholly and beneficiary owned by Mr. Douglas Charles Stuart Fresco. The difference between Mr. Douglas Charles Stuart Fresco's share holding and the share holding by Golden Century Industrial Limited represents the shares held by Mr. Douglas Charles Stuart Fresco personally.

Save as disclosed above, the Directors are not aware of any person, other than the Directors and chief executive of the Company, who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group as at 31 December 2008.

# REPORT OF THE DIRECTORS

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

Save as disclosed above and under the section headed "Share Option Scheme", at no time during the Year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

## **Pre-emptive Rights**

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

## **Sale, Purchase or Redemption of the Company's Listed Shares**

During the period under review, the Company repurchased 264,000 ordinary Shares of the Company on the Hong Kong Stock Exchange under the general mandate to repurchase shares granted by the shareholders at the annual general meeting of the shareholders of the Company held on 4 June 2008. 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 Year.

The details of the purchase of shares by the Company during the Year is as follow:

| Month         | Highest Price (HK\$) | Lowest price (HK\$) | Average price (HK\$) | Number of shares repurchased | Consideration (HK\$) |
|---------------|----------------------|---------------------|----------------------|------------------------------|----------------------|
| December 2008 | 0.88                 | 0.86                | 0.87                 | 264,000                      | 229,594              |

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

## **Continuing Connected Transaction**

During 2008, the following continuing connected transaction was carried out by the Company and its subsidiaries pursuant to Rule 14A.34 of the Listing Rules of the Hong Kong Stock Exchange. These continuing connected transactions were subject to reporting and announcement requirements but were exempt from independent shareholders' approval requirements under the Listing Rules.

# REPORT OF THE DIRECTORS

## **Continuing Connected Transaction (Continued)** **Custom Accessories Sales Agreement**

On 23 April 2008, New Focus Auto Parts Co. Limited (上海紐福克斯汽車配件有限公司) (“NFAP”) and New Focus Light and Power (Shanghai) Limited (紐福克斯光電科技(上海)有限公司) (“NFA L&P”), both being wholly-owned subsidiaries of the Company, entered into a sales agreement (“C&A Agreement”) with Custom Accessories Limited (“C&A”), which is 50% owned by Mr. Douglas Fresco (a substantial shareholder and Director of the Company) and his wife, 48% owned by Mr. Norman Matthew (a Director of the Company) and his family members and 2% by independent third party. C&A is therefore a connected person of the Company within the meaning of the Listing Rules retrospectively to formalize and record the terms of sales of goods for the period from 1 January 2007 to 30 April 2008. Under the C&A Agreement, NFAP and NFA L&P were to supply products to C&A. The prices were determined with reference to market process and on the basis that the terms and those prices would not be less favourable to the Company/ Group than the terms offered to other independent third parties on similar products. A new contract covering the period from 23 April 2008 to 31 December 2010 with the same terms of and among the same parties to the C&A Agreement was executed and the expiry date of which is 31 December 2010.

For the year ended 31 December 2008, the sales of products to C&A by NFAP and NFA L&P amounted to approximately RMB7,812,000.

### **Confirmation from auditors**

The Board of Directors has received a comfort letter from the auditors of the Company with respect to the above continuing connected transaction and the letter stated that for the year 2008, the above continuing connected transaction:

- (1) have been approved by the Board of Directors;
- (2) have been entered into in accordance with the terms of the agreement governing the transaction; and
- (3) has not exceeded the cap amount announced by the Company and/or specified within the relevant agreement, where applicable.

### **Confirmation of Independent Non-executive Directors**

The Company’s independent non-executive Directors have reviewed the above continuing connected transaction which was subject to reporting and announcement requirements, and confirmed that:

- (1) the transaction was entered into in the ordinary and usual course of the business of the Company;
- (2) the transaction was conducted either on normal commercial terms or on terms that are fair and reasonable so far as the independent shareholders are concerned;
- (3) the transaction was entered into in accordance with the agreement governing the connected transaction; and
- (4) the amount of the transaction had not exceeded the cap amount announced by the Company and/or specified within the relevant agreement.

# REPORT OF THE DIRECTORS

## **Major Customers and Suppliers**

Sales of five largest customer account for 37% of the total revenue for the year ended 31 December 2008, whereas the largest customer accounts for 13%. Purchases from the five largest suppliers were less than 30% of the total purchases for the year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

## **Public Float**

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

## **Auditors**

The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited. The Company's auditors will change their name from Shu Lun Pan Horwath Hong Kong CPA Limited to Shu Lun Pan Hong Kong CPA Limited and will merge their business with BDO McCabe Lo Limited on 1 May 2009. On the same date, BDO McCabe Lo Limited will change their name to BDO Limited. As a result of these changes, a resolution will be proposed at the forthcoming AGM to appoint BDO McCabe Lo Limited (to be renamed as BDO Limited on 1 May 2009) as the Company's auditors.

## **Post Balance Sheet Event**

On 23 February 2009, at the request of ARCH Auto Limited ("ARCH") and in consideration of ARCH's agreement to terminate the redeemable convertible bond in the principal amount of US\$12,000,000 with coupon rate of 5.2% due on 30 April 2010 (the "Convertible Bond"), the subscription agreement dated 30 April 2007 in connection with the issue of the Convertible Bond by the Company to ARCH (the "Subscription Agreement") and the deed of undertakings ("Deed of Undertakings") dated 30 April 2007 entered by Mr. Hung Wei-pi ("Mr. Hung") in favor of ARCH, the Company issued a promissory note ("Promissory Note") in favor of ARCH whereby the Company promises to pay to the ARCH the loan in the amount of US\$12,000,000, being the entire amount due from the Company to ARCH under the Convertible Bond, in accordance with the terms and conditions set forth in the Promissory Note. The obligations of the Company under the Promissory Note are fully and irrevocably guaranteed by Mr. Hung. Upon the execution and delivery of the Promissory Note, each of the Company, ARCH and Mr. Hung releases absolutely and discharges the other from all of its respective obligations under the Convertible Bond, the Subscription Agreement and Deed of Undertakings and the Promissory Note replaces the said documents in their entirety.

Details of the issue of the Promissory Note was announced by the Company on 23 February 2009.

As of the date of this annual report, the Company has repaid US\$3,000,000 to ARCH in accordance with the terms and conditions of the Promissory Note. The outstanding principal under the Promissory Note will be settled in two installments of US\$4,000,000 and US\$5,000,000 and repayable on 30 April 2009 and 30 June 2009, respectively.

On behalf of the Board  
**Hung Wei-Pi, John**  
*Chairman*

Hong Kong, 21 April 2009

# INDEPENDENT AUDITORS' REPORT



**Shu Lun Pan Horwath Hong Kong CPA Limited**  
香港立信浩華會計師事務所有限公司

20th Floor, Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong  
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**INDEPENDENT AUDITOR'S REPORT**  
**TO THE SHAREHOLDERS 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)*

We have audited the financial statements of New Focus Auto Tech Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 117, which comprise the consolidated and company balance sheets as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

The directors are responsible for the preparation and the true and fair presentation of the financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

# INDEPENDENT AUDITORS' REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **SHU LUN PAN HORWATH HONG KONG CPA LIMITED**

*Certified Public Accountants*

**Chan Kam Wing, Clement**

Practising Certificate number P02038

21 April 2009

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

|   | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|-------|-----------------|-----------------|
| Turnover  | 5     | 707,426         | 763,451         |
| Cost of sales and services                                      |       | (541,805)       | (623,067)       |
| Gross profit  |       | 165,621         | 140,384         |
| Fair value gain on the derivative component of convertible bond | 26    | 11,877          | 15,214          |
| Other income and gains  | 6     | 11,729          | 16,198          |
| Distribution costs  |       | (89,973)        | (70,348)        |
| Administrative expenses   |       | (65,901)        | (70,287)        |
| Finance costs   | 7     | (15,562)        | (8,732)         |
| Profit before taxation  | 8     | 17,791          | 22,429          |
| Income tax  | 10    | (4,996)         | (1,067)         |
| Profit for the year   |       | 12,795          | 21,362          |
| <b>Attributable to:</b>   |       |                 |                 |
| Equity holders of the Company                                   |       | 10,922          | 17,849          |
| Minority interests  |       | 1,873           | 3,513           |
|   |       | 12,795          | 21,362          |
| Dividend  | 12    | –               | –               |
| Earnings per share:   | 13    |                 | (Restated)      |
| – Basic   |       | RMB2.42 fen     | RMB3.99 fen     |
| – Diluted   |       | RMB1.54 fen     | RMB1.30 fen     |

The accompanying notes form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2008

|  | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--|-------|-----------------|-----------------|
| <b>ASSETS AND LIABILITIES</b>                |       |                 |                 |
| <b>Non-current assets</b>                    |       |                 |                 |
| Property, plant and equipment                | 14    | 150,401         | 106,521         |
| Leasehold land and land use rights           | 15    | 20,508          | 21,086          |
| Investment properties                        | 16    | 26,047          | 25,286          |
| Goodwill                                     | 17    | 46,068          | 43,161          |
| Other intangible assets                      | 18    | 8,601           | 9,310           |
| Other financial assets                       | 20(a) | 2,778           | 2,611           |
| Deferred tax assets                          | 27    | 93              | 128             |
|  |       | <b>254,496</b>  | <b>208,103</b>  |
| <b>Current assets</b>                        |       |                 |                 |
| Trading securities                           | 20(b) | 227             | 737             |
| Inventories                                  | 21    | 125,695         | 126,803         |
| Trade receivables                            | 22    | 78,175          | 119,950         |
| Deposits, prepayments and other receivables  |       | 57,782          | 58,921          |
| Amount due from a related party              | 23(a) | 316             | 92              |
| Tax recoverable                              |       | 3,527           | 387             |
| Pledged time deposits                        | 32    | 1,877           | 3,342           |
| Cash and cash equivalents                    | 32    | 95,726          | 135,532         |
|  |       | <b>363,325</b>  | <b>445,764</b>  |
| <b>Current liabilities</b>                   |       |                 |                 |
| Bank borrowings, secured                     | 24    | 95,940          | 85,929          |
| Trade payables                               | 25    | 110,707         | 149,183         |
| Accruals and other payables                  |       | 39,294          | 43,916          |
| Amounts due to directors                     | 23(b) | 450             | 1,388           |
| Amounts due to related parties               | 23(b) | –               | 1,504           |
| Tax payable                                  |       | 731             | –               |
|  |       | <b>247,122</b>  | <b>281,920</b>  |
| <b>Net current assets</b>                    |       | <b>116,203</b>  | <b>163,844</b>  |
| <b>Total assets less current liabilities</b> |       | <b>370,699</b>  | <b>371,947</b>  |

# CONSOLIDATED BALANCE SHEET

As at 31 December 2008

|   | <i>Notes</i> | <b>2008</b><br><b>RMB'000</b> | 2007<br>RMB'000 |
|---|--------------|-------------------------------|-----------------|
| <b>Non-current liabilities</b>                              |              |                               |                 |
| Bank borrowings, secured                                    | 24           | <b>14,349</b>                 | 16,494          |
| Convertible bond  | 26           | <b>68,591</b>                 | 75,998          |
| Deferred tax liabilities                                    | 27           | <b>1,389</b>                  | 1,071           |
|   |              | <b>84,329</b>                 | 93,563          |
| <b>Net assets</b>   |              | <b>286,370</b>                | 278,384         |
| <b>CAPITAL AND RESERVES</b>                                 |              |                               |                 |
| Share capital   | 28           | <b>47,354</b>                 | 46,394          |
| Reserves  | 29(i)        | <b>205,476</b>                | 200,323         |
| <b>Equity attributable to equity holders of the Company</b> |              | <b>252,830</b>                | 246,717         |
| <b>Minority interests</b>                                   |              | <b>33,540</b>                 | 31,667          |
| <b>Total equity</b>   |              | <b>286,370</b>                | 278,384         |

These financial statements were approved and authorised for issue by the board of directors on 21 April 2009.

**Mr. Hung Wei-Pi, John**  
*Director*

**Ms. Hung Yi-Lien**  
*Director*

The accompanying notes form part of these financial statements.

# BALANCE SHEET

As at 31 December 2008

|  | <i>Notes</i> | <b>2008<br/>RMB'000</b> | 2007<br>RMB'000 |
|--|--------------|-------------------------|-----------------|
| <b>ASSETS AND LIABILITIES</b>                |              |                         |                 |
| <b>Non-current assets</b>                    |              |                         |                 |
| Property, plant and equipment                | 14           | 71                      | 104             |
| Investments in subsidiaries                  | 19           | 164,066                 | 164,066         |
| Loan to a subsidiary                         | 19           | 37,044                  | 39,186          |
|  |              | <b>201,181</b>          | 203,356         |
| <b>Current assets</b>                        |              |                         |                 |
| Deposits, prepayments and other receivables  |              | 449                     | 512             |
| Short term loan to a subsidiary              | 19           | 27,328                  | –               |
| Amounts due from subsidiaries                | 19           | 34,673                  | 92,462          |
| Cash and cash equivalents                    | 32           | 21,387                  | 12,474          |
|  |              | <b>83,837</b>           | 105,448         |
| <b>Current liabilities</b>                   |              |                         |                 |
| Accruals and other payables                  |              | 1,096                   | 5,618           |
| Amount due to a director                     | 23(b)        | 14                      | 5               |
| Amounts due to subsidiaries                  | 19           | 486                     | 474             |
|  |              | <b>1,596</b>            | 6,097           |
| <b>Net current assets</b>                    |              | <b>82,241</b>           | 99,351          |
| <b>Total assets less current liabilities</b> |              | <b>283,422</b>          | 302,707         |

# BALANCE SHEET

As at 31 December 2008

|                              | <i>Notes</i> | <b>2008<br/>RMB'000</b> | 2007<br>RMB'000 |
|------------------------------|--------------|-------------------------|-----------------|
| <b>Non-current liability</b> |              |                         |                 |
| Convertible bond             | 26           | <b>68,591</b>           | 75,998          |
| <b>Net assets</b>            |              | <b>214,831</b>          | 226,709         |
| <b>CAPITAL AND RESERVES</b>  |              |                         |                 |
| Share capital                | 28           | <b>47,354</b>           | 46,394          |
| Reserves                     | 29(ii)       | <b>167,477</b>          | 180,315         |
| <b>Total equity</b>          |              | <b>214,831</b>          | 226,709         |

These financial statements were approved and authorised for issue by the board of directors on 21 April 2009.

**Mr. Hung Wei-Pi, John**  
*Director*

**Ms. Hung Yi-Lien**  
*Director*

The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

|   | Notes | Share capital<br>RMB'000<br>(note 28) | Capital reserves<br>RMB'000<br>(note 29(i)) | Retained profits<br>RMB'000<br>(note 29(i)) | Attributable to equity holders of the Company<br>RMB'000 | Minority interests<br>RMB'000 | Total<br>RMB'000 |
|---|-------|---------------------------------------|---|---|--|-------------------------------|------------------|
| <b>Balance at 1 January 2007</b>  |       | 42,987                                | 104,102                                     | 53,084                                      | 200,173  | 9,297                         | 209,470          |
| Fair value adjustment upon transfer of property, plant and equipment to investment properties | 14    | –                                     | 602   | –   | 602  | –                             | 602              |
| Exchange realignment  |       | –                                     | (3,052)                                     | –   | (3,052)  | –                             | (3,052)          |
| Total income and expense recognised directly in equity  |       | –                                     | (2,450)                                     | –   | (2,450)  | –                             | (2,450)          |
| Profit for the year   |       | –                                     | –   | 17,849                                      | 17,849   | 3,513                         | 21,362           |
| Total income and expense for the year   |       | –                                     | (2,450)                                     | 17,849                                      | 15,399   | 3,513                         | 18,912           |
| Lapse of share options  |       | –                                     | (575)                                       | 575   | –  | –                             | –                |
| Issue of shares on exercise of share options  | 28    | 9                                     | 73  | –   | 82   | –                             | 82               |
| Transfer of reserves  |       | –                                     | 2,432                                       | (2,432)                                     | –  | –                             | –                |
| Issue of shares for acquisition of a subsidiary   | 31    | 1,350                                 | 29,713                                      | –   | 31,063   | –                             | 31,063           |
| Bonus issue   | 28    | 2,048                                 | (2,048)                                     | –   | –  | –                             | –                |
| Contribution from minority owner of a subsidiary  |       | –                                     | –   | –   | –  | 11,944                        | 11,944           |
| Minority interest arising on acquisition of a subsidiary                                      | 31    | –                                     | –   | –   | –  | 6,913                         | 6,913            |
| <b>Balance at 31 December 2007</b>  |       | 46,394                                | 131,247                                     | 69,076                                      | 246,717  | 31,667                        | 278,384          |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

|   |       | Share<br>capital<br>RMB'000<br>(note 28) | Capital<br>reserves<br>RMB'000<br>(note 29(i)) | Retained<br>profits<br>RMB'000<br>(note 29(i)) | Attributable<br>to equity<br>holders of<br>the Company<br>RMB'000 | Minority<br>interests<br>RMB'000 | Total<br>RMB'000 |
|---|-------|--|--|--|---|----------------------------------|------------------|
|   | Notes |  |  |  |   |                                  |                  |
| Balance at 1 January 2008                       |       | 46,394                                   | 131,247  | 69,076   | 246,717   | 31,667                           | 278,384          |
| Exchange realignment<br>and total expenses      |       | –  | (4,632)  | –  | (4,632)   | –                                | (4,632)          |
| Profit for the year                             |       | –  | –  | 10,922   | 10,922  | 1,873                            | 12,795           |
| Total income and expense<br>for the year        |       | –  | (4,632)  | 10,922   | 6,290   | 1,873                            | 8,163            |
| Lapse of share options                          |       | –  | (238)  | 238  | –   | –                                | –                |
| Transfer of reserves                            |       | –  | 1,865  | (1,865)  | –   | –                                | –                |
| Issue of shares on exercise<br>of share options | 28    | 3  | 22   | –  | 25  | –                                | 25               |
| Repurchase of shares<br>and cancelled           | 28    | (23)                                     | (156)  | (23)   | (202)   | –                                | (202)            |
| Bonus issue                                     | 28    | 980                                      | (980)  | –  | –   | –                                | –                |
| <b>Balance at<br/>31 December 2008</b>          |       | <b>47,354</b>                            | <b>127,128</b>                                 | <b>78,348</b>                                  | <b>252,830</b>  | <b>33,540</b>                    | <b>286,370</b>   |

The accompanying notes form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

|  | <i>Notes</i> | <b>2008<br/>RMB'000</b> | 2007<br>RMB'000 |
|--|--------------|-------------------------|-----------------|
| <b>Operating activities</b>  |              |                         |                 |
| Profit before taxation   |              | <b>17,791</b>           | 22,429          |
| Adjustments for:   |              |                         |                 |
| Provision for/(write-back of provision for)<br>obsolete inventories          | 8            | <b>39</b>               | (240)           |
| (Reversal of allowance for)/additional<br>allowance for doubtful debts       | 8            | <b>(608)</b>            | 339             |
| Amortisation of leasehold land and land use rights                           | 8            | <b>578</b>              | 579             |
| Depreciation of property, plant and equipment                                | 8            | <b>19,527</b>           | 22,856          |
| Fair value gain on the derivative component of<br>convertible bond           | 26           | <b>(11,877)</b>         | (15,214)        |
| Direct transaction costs for the derivative component<br>of convertible bond | 7            | <b>–</b>                | 834             |
| Gain on disposal of property, plant and equipment                            | 6            | <b>(191)</b>            | –               |
| Gain on disposal of interest in a subsidiary                                 | 6            | <b>–</b>                | (953)           |
| Amortisation of other intangible assets                                      | 8            | <b>133</b>              | 397             |
| Fair value loss/(gain) on trading securities                                 | 6            | <b>510</b>              | (470)           |
| Fair value gain on investment properties                                     | 6            | <b>(761)</b>            | (2,515)         |
| Net realised gain on trading securities                                      | 6            | <b>(64)</b>             | –               |
| Exchange gain on convertible bond  | 7            | <b>(4,775)</b>          | (4,160)         |
| Imputed interest income from other financial assets                          | 6            | <b>(167)</b>            | (111)           |
| Interest income from bank deposits   | 6            | <b>(1,020)</b>          | (3,598)         |
| Other finance costs  | 7            | <b>20,337</b>           | 12,058          |
| Operating cash flows before working capital changes                          |              | <b>39,452</b>           | 32,231          |
| Decrease in other financial assets   |              | <b>–</b>                | 1,851           |
| Decrease/(increase) in inventories   |              | <b>1,348</b>            | (26,482)        |
| Decrease/(increase) in trade receivables                                     |              | <b>43,698</b>           | (31,865)        |
| Decrease/(increase) in prepayments, deposits and<br>other receivables        |              | <b>1,762</b>            | (6,206)         |
| Increase/(decrease) in amounts due from related parties                      |              | <b>(224)</b>            | 279             |
| (Decrease)/increase in trade payables  |              | <b>(40,017)</b>         | 23,399          |
| (Decrease)/increase in accruals and other payables                           |              | <b>(7,390)</b>          | 795             |
| Effect of foreign exchange rate changes                                      |              | <b>(2,046)</b>          | –               |
| Cash generated from/(used in) operations                                     |              | <b>36,583</b>           | (5,998)         |
| Income tax paid  |              | <b>(7,057)</b>          | (2,105)         |
| Interest paid  |              | <b>(11,092)</b>         | (4,205)         |
| <b>Net cash generated from/(used in) operating activities</b>                |              | <b>18,434</b>           | (12,308)        |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

|  | <i>Notes</i> | <b>2008<br/>RMB'000</b> | 2007<br>RMB'000 |
|--|--------------|-------------------------|-----------------|
| <b>Investing activities</b>                                  |              |                         |                 |
| Purchase of other intangible assets                          | 18           | (16)                    | –               |
| Decrease/(increase) in pledged time deposits                 |              | 1,465                   | (2,194)         |
| Purchase of property, plant and equipment                    |              | (67,526)                | (30,631)        |
| Proceeds from disposal of property, plant and equipment      |              | 2,916                   | 843             |
| Net cash inflow/(outflow) arising from                       |              |                         |                 |
| acquisitions of subsidiaries                                 | 31           | 122                     | (9,032)         |
| Net proceeds from disposal of interest in a subsidiary       | 30           | –                       | (662)           |
| Additional cash consideration paid for the                   |              |                         |                 |
| acquisition of a subsidiary                                  |              | (1,762)                 | (755)           |
| Proceeds from disposal of trading securities                 |              | 199                     | –               |
| Payment for earnest money deposit                            |              | –                       | (3,000)         |
| Purchase of trading securities                               |              | (135)                   | (267)           |
| Interest received  |              | 1,020                   | 3,598           |
| <b>Net cash used in investing activities</b>                 |              | <b>(63,717)</b>         | <b>(42,100)</b> |
| <b>Financing activities</b>                                  |              |                         |                 |
| Contribution from minority owners of a subsidiary            |              | –                       | 11,944          |
| Proceeds from issue of convertible bond, net of              |              |                         |                 |
| transaction costs  |              | –                       | 89,612          |
| Proceeds from new bank loans                                 |              | 95,814                  | 63,057          |
| Repayment of bank loans                                      |              | (64,413)                | (27,390)        |
| Repayment to directors                                       |              | (938)                   | (13,661)        |
| Repayment to related parties                                 |              | (1,504)                 | (21,703)        |
| Proceeds from issue of shares                                |              | 25                      | 82              |
| Repurchase of shares and cancelled                           |              | (202)                   | –               |
| <b>Net cash generated from financing activities</b>          |              | <b>28,782</b>           | <b>101,941</b>  |
| <b>Net (decrease)/increase in cash and cash equivalents</b>  |              | <b>(16,501)</b>         | <b>47,533</b>   |
| <b>Cash and cash equivalents at beginning of year</b>        |              | <b>113,130</b>          | <b>65,941</b>   |
| <b>Effect of foreign exchange rate changes</b>               |              | <b>(903)</b>            | <b>(344)</b>    |
| <b>Cash and cash equivalents at end of year</b>              |              | <b>95,726</b>           | <b>113,130</b>  |
| <b>Analysis of the balances of cash and cash equivalents</b> |              |                         |                 |
| Cash at bank and in hand                                     |              | 95,726                  | 135,532         |
| Bank overdrafts  |              | –                       | (22,402)        |
|  |              | <b>95,726</b>           | <b>113,130</b>  |

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## **1. ORGANISATION AND OPERATIONS**

The Company was incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and its registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Island. Its principal place of business is in Shanghai, the People’s Republic of China (the “PRC”).

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of electronic and power-related automobile 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. Further details of the Company’s subsidiaries are set out in Note 19.

## **2. ADOPTION OF NEW AND REVISED STANDARDS**

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies.

The adoption of HK(IFRIC) – Int 11 “HKFRS 2 – Group and treasury share transactions”, HK(IFRIC) – Int 12 “Service concession arrangements”, HK(IFRIC) – Int 14 “HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction” and HKAS 39 & HKFRS 7 Amendments “Reclassification of financial assets” has no impact on these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES**

### (a) **Statement of compliance**

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

### (b) **Basis of preparation of financial statements**

These 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.

### (c) **Basis of consolidation**

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions, income, expense and unrealised gains and loss resulting from intercompany balances and unrealised gains on transactions between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (d) **Business combinations**

Acquisition of subsidiaries and business is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised and is subsequently measured in accordance with the accounting policies set out in Note 3(c) above.

### (e) **Subsidiaries**

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (f) **Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (f) **Goodwill** (Continued)

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### (g) **Property, plant and equipment**

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation of these assets commences when the assets are ready for their intended use.

The historical cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (g) **Property, plant and equipment** (Continued)

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

|  |  |
|--|--|
| Freehold land                            | Not depreciated  |
| Buildings                                | 5%   |
| Leasehold improvements                   | Over the remaining term of the lease<br>but not exceeding 10 years |
| Plant and machinery                      | 10% to 33%   |
| Motor vehicles                           | 20%  |
| Office equipment, furniture and fixtures | 20% to 33%   |

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### (h) **Investment properties**

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at their costs, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in fair value of investment properties are included in profit or loss for the period in which they arise.

### (i) **Other intangible assets**

Other intangible assets are initially recognised at cost. Subsequently, other intangible assets with indefinite useful lives are carried at cost less any impairment losses and other intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The principal annual rates of other intangible assets with definite useful lives are as follows:

|                     |             |
|---------------------|-------------|
| Trademarks          | 6.6% to 10% |
| Franchise contracts | 10%         |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (j) **Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### (k) **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (l) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of fixed and variable overhead expenses, is assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued using a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

### (m) **Financial assets**

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. During the year, the Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial asset. These financial assets are subsequently accounted for as follows, depending on their classification:

#### (i) *Financial assets at fair value through profit or loss*

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

#### (ii) *Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (m) **Financial assets** (Continued)

#### (iii) *Available-for-sale financial assets*

Investments in securities which do not fall into any of the above categories or held-to-maturity securities are classified as available-for-sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale financial assets are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less any impairment losses.

#### (iv) *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For the Group's loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (m) **Financial assets** (Continued)

#### (iv) *Impairment of financial assets* (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

For trade and other current receivables and other financial assets carried at amortised cost, if any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which has been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (m) **Financial assets** (Continued)

#### (v) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

#### (vi) *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### (n) **Financial liabilities and equity instrument issued by the Group**

#### (i) *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### (ii) *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (iii) *Convertible bond*

Convertible bond issued by the Company is regarded as a hybrid instrument. Derivatives embedded in the host debt contract is treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. The conversion option is classified as equity component only if the option can be converted by exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. In the case that the conversion option is not settled by the exchange of a fixed amount of cash or another financial asset for fixed number of equity instrument, the conversion component is an embedded derivative.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (n) **Financial liabilities and equity instrument issued by the Group** (Continued)

#### (iii) *Convertible bond (Continued)*

At the date of issue, the conversion option derivative and holder redemption option (collectively the “derivative component”) and liability component are recognised at their fair values.

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative component in proportion to the allocation of the proceeds. Transaction costs relating to the derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

#### (iv) *Other financial liabilities*

Other financial liabilities of the Group, including bank borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

#### (v) *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (o) **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### (p) **Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and land use rights under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms and less any impairment losses.

### (q) **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (q) **Provisions** (Continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### (r) **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### (i) *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

#### (ii) *Deferred tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (r) **Taxation** (Continued)

#### (ii) *Deferred tax (Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (s) **Foreign currencies**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (“functional currency”). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Renminbi (“RMB”) which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (“foreign currencies”) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 3. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

### (s) **Foreign currencies** (Continued)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the exchange reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in RMB using exchange rates prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operations or the underlying assets are disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### (t) **Employees' benefits**

#### (i) *Short term benefits*

Salaries, annual bonuses, paid annual leaves and other allowances are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

#### (ii) *Defined contribution pension obligations*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees. The Group has no further payment obligations once the contributions have been paid.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## **3. PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

### **(u) Equity-settled share-based payment transactions**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve), based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

At the time when the share options are exercised, the amount previously recognised in the share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counterparty renders the service.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of other equity-settled share-based payment transaction.

### **(v) Borrowing costs**

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

### **(w) Related parties**

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## **3. PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

### **(x) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

- (i) Revenue from the sale of products is recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivable is reasonably assured.
- (ii) Revenue for providing services is recognised to the extent of services rendered and according to the terms of the agreement.
- (iii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.
- (iv) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease term.
- (v) Grants from the government are recognised at their fair value when there is reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

### **(y) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (a) Critical judgments in applying accounting policies

The following is the critical judgment that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect of the amounts recognised in financial statements.

#### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

### (b) Key sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

#### (i) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Further details are set out in Note 17.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### (b) Key sources of estimation uncertainty (Continued)

#### (ii) Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences; and
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

#### (iii) Fair value of the derivative component of convertible bond

As explained in Note 26, the directors use their judgment in selecting an appropriate valuation technique for the derivative component of convertible bond not quoted in an active market. Should the estimates including the early exercise behaviour and the relevant parameters of the valuation model be changed, there would be material changes in the amount of the fair value gain recognised in profit or loss in respect of the derivative component of convertible bond.

#### (iv) 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 competitors' actions in response to severe industry cycles. Management will reassess the estimations at each balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### (b) Key sources of estimation uncertainty (Continued)

#### (v) Impairment of trade receivables

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

## 5. TURNOVER AND SEGMENT INFORMATION

Turnover, which is also revenue, represents the sales value of goods supplied and services provided to customer, and is analysed as follows:

|                | 2008<br>RMB'000 | 2007<br>RMB'000 |
|----------------|-----------------|-----------------|
| Sale of goods  | 485,062         | 577,441         |
| Service income | 222,364         | 186,010         |
|                | <b>707,426</b>  | <b>763,451</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

### (a) Primary reporting format – business segments

The Group operates in two business segments, the manufacture and sale of automobile accessories, and the provision of automobile repair, maintenance and restyling services. Set out below is an analysis of the segment revenue, results, assets, liabilities and capital expenditure information.

| 2008  | Manufacture and sale of automobile accessories | Provision of automobile repair, maintenance and restyling services | Eliminations    | Consolidated   |
|---|--|--|-----------------|----------------|
|   | RMB'000  | RMB'000  |                 |                |
| <b>RESULTS</b>  |  |  |                 |                |
| External sales revenue  | 485,062  | 222,364  | –               | 707,426        |
| Inter-segment sales revenue                                     | 7,901  | 2,804  | (10,705)        | –              |
| External other income   | 5,527  | 5,487  | –               | 11,014         |
| Inter-segment other income/(expenses)                           | 294  | –  | (294)           | –              |
| <b>Total</b>  | <b>498,784</b>                                 | <b>230,655</b>   | <b>(10,999)</b> | <b>718,440</b> |
| Segment results   | 30,577   | 1,901  | –               | 32,478         |
| Unallocated other income  |  |  |                 | 715            |
| Unallocated costs   |  |  |                 | (11,717)       |
| Finance costs   |  |  |                 | (15,562)       |
| Fair value gain on the derivative component of convertible bond |  |  |                 | 11,877         |
| Profit before taxation  |  |  |                 | 17,791         |
| Income tax  |  |  |                 | (4,996)        |
| Profit for the year   |  |  |                 | 12,795         |
| <b>BALANCE SHEET</b>  |  |  |                 |                |
| Segment assets  | 379,390  | 211,059  | –               | 590,449        |
| Unallocated corporate assets                                    |  |  |                 | 27,372         |
| Total assets  |  |  |                 | 617,821        |
| Segment liabilities   | 194,811  | 94,820   | –               | 289,631        |
| Unallocated corporate liabilities                               |  |  |                 | 41,820         |
| Total liabilities   |  |  |                 | 331,451        |
| <b>OTHER INFORMATION</b>  |  |  |                 |                |
| Capital expenditure   | 55,751   | 11,791   | –               | 67,542         |
| Depreciation and amortisation charges                           | 10,407   | 9,799  | –               | 20,206         |
| Unallocated depreciation and amortisation charges               |  |  |                 | 32             |
| Total depreciation and amortisation charges                     |  |  |                 | 20,238         |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

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

| 2007   | Manufacture<br>and sale of<br>automobile<br>accessories | Provision of<br>automobile<br>repair,<br>maintenance<br>and restyling<br>services | Eliminations    | Consolidated   |
|--|---|---|-----------------|----------------|
|  | RMB'000   | RMB'000   | RMB'000         | RMB'000        |
| <b>RESULTS</b>   |   |   |                 |                |
| External sales revenue   | 577,441   | 186,010   | –               | 763,451        |
| Inter-segment sales revenue  | 14,483  | 575   | (15,058)        | –              |
| External other income  | 6,574   | 6,286   | –               | 12,860         |
| Inter-segment other income/(expenses)                              | 401   | (826)   | 425             | –              |
| <b>Total</b>   | <b>598,899</b>  | <b>192,045</b>  | <b>(14,633)</b> | <b>776,311</b> |
| <b>Segment results</b>   | <b>33,881</b>   | <b>(4,813)</b>  | <b>–</b>        | <b>29,068</b>  |
| Unallocated other income   |   |   |                 | 3,338          |
| Unallocated costs  |   |   |                 | (16,459)       |
| Finance costs  |   |   |                 | (8,732)        |
| Fair value gain on the derivative<br>component of convertible bond |   |   |                 | 15,214         |
| Profit before taxation   |   |   |                 | 22,429         |
| Income tax   |   |   |                 | (1,067)        |
| Profit for the year  |   |   |                 | 21,362         |
| <b>BALANCE SHEET</b>   |   |   |                 |                |
| Segment assets   | 364,523   | 181,022   | –               | 545,545        |
| Unallocated corporate assets                                       |   |   |                 | 108,322        |
| <b>Total assets</b>  |   |   |                 | <b>653,867</b> |
| Segment liabilities  | 225,139   | 66,103  | –               | 291,242        |
| Unallocated corporate liabilities                                  |   |   |                 | 84,241         |
| <b>Total liabilities</b>   |   |   |                 | <b>375,483</b> |
| <b>OTHER INFORMATION</b>   |   |   |                 |                |
| Capital expenditure  | 14,347  | 16,239  | –               | 30,586         |
| Unallocated capital expenditure                                    |   |   |                 | 45             |
| <b>Total capital expenditure</b>                                   |   |   |                 | <b>30,631</b>  |
| Depreciation and amortisation charges                              | 9,739   | 12,877  | –               | 22,616         |
| Unallocated depreciation and<br>amortisation charges               |   |   |                 | 1,216          |
| <b>Total depreciation and amortisation charges</b>                 |   |   |                 | <b>23,832</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

### (b) Secondary reporting format – geographical segments

The Group operates in five (2007: five) main geographical areas. An analysis of the geographical segment revenue is as follows:

|                                  | 2008<br>RMB'000 | 2007<br>RMB'000 |
|----------------------------------|-----------------|-----------------|
| Segment revenue:                 |                 |                 |
| North America                    | 323,635         | 343,683         |
| Europe                           | 68,496          | 48,452          |
| Asia Pacific                     | 30,976          | 29,073          |
| Greater China (including Taiwan) | 283,958         | 341,973         |
| Africa                           | –               | 270             |
| South America                    | 361             | –               |
| Total                            | 707,426         | 763,451         |

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

There is no inter-segment sale between the geographical segments for the year ended 31 December 2008 (2007: RMBNil).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 6. OTHER INCOME AND GAINS

|  | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--|-------|-----------------|-----------------|
| Gross rentals from investment properties and other rental income                     |       | 1,809           | 1,233           |
| Interest income from bank deposits   |       | 1,020           | 3,598           |
| Imputed interest income from non-current earnest money deposit                       | 20(a) | 167             | 111             |
| Income from provision of repair and maintenance and rework of automobile accessories |       | 1,029           | –               |
| Gain on disposal of property, plant and equipment                                    |       | 191             | –               |
| Fair value gain on investment properties   | 16    | 761             | 2,515           |
| Tax refund on capitalised profit #   |       | –               | 748             |
| Gain on disposal of interest in a subsidiary   | 30    | –               | 953             |
| Fair value (loss)/gain on trading securities   |       | (510)           | 470             |
| Net realised gain on trading securities  |       | 64              | –               |
| Sale of scrap inventories  |       | 828             | 922             |
| Government subsidies ##  |       | 630             | 530             |
| Others   |       | 5,740           | 5,118           |
|  |       | <b>11,729</b>   | <b>16,198</b>   |

# Tax refund by the local government for the Group's re-investment in the PRC subsidiaries by capitalisation of profits.

## Compensation income from local governments for taxes paid by the PRC subsidiaries.

## 7. FINANCE COSTS

|   | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|-------|-----------------|-----------------|
| Interest expense:   |       |                 |                 |
| Bank borrowings wholly repayable within five years                        |       | 6,829           | 2,991           |
| Bank borrowings wholly repayable after five years                         |       | –               | 561             |
| Interest on amount due to a director                                      | 23(b) | –               | 653             |
| Imputed interest on convertible bond                                      | 26    | 13,508          | 7,853           |
| Direct transaction costs for the derivative component of convertible bond |       | –               | 834             |
| Exchange gain on convertible bond   | 26    | (4,775)         | (4,160)         |
|   |       | <b>15,562</b>   | <b>8,732</b>    |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 8. PROFIT BEFORE TAXATION

|  | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--|-------|-----------------|-----------------|
| Profit before taxation is arrived at after charging/(crediting):   |       |                 |                 |
| Net foreign exchange losses  |       | 3,148           | 1,428           |
| Cost of inventories ( <i>note</i> )  |       | 404,975         | 502,274         |
| Cost of services   |       | 136,791         | 121,033         |
| Provision for/(write-back of provision for) obsolete inventories   |       | 39              | (240)           |
|  |       | <b>541,805</b>  | 623,067         |
| Depreciation of property, plant and equipment  | 14    | 19,527          | 22,856          |
| Amortisation of:   |       |                 |                 |
| Leasehold land and land use rights   | 15    | 578             | 579             |
| Other intangible assets  | 18    | 133             | 397             |
| Total depreciation and amortisation charges  |       | <b>20,238</b>   | 23,832          |
| (Reversal of allowance for)/additional allowance for doubtful debts on trade receivables   | 22    | (608)           | 339             |
| Research and development costs   |       | 5,621           | 8,125           |
| Direct operating expenses arising on rental-earning investment properties  |       | –               | 331             |
| Auditors' remuneration   |       | 1,380           | 1,300           |
| Under-provision in respect of prior years  |       | 146             | –               |
|  |       | <b>1,526</b>    | 1,300           |
| Employee benefit expenses<br>(including directors' remuneration ( <i>Note 9(a)</i> )): <ul style="list-style-type: none"> <li>Salaries and allowances</li> <li>Pension fund contributions</li> <li>Other benefits</li> </ul> |       | 63,304          | 50,673          |
|  |       | 1,009           | 1,329           |
|  |       | 10,465          | 9,588           |
|  |       | <b>74,778</b>   | 61,590          |

*Note:* Cost of inventories includes RMB39,076,000 (2007: RMB51,642,000) relating to staff costs, depreciation and amortisation charges, which amounts are also included in the respective total amounts disclosed separately above.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' remuneration

The directors' remuneration for the years ended 31 December 2008 and 2007 is set out below:

#### 2008

| Name of director                              | Fees<br>RMB'000 | Salaries<br>and other<br>allowances<br>RMB'000 | Total<br>RMB'000 |
|---|-----------------|--|------------------|
| Executive directors                           |                 |  |                  |
| Hung Wei-Pi, John                             | –               | 1,635  | 1,635            |
| Wu Kwan-Hong                                  | –               | 850  | 850              |
| Hung Ying-Lien                                | –               | 645  | 645              |
| Lu Yuan Cheng                                 | –               | 360  | 360              |
| Douglas Charles Stuart Fresco<br>(Mr. Fresco) | –               | 53   | 53               |
| Norman L. Matthew (Mr. Matthew)               | –               | 53   | 53               |
| Non-executive directors                       |                 |  |                  |
| Low Hsiao Ping                                | –               | 60   | 60               |
| Irene Shih                                    | –               | 60   | 60               |
| Li Jung-Hsing                                 | –               | 60   | 60               |
| Independent non-executive directors           |                 |  |                  |
| Zhou Tai-Ming                                 | 72              | –  | 72               |
| Du Haibo                                      | 72              | –  | 72               |
| Uang Chii-Maw                                 | 72              | –  | 72               |
|   | <b>216</b>      | <b>3,776</b>                                   | <b>3,992</b>     |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

### (a) Directors' remuneration (Continued)

2007

| Name of director                              | Fees<br>RMB'000 | Salaries<br>and other<br>allowances<br>RMB'000 | Total<br>RMB'000 |
|---|-----------------|--|------------------|
| Executive directors                           |                 |  |                  |
| Hung Wei-Pi, John                             | –               | 2,286  | 2,286            |
| Wu Kwan-Hong                                  | –               | 968  | 968              |
| Hung Ying-Lien                                | –               | 786  | 786              |
| Lu Yuan Cheng                                 | –               | 417  | 417              |
| Douglas Charles Stuart Fresco<br>(Mr. Fresco) | –               | 59   | 59               |
| Norman L. Matthew (Mr. Matthew)               | –               | 59   | 59               |
| Non-executive directors                       |                 |  |                  |
| Low Hsiao Ping                                | –               | 60   | 60               |
| Irene Shih                                    | –               | 38   | 38               |
| Li Jung-Hsing                                 | –               | 38   | 38               |
| Independent non-executive directors           |                 |  |                  |
| Zhou Tai-Ming                                 | 60              | –  | 60               |
| Du Haibo                                      | 60              | –  | 60               |
| Uang Chii-Maw                                 | 60              | –  | 60               |
|   | 180             | 4,711  | 4,891            |

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 2008 (2007: RMBNil).

None of the directors has waived or agreed to waive any emolument paid by the Group during the year ended 31 December 2008 (2007: RMBNil).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2008 included four (2007: four) directors whose emoluments are reflected in the analysis presented in Note 9(a) above. The emolument paid or payable to the remaining one (2007: one) non-director highest paid employee whose emolument is less than HK\$1,000,000 is as follows:

|                                     | 2008<br>RMB'000 | 2007<br>RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Basic salaries and other allowances | 381             | 240             |

## 10. INCOME TAX

### (a) Taxation in the consolidated income statement represents:

|  | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--|-----------------|-----------------|
| <b>Current tax – PRC</b>   |                 |                 |
| – Provision for the year   | 5,222           | 3,148           |
| – Over-provision in respect of prior years                                   | (574)           | (2,441)         |
|  | 4,648           | 707             |
| <b>Deferred taxation (Note 27)</b>   |                 |                 |
| – attributable to the origination and reversal of temporary differences, net | 157             | 360             |
| – resulting from a change in tax rate  | 191             | –               |
|  | 4,996           | 1,067           |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 10. INCOME TAX (Continued)

(b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong for the years ended 31 December 2007 and 2008. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant jurisdictions. Basis of taxation for principal subsidiaries is set out as below:

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

For the year ended 31 December 2007, NFA Parts qualified as an Export Oriented Enterprise and was therefore exempted from PRC local corporate income tax ("CIT") and entitled to a 50% reduction in applicable national CIT rate of 24%. Accordingly, CIT was provided at a rate of 12% for the year ended 31 December 2007. As a domestic enterprise, NFA Parts is subject to an applicable CIT rate of 25% for the year. For the year ended 31 December 2008, it did not have taxable profits, and accordingly, no income tax has been provided.

(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 was exempted from local CIT and was subject to an applicable national CIT rate of 24%. In accordance with the approval from the relevant tax authorities, NF Light & Power was entitled to two years exemption from CIT followed by three years of 50% reduction in CIT rate commencing from the first profit-making year net of losses brought 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 national CIT rate for the years ended 31 December 2007. Accordingly, CIT was provided at 12% for the year ended 31 December 2007. Being qualified as a foreign investment production enterprise and a high and new tech enterprise in the PRC, NF Light & Power is subject to an applicable national CIT rate of 15% for three years commencing from 1 January 2008. As a result, income tax was provided at 15% for the year ended 31 December 2008.

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

As a domestic enterprise, NFA Service is subject to an applicable CIT rate of 25% (2007: 33%). For the years ended 31 December 2007 and 2008, NFA Service was in a loss-making position, and accordingly, no income tax has been provided for the two years.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 10. INCOME TAX (Continued)

### (b) (Continued)

#### (iv) *New Focus Richahaus Co. Ltd. ("NF Richahaus")*

NF Richahaus is incorporated in Taiwan and is subject to applicable domestic income tax rate of 25% and the domestic income tax for the year ended 31 December 2008 was provided based thereon. For the year ended 31 December 2007, NF Richahaus's tax losses brought forward from previous years exceeded the estimated assessable profit. Accordingly, no income tax was provided for the prior year.

#### (v) *Shanghai New Focus Longsheng Auto Parts Co., Ltd. ("NF Longsheng")*

As a domestic enterprise, NF Longsheng is subject to applicable national CIT rate of 25% for the year ended 31 December 2008. NF Longsheng is a foreign investment production enterprise situated in an industrial development zone in the PRC, and NF Longsheng was exempted from local CIT and was subject to applicable national CIT rate of 24%. In accordance with the approval from the relevant tax authorities, NF Longsheng is entitled to two years exemption from CIT followed by three years of 50% reduction in CIT. The year ended 31 December 2006 is the first profit-making year net of losses brought forward, and hence NF Longsheng is entitled to enjoy 50% reduction in national CIT rate. Accordingly, CIT was provided at 12.5% for the year ended 31 December 2008 whilst no CIT was provided for the year ended 31 December 2007. Accordingly, income tax was charged at 12.5% for the year ended 31 December 2008.

#### (vi) *Beijing Aiyihang Auto Service Ltd. ("Aiyihang")*

As a domestic enterprise, Aiyihang is subject to an applicable CIT rate of 25% (2007: 33%) for the year and income tax was provided for the year accordingly.

### (c) The taxation charge for the year can be reconciled to the accounting profit as follows:

|  | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--|-----------------|-----------------|
| Profit before taxation   | 17,791          | 22,429          |
| Taxation calculated at domestic applicable tax rate of 25% (2007: 27%)         | 4,448           | 6,056           |
| Tax effect of non-taxable income   | (585)           | (2,811)         |
| Utilisation of tax losses previously not recognised as deferred tax assets     | –               | (695)           |
| Effect of change in tax rate   | 191             | –               |
| Unrecognised tax losses  | 3,523           | 4,788           |
| Unrecognition of temporary differences   | 127             | –               |
| Effect of preferential tax treatments and tax exemptions                       | (2,523)         | (4,835)         |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 389             | 1,005           |
| Over-provision in respect of prior years                                       | (574)           | (2,441)         |
| Income tax for the year  | 4,996           | 1,067           |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company includes a loss of RMB9,558,000 (2007: a loss of RMB6,911,000) (Note 29(ii)) which has been dealt with in the financial statements of the Company.

## 12. DIVIDEND

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: RMBNil). No interim dividend was paid in respect of the year ended 31 December 2008 (2007: RMBNil).

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to the equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the bonus issue during the year. Basic earnings per share for the year ended 31 December 2007 is restated to take into effect of the bonus issue of shares during the year ended 31 December 2008.

The calculation of diluted earnings per share is based on the profit for the year attributable to the equity holders of the Company, adjusted to add the interest on convertible bond, the exchange gain on convertible bond and fair value gain on the derivative component of convertible bond. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings 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.

The calculations of basic and diluted earnings per share are based on:

|  | <i>Notes</i> | <b>2008<br/>RMB'000</b> | 2007<br>RMB'000 |
|--|--------------|-------------------------|-----------------|
| <b>Earnings</b>  |              |                         |                 |
| Profit attributable to the equity holders of the Company, used in the basic earnings per share calculation |              | <b>10,922</b>           | 17,849          |
| Add: Imputed interest on convertible bond  | 7            | <b>13,508</b>           | 7,853           |
| Less: Exchange gain on convertible bond  | 7            | <b>(4,775)</b>          | (4,160)         |
| Less: Fair value gain on the derivative component of convertible bond                                      | 26           | <b>(11,877)</b>         | (15,214)        |
| Profit attributable to the equity holders of the Company as adjusted for the effect of convertible bond    |              | <b>7,778</b>            | 6,328           |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 13. EARNINGS PER SHARE (Continued)

|   | Number of shares |                    |
|---|------------------|--------------------|
|   | 2008             | 2007<br>(Restated) |
| <b>Shares</b>   |                  |                    |
| Weighted average number of ordinary shares for the basic earnings per share calculation | 451,590,000      | 446,923,000        |
| Effect of dilution – weighted average number of ordinary shares:                        |                  |                    |
| Share options   | 4,242,000        | 9,645,000          |
| Convertible bond  | 48,665,000       | 30,666,000         |
| Weighted average number of ordinary shares adjusted for the effect of dilution          | 504,497,000      | 487,234,000        |

## 14. PROPERTY, PLANT AND EQUIPMENT

### The Group

|                                  | Note | Construction<br>in progress<br>RMB'000 | Freehold<br>land and<br>buildings<br>RMB'000 | Leasehold<br>improve-<br>ments<br>RMB'000 | Plant and<br>machinery<br>RMB'000 | Office<br>equipment,<br>furniture<br>and fixtures |         | Total<br>RMB'000 |
|----------------------------------|------|--|--|---|-----------------------------------|---|---------|------------------|
|                                  |      |  |  |   |                                   | Motor<br>vehicles<br>RMB'000                      | RMB'000 |                  |
| Opening net carrying amount      |      |  |  |   |                                   |   |         |                  |
| as at 1 January 2008             |      | 9,208                                  | 34,158                                       | 17,246                                    | 25,716                            | 6,597   | 13,596  | 106,521          |
| Reclassifications                |      | (184)                                  | 159  | (1)                                       | (20)                              | 19  | 27      | -                |
| Additions                        |      | 49,482                                 | -  | 5,424                                     | 7,270                             | 2,034   | 3,316   | 67,526           |
| Acquisition of a subsidiary      | 31   | -                                      | 721  | -   | -                                 | 121   | -       | 842              |
| Transfers                        |      | (2,052)                                | 269  | 941                                       | 376                               | -   | 466     | -                |
| Disposals                        |      | (25)                                   | (153)  | (309)                                     | (928)                             | (1,258)   | (52)    | (2,725)          |
| Depreciation charge for the year |      | -                                      | (1,123)                                      | (3,767)                                   | (8,324)                           | (2,595)   | (3,718) | (19,527)         |
| Exchange realignment             |      | -                                      | (1,487)                                      | (366)                                     | (119)                             | (13)  | (251)   | (2,236)          |
| Closing net carrying amount      |      |  |  |   |                                   |   |         |                  |
| as at 31 December 2008           |      | 56,429                                 | 32,544                                       | 19,168                                    | 23,971                            | 4,905   | 13,384  | 150,401          |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

|   |         | Construction<br>in progress | Freehold<br>land and<br>buildings | Leasehold<br>improve-<br>ments | Plant and<br>machinery | Motor<br>vehicles | Office<br>equipment,<br>furniture<br>and fixtures | Total    |
|---|---------|-----------------------------|-----------------------------------|--------------------------------|------------------------|-------------------|---|----------|
| Notes   | RMB'000 | RMB'000                     | RMB'000                           | RMB'000                        | RMB'000                | RMB'000           | RMB'000   | RMB'000  |
| Opening net carrying amount                                     |         |                             |                                   |                                |                        |                   |   |          |
| as at 1 January 2007  |         | 9,790                       | 37,602                            | 9,926                          | 23,330                 | 5,776             | 10,318  | 96,742   |
| Additions   |         | 6,034                       | 369                               | 9,562                          | 8,525                  | 1,451             | 4,690   | 30,631   |
| Reclassifications   |         | (261)                       | (391)                             | 391                            | 261                    | -                 | -   | -        |
| Transfer to investment properties                               | 16      | (6,830)                     | (1,522)                           | -                              | -                      | -                 | -   | (8,352)  |
| Fair value adjustment upon transfer<br>to investment properties |         | -                           | 602                               | -                              | -                      | -                 | -   | 602      |
| Acquisition of a subsidiary                                     | 31      | 475                         | -                                 | 4,748                          | 3,341                  | 1,677             | 3,145   | 13,386   |
| Disposals   |         | -                           | (39)                              | (347)                          | (164)                  | (277)             | (16)  | (843)    |
| Disposal of interest in a subsidiary                            | 30      | -                           | -                                 | (423)                          | (228)                  | -                 | -   | (651)    |
| Depreciation charge for the year                                |         | -                           | (1,097)                           | (6,290)                        | (9,209)                | (2,030)           | (4,230)   | (22,856) |
| Exchange realignment  |         | -                           | (1,366)                           | (321)                          | (140)                  | -                 | (311)   | (2,138)  |
| Closing net carrying amount                                     |         |                             |                                   |                                |                        |                   |   |          |
| as at 31 December 2007  |         | 9,208                       | 34,158                            | 17,246                         | 25,716                 | 6,597             | 13,596  | 106,521  |
| <b>At 31 December 2008:</b>                                     |         |                             |                                   |                                |                        |                   |   |          |
| Cost  |         | 56,429                      | 37,090                            | 30,311                         | 52,733                 | 9,828             | 26,187  | 212,578  |
| Accumulated depreciation<br>and impairment                      |         | -                           | (4,546)                           | (11,143)                       | (28,762)               | (4,923)           | (12,803)  | (62,177) |
| Net carrying amount   |         | 56,429                      | 32,544                            | 19,168                         | 23,971                 | 4,905             | 13,384  | 150,401  |
| At 31 December 2007:  |         |                             |                                   |                                |                        |                   |   |          |
| Cost  |         | 9,208                       | 38,172                            | 24,731                         | 52,285                 | 10,871            | 23,098  | 158,365  |
| Accumulated depreciation<br>and impairment                      |         | -                           | (4,014)                           | (7,485)                        | (26,569)               | (4,274)           | (9,502)   | (51,844) |
| Net carrying amount   |         | 9,208                       | 34,158                            | 17,246                         | 25,716                 | 6,597             | 13,596  | 106,521  |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

### The Company

|   | Leasehold<br>improvements<br>RMB'000 | Office<br>equipment,<br>furniture<br>and fixtures<br>RMB'000 | Total<br>RMB'000 |
|---|--------------------------------------|--|------------------|
| Net carrying amount as at 1 January 2007              | –                                    | 95   | 95               |
| Additions   | 45                                   | –  | 45               |
| Depreciation charge for the year                      | (11)                                 | (25)   | (36)             |
| Net carrying amount as at 31 December 2007            | 34                                   | 70   | 104              |
| Depreciation charge for the year                      | (15)                                 | (18)   | (33)             |
| <b>Net carrying amount<br/>as at 31 December 2008</b> | <b>19</b>                            | <b>52</b>  | <b>71</b>        |
| <b>At 31 December 2008:</b>                           |                                      |  |                  |
| Cost  | 45                                   | 108  | 153              |
| Accumulated depreciation                              | (26)                                 | (56)   | (82)             |
| Net carrying amount                                   | 19                                   | 52   | 71               |
| <b>At 31 December 2007</b>                            |                                      |  |                  |
| Cost  | 45                                   | 108  | 153              |
| Accumulated depreciation                              | (11)                                 | (38)   | (49)             |
| Net carrying amount                                   | 34                                   | 70   | 104              |

Freehold land and buildings of the Group are located outside Hong Kong. Freehold land and certain buildings of the Group were pledged to secure the bank borrowings of the Group as detailed in Note 24.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 15. LEASEHOLD LAND AND LAND USE RIGHTS

### The Group

|                                  | <b>2008</b>    | 2007    |
|----------------------------------|----------------|---------|
|                                  | <b>RMB'000</b> | RMB'000 |
| Net carrying amount:             |                |         |
| At beginning of year             | <b>21,086</b>  | 21,665  |
| Amortisation charge for the year | <b>(578)</b>   | (579)   |
| At end of year                   | <b>20,508</b>  | 21,086  |
| Cost                             | <b>22,587</b>  | 22,587  |
| Accumulated amortisation         | <b>(2,079)</b> | (1,501) |
| Net carrying amount              | <b>20,508</b>  | 21,086  |

The Group's interests in leasehold land and land use rights were held outside Hong Kong under medium term leases.

Certain leasehold land and land use rights of the Group were pledged to secure the bank borrowings of the Group as detailed in Note 24.

## 16. INVESTMENT PROPERTIES

### The Group

| <b>FAIR VALUE</b>                           | <i>Notes</i> | <b>2008</b>    | 2007    |
|---|--------------|----------------|---------|
|   |              | <b>RMB'000</b> | RMB'000 |
| At beginning of year                        |              | <b>25,286</b>  | 14,419  |
| Transfer from property, plant and equipment | 14           | –              | 8,352   |
| Fair value gain                             | 6            | <b>761</b>     | 2,515   |
| At end of year                              |              | <b>26,047</b>  | 25,286  |

As at 31 December 2007 and 2008, the investment properties were revalued at RMB25,286,000 and RMB26,047,000 respectively by Shanghai ZhongHua Real Estate Appraisal Co., Ltd., an independent firm of professionally qualified valuers recognised by the relevant PRC association of valuers with recent experience in the location and category of property being valued, on an open market value basis. All investment properties of the Group are located outside Hong Kong.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 16. INVESTMENT PROPERTIES (Continued)

Details of the property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, are set out in Notes 6 and 35.

## 17. GOODWILL

### The Group

|  | Notes | RMB'000       |
|--|-------|---------------|
| Carrying amount:                                     |       |               |
| At 1 January 2007                                    |       | 2,749         |
| Arising on acquisition of a subsidiary               | 31    | 39,251        |
| Attributable to disposal of interest in a subsidiary | 30    | (1,393)       |
| Adjustment (note)                                    |       | 2,554         |
| <hr/>  |       |               |
| At 31 December 2007                                  |       | 43,161        |
| Arising on acquisition of a subsidiary               | 31    | 609           |
| Adjustment (note)                                    |       | 2,544         |
| Exchange realignment                                 |       | (246)         |
| <hr/>  |       |               |
| <b>At 31 December 2008</b>                           |       | <b>46,068</b> |

Note: It represents the adjustments to the final consideration paid in respect of an acquisition of a subsidiary in prior year, according to the acquisition agreement.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill is allocated as follows:

|  | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--|-----------------|-----------------|
| Provision of automobile repair, maintenance and restyling services | <b>46,068</b>   | 43,161          |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 17. GOODWILL (Continued)

The recoverable amount of this CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations are as follows:

|               | 2008  | 2007 |
|---------------|-------|------|
|               | %     | %    |
| Gross margin  | 32-50 | 50   |
| Growth rate   | 8-20  | —    |
| Discount rate | 12-16 | 12   |

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with the forecasts generally adopted in the industry. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

The directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

Based on the above, the directors consider that there was no need for any impairment of goodwill as at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 18. OTHER INTANGIBLE ASSETS

### The Group

|                                      | <i>Notes</i> | <b>Trademarks</b><br>RMB'000 | <b>Franchise<br/>contracts</b><br>RMB'000 | <b>Total</b><br>RMB'000 |
|--------------------------------------|--------------|------------------------------|---|-------------------------|
| Net carrying amount:                 |              |                              |   |                         |
| At 1 January 2007                    |              | 10,001                       | 380                                       | 10,381                  |
| Disposal of interest in a subsidiary | 30           | –                            | (113)                                     | (113)                   |
| Amortisation charge for the year     | 8            | (130)                        | (267)                                     | (397)                   |
| Exchange realignment                 |              | (561)                        | –   | (561)                   |
| <hr/>                                |              |                              |   |                         |
| At 31 December 2007                  |              | 9,310                        | –   | 9,310                   |
| Addition                             |              | 16                           | –   | 16                      |
| Amortisation charge for the year     | 8            | (133)                        | –   | (133)                   |
| Exchange realignment                 |              | (592)                        | –   | (592)                   |
| <hr/>                                |              |                              |   |                         |
| <b>At 31 December 2008</b>           |              | <b>8,601</b>                 | <b>–</b>                                  | <b>8,601</b>            |
| <hr/>                                |              |                              |   |                         |
| <b>At 31 December 2008:</b>          |              |                              |   |                         |
| Cost                                 |              | 9,150                        | –   | 9,150                   |
| Accumulated amortisation             |              | (549)                        | –   | (549)                   |
| <hr/>                                |              |                              |   |                         |
| Net carrying amount                  |              | 8,601                        | –   | 8,601                   |
| <hr/>                                |              |                              |   |                         |
| At 31 December 2007:                 |              |                              |   |                         |
| Cost                                 |              | 9,726                        | –   | 9,726                   |
| Accumulated amortisation             |              | (416)                        | –   | (416)                   |
| <hr/>                                |              |                              |   |                         |
| Net carrying amount                  |              | 9,310                        | –   | 9,310                   |
| <hr/>                                |              |                              |   |                         |

The amortisation charge for the year is included in “administrative expenses” in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 19. INTERESTS IN SUBSIDIARIES

### The Company

|   | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|-----------------|-----------------|
| Unlisted shares/investments, at cost        | 164,066         | 164,066         |
| Loan to a subsidiary (note (ii))            | 37,044          | 39,186          |
| Short term loan to a subsidiary (note (ii)) | 27,328          | –               |
| Amounts due from subsidiaries (note (ii))   | 34,673          | 92,462          |
| Amounts due to subsidiaries (note (ii))     | (486)           | (474)           |

Particulars of the Company's principal subsidiaries as at 31 December 2008 are as follows:

| Company name  | Country/place<br>and date of<br>incorporation/<br>establishment | Legal form of<br>entities for those<br>established in PRC | Registered<br>capital/<br>share capital | Issued and<br>fully paid<br>up capital | Percentage of<br>attributable<br>equity<br>interest | Principal<br>activities/place<br>of operation                   |
|---|---|---|---|--|---|---|
| <i>Interests directly held:</i>   |   |   |   |  |   |   |
| Perfect Progress<br>Investments Limited<br>("Perfect Progress")               | The British Virgin<br>Islands<br>8 April 2002                   | –   | US\$50,000<br>Ordinary shares           | US\$500                                | 100%  | Investment holding<br>Hong Kong                                 |
| <i>Interests indirectly held:</i>   |   |   |   |  |   |   |
| Shanghai New Focus<br>Auto Parts Co., Ltd.<br>(Note (i))                      | The PRC<br>1 March 1994   | Wholly-owned<br>foreign enterprise                        | US\$1,100,000<br>Registered capital     | US\$1,100,000                          | 100%  | Manufacture and<br>sale of automobile<br>accessories<br>The PRC |
| New Focus Light and<br>Power Technology<br>(Shanghai) Co., Ltd.<br>(Note (i)) | The PRC<br>24 April 2001  | Wholly-owned<br>foreign enterprise                        | US\$10,080,000<br>Registered capital    | US\$10,800,000                         | 100%  | Manufacture and<br>sale of automobile<br>accessories<br>The PRC |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 19. INTERESTS IN SUBSIDIARIES (Continued)

| Company name  | Country/place and date of incorporation/ establishment | Legal form of entities for those established in PRC | Registered capital/ share capital   | Issued and fully paid up capital | Percentage of attributable equity interest | Principal activities/place of operation  |
|---|--|---|-------------------------------------|----------------------------------|--|--|
| Shanghai New Focus Auto Repair Services Co., Ltd. (Note (i))          | The PRC<br>21 December 2000                            | Limited liability company                           | RMB23,500,000<br>Registered capital | RMB23,500,000                    | 100%                                       | Automobile repair, maintenance and restyling services; sales of automobile products<br>The PRC |
| Shanghai Likeliang Auto Service Co., Ltd.                             | The PRC<br>23 March 2005                               | Limited liability company                           | RMB1,000,000<br>Registered capital  | RMB1,000,000                     | 95%  | Automobile repair, maintenance and restyling services; sales of automobile products<br>The PRC |
| Shanghai Hualiang Vocational and Technical Training School (Note (i)) | The PRC<br>March 2004                                  | Civilian sponsored non- enterprise unit             | RMB1,000,000<br>Registered capital  | RMB1,000,000                     | 100%                                       | Automobile repair, maintenance and restyling services training<br>The PRC                      |
| Xinjiaodian (Chengdu) Auto Maintain Co. Ltd.                          | The PRC<br>27 April 2005                               | Limited liability company                           | RMB5,784,870<br>Registered capital  | RMB5,784,870                     | 80%  | Automobile repair, maintenance and restyling services; sales of automobile products<br>The PRC |
| New Focus Richahaus Co. Ltd.  | Taiwan<br>15 September 2006                            | –   | NT160,000,000<br>Share capital      | NT160,000,000                    | 100%                                       | Automobile repair maintenance and restyling services; sales of automobile products<br>Taiwan   |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 19. INTERESTS IN SUBSIDIARIES (Continued)

| Company name                                     | Country/place and date of incorporation/ establishment | Legal form of entities for those established in PRC | Registered capital/ share capital   | Issued and fully paid up capital | Percentage of attributable equity interest | Principal activities/place of operation  |
|--|--|---|-------------------------------------|----------------------------------|--|--|
| Shandong New Focus Longsheng Auto Parts Co. Ltd. | The PRC<br>26 April 2006                               | Limited liability company                           | US\$2,484,000<br>Registered capital | US\$2,484,000                    | 51%  | Manufacture and sale of automobile accessories<br>The PRC                                      |
| Beijing Aiyihang Auto Service Ltd.               | The PRC<br>September 1997                              | Limited liability company                           | RMB38,500,000<br>Registered capital | RMB38,500,000                    | 51%  | Automobile repair, maintenance and restyling services; sales of automobile products<br>The PRC |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### Notes:

- (i) The subsidiary is registered as a wholly-foreign-owned enterprise under the PRC law.
- (ii) Loan to a subsidiary is unsecured, interest free and is in substance a part of the Company's interest in the subsidiary in the form of a quasi-equity loan. Short term loan to a subsidiary of US\$4,000,000 (equivalent to RMB27,328,000) is unsecured, interest free and repayable in December 2009. Amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 20. OTHER FINANCIAL ASSETS AND TRADING SECURITIES

### The Group

#### (a) Other financial assets

The balance as at 31 December 2008 of RMB2,778,000 (2007: RMB2,611,000) represented a non-current earnest money deposit with initial cost of RMB2,500,000 in connection with the Group's acquisition of 51% equity interest in Aiyihang during the year ended 31 December 2007 (Note 31) which is refundable in 2010 and the related imputed interest income of RMB167,000 and RMB111,000 (Note 6) earned during the years ended 31 December 2008 and 2007, respectively.

During the year ended 31 December 2007, the Group disposed of 85% equity interest in Shanghai Beforly Investment Management Limited ("Beforly"). The Group's remaining 15% equity interest in Beforly is classified as an available-for-sale financial asset of the Group with nil carrying amount as at 31 December 2007 and 2008 since Beforly has net liabilities.

#### (b) Trading securities

The balance represented investments in equity securities that were listed in the PRC, and were stated at fair value based on quoted market prices as at the balance sheet date.

## 21. INVENTORIES

### The Group

|  | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--|-----------------|-----------------|
| Raw materials                            | 27,258          | 38,371          |
| Work-in-progress                         | 26,200          | 25,102          |
| Finished goods                           | 24,037          | 25,963          |
| Merchandise goods                        | 48,783          | 37,911          |
|  | <b>126,278</b>  | 127,347         |
| Less: provision for obsolete inventories | <b>(583)</b>    | (544)           |
|  | <b>125,695</b>  | 126,803         |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 22. TRADE RECEIVABLES

### The Group

|                                    | 2008<br>RMB'000 | 2007<br>RMB'000 |
|------------------------------------|-----------------|-----------------|
| Trade receivables                  | 79,234          | 121,617         |
| Less: allowance for doubtful debts | (1,059)         | (1,667)         |
|                                    | 78,175          | 119,950         |

- (i) The average credit period to the Group's trade debtors is 30 days.
- (ii) The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

### The Group

|   | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|-----------------|-----------------|
| At beginning of year                        | 1,667           | 1,328           |
| Additional allowance for the year (Note 8)  | –               | 339             |
| Reversal of allowance for the year (Note 8) | (608)           | –               |
| At end of year                              | 1,059           | 1,667           |

At 31 December 2008, the Group's trade receivables of RMB8,361,000 (2007: RMB18,187,000) were individually determined to be impaired. The individually impaired trade receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, an allowance for doubtful debts of RMB1,059,000 (2007: RMB1,667,000) is made. The Group does not held any collateral over these balances.

Except for the above, no allowance has been made for estimated irrecoverable amounts from the sale of goods and provision of services.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 22. TRADE RECEIVABLES (Continued)

(iii) The ageing analysis of trade receivables is as follows:

### The Group

|                                    | 2008<br>RMB'000 | 2007<br>RMB'000 |
|------------------------------------|-----------------|-----------------|
| Current to 30 days                 | 26,336          | 46,194          |
| 31 to 60 days                      | 29,894          | 41,329          |
| 61 to 90 days                      | 14,643          | 15,907          |
| Over 90 days                       | 8,361           | 18,187          |
|                                    | <b>79,234</b>   | 121,617         |
| Less: allowance for doubtful debts | <b>(1,059)</b>  | (1,667)         |
|                                    | <b>78,175</b>   | 119,950         |

(iv) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

### The Group

|                               | 2008<br>RMB'000 | 2007<br>RMB'000 |
|-------------------------------|-----------------|-----------------|
| Neither past due nor impaired | 26,336          | 46,194          |
| Less than 1 month past due    | 29,894          | 41,329          |
| 1 to 2 months past due        | 14,643          | 15,907          |
|                               | <b>44,537</b>   | 57,236          |
|                               | <b>70,873</b>   | 103,430         |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 23. AMOUNTS DUE FROM/TO RELATED PARTIES AND DIRECTORS

### The Group

#### (a) Amount due from a related party

Amount due from a related party, which is disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, is as follows:

The amount due from a related party represented an amount of RMB316,000 (2007: RMB92,000) due from Custom Accessories Asia Limited ("Custom Accessories"). 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.

|  | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--|-----------------|-----------------|
| Custom Accessories                         |                 |                 |
| Balance at 1 January                       | 92              | 320             |
| Balance at 31 December                     | 316             | 92              |
| Maximum amount outstanding during the year | 316             | 2,042           |

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

There was no amount due but unpaid, nor any allowance for doubtful debts made against the principal amounts at 31 December 2007 and 2008.

#### (b) Amounts due to directors and related parties

As at 31 December 2007 and 2008, the amounts due to directors and related parties are unsecured, interest-free and repayable on demand.

During the year ended 31 December 2007, an amount due to a director of RMB15,047,000 being interest bearing at 6% per annum was fully settled, for which the Group incurred interest expense of RMB653,000 for the prior year.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 24. BANK BORROWINGS, SECURED

### The Group

|   | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|-----------------|-----------------|
| Bank loans  | 110,289         | 80,021          |
| Bank overdrafts   | –               | 22,402          |
|   | <b>110,289</b>  | <b>102,423</b>  |
| Bank borrowings are repayable as follows:                     |                 |                 |
| On demand or within one year                                  | 95,940          | 85,929          |
| After one year but within two years                           | 1,069           | 1,065           |
| After two years but within five years                         | 2,969           | 2,260           |
| After five years  | 10,311          | 13,169          |
|   | <b>110,289</b>  | <b>102,423</b>  |
| Amount due within one year included<br>in current liabilities | <b>(95,940)</b> | <b>(85,929)</b> |
| Amount included in non-current liabilities                    | <b>14,349</b>   | <b>16,494</b>   |

The banking facilities are secured by (i) the Group's freehold land and buildings with an aggregate net carrying value of RMB26,394,000 as at 31 December 2008 (2007: RMB28,188,000); (ii) the Group's leasehold land and land use rights of RMB5,687,000 as at 31 December 2008 (2007: RMB5,893,000); (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 NFA Parts.

Most of the bank loans bear fixed interest rates ranging from 2.93% to 8.964% (2007: 2.6% to 4.4%). The bank overdrafts at 31 December 2007 were repayable on demand and bore interest at the lending rate stipulated by the People's Bank of China applicable to the 6-month loan period, with 10% mark-down.

At 31 December 2008, the Group had available RMB75,443,000 (2007: RMB5,242,000) of undrawn committed banking facilities in respect of which all conditions precedent had been met.

|                                      | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--------------------------------------|-----------------|-----------------|
| Bank borrowings were denominated in: |                 |                 |
| RMB                                  | 74,900          | 78,103          |
| US\$                                 | 16,698          | 7,357           |
| TWD                                  | 18,691          | 16,963          |
|                                      | <b>110,289</b>  | <b>102,423</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 25. TRADE PAYABLES

The ageing analysis of trade payables of the Group is as follows:

### The Group

|                    | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--------------------|-----------------|-----------------|
| Current to 30 days | 56,843          | 65,992          |
| 31 to 60 days      | 23,849          | 37,753          |
| 61 to 90 days      | 14,669          | 22,677          |
| Over 90 days       | 15,346          | 22,761          |
|                    | <b>110,707</b>  | <b>149,183</b>  |

The average credit period for the Group's trade creditors is 60 days.

## 26. CONVERTIBLE BOND

### The Group and the Company

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 balance sheet date are recognised in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 26. CONVERTIBLE BOND (Continued)

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

|  | <b>Liability<br/>component of<br/>convertible<br/>bond</b> | <b>Derivative<br/>component of<br/>convertible<br/>bond</b> | <b>Total</b> |
|--|--|---|--------------|
|  | RMB'000  | RMB'000   | RMB'000      |
| At the issuance date   | 61,312   | 30,585  | 91,897       |
| Direct transaction costs   | (1,451)  | –   | (1,451)      |
| Imputed interest (Note 7)  | 7,853  | –   | 7,853        |
| Fair value gain  | –  | (15,214)  | (15,214)     |
| Unrealised exchange gain (Note 7)  | (2,592)  | (1,568)   | (4,160)      |
| At 31 December 2007  | 65,122   | 13,803  | 78,925       |
| Amount due within one year (interest payable<br>included in accruals and other payables) | (2,927)  | –   | (2,927)      |
| Amount classified as non-current<br>liabilities as at 31 December 2007                   | 62,195   | 13,803  | 75,998       |
| Imputed interest (Note 7)  | 13,508   | –   | 13,508       |
| Fair value gain  | –  | (11,877)  | (11,877)     |
| Unrealised exchange gain (Note 7)  | (3,931)  | (844)   | (4,775)      |
| At 31 December 2008  | 71,772   | 1,082   | 72,854       |
| Amount due within one year (interest payable<br>included in accruals and other payables) | (4,263)  | –   | (4,263)      |
| Amount classified as non-current<br>liabilities as at 31 December 2008                   | 67,509   | 1,082   | 68,591       |

Interest on the convertible bond is calculated using the effective interest method by applying the effective interest rate of 19.5% per annum.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 26. CONVERTIBLE BOND (Continued)

The fair value of the derivative component of the convertible bond is determined taking into account the valuation performed by RHL Appraisal Ltd., an independent firm of professionally qualified valuers, using the Binomial Model with the major inputs as at 31 December 2007 and 31 December 2008 as follows:

|                | <b>31 December<br/>2008</b> | 31 December<br>2007 |
|----------------|-----------------------------|---------------------|
| Share price    | <b>HK\$0.9</b>              | HK\$1.66            |
| Exercise price | <b>HK\$1.923</b>            | HK\$2.07            |
| Volatility     | <b>47.164%</b>              | 44.29%              |
| Risk free rate | <b>0.352%</b>               | 2.68%               |

During the year, there was a significant decrease in the share price of the Company, and accordingly, the fair value of the derivative component of the convertible bond decreased, resulting in a fair value gain of RMB11,877,000 (2007: RMB15,214,000).

Subsequent to 31 December 2008, the convertible bond is satisfied by way of the Group's issue of a promissory note of US\$12,000,000 to the holder of convertible bond, details are set out in Note 42.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 27. DEFERRED TAX

### The Group

The movement in deferred tax assets/(liabilities) is as follows:

#### Deferred tax assets:

|  | Accrued<br>expenses<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
|--|--------------------------------|-------------------|------------------|
| At 1 January 2007                              | 163                            | 32                | 195              |
| Charged to income statement ( <i>Note 10</i> ) | (58)                           | –                 | (58)             |
| Exchange realignment                           | (9)                            | –                 | (9)              |
| <hr/>  |                                |                   |                  |
| At 31 December 2007                            | 96                             | 32                | 128              |
| Charged to income statement ( <i>Note 10</i> ) | (30)                           | –                 | (30)             |
| Exchange realignment                           | (5)                            | –                 | (5)              |
| <hr/>  |                                |                   |                  |
| <b>At 31 December 2008</b>                     | <b>61</b>                      | <b>32</b>         | <b>93</b>        |

In accordance with the PRC tax law, tax losses may be carried forward against future taxable income for a period of five years. As at 31 December 2008, the Group had tax losses carried forward of RMB43,890,000 (2007: RMB42,374,000). As at 31 December 2008, the Group did not recognise any deferred tax asset arising from such tax losses as management is of the view that it was not probable that such benefits of tax losses would be realised before they expire.

The Group and the Company had no other significant unrecognised deferred tax at the balance sheet date (2007: RMBNil).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 27. DEFERRED TAX (Continued)

### The Group

#### Deferred tax liabilities:

|   | Fair value<br>gain on<br>investment<br>properties<br>RMB'000 | Accrued<br>subsidy<br>income<br>RMB'000 | Total<br>RMB'000 |
|---|--|---|------------------|
| At 1 January 2007                               | (577)  | (192)                                   | (769)            |
| Charged to income statement ( <i>Note 10</i> )  | (302)  | –                                       | (302)            |
| At 31 December 2007                             | (879)  | (192)                                   | (1,071)          |
| Charged to income statement ( <i>Note 10</i> )  | (127)  | –                                       | (127)            |
| Effect of change in tax rate ( <i>Note 10</i> ) | (191)  | –                                       | (191)            |
| At 31 December 2008                             | (1,197)  | (192)                                   | (1,389)          |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 28. SHARE CAPITAL

|   | 2008                        |                    |                   | 2007                        |                    |                   |
|---|-----------------------------|--------------------|-------------------|-----------------------------|--------------------|-------------------|
|   | Number of<br>shares<br>'000 | Amount<br>HK\$'000 | Amount<br>RMB'000 | Number of<br>shares<br>'000 | Amount<br>HK\$'000 | Amount<br>RMB'000 |
| Authorised:   |                             |                    |                   |                             |                    |                   |
| Ordinary shares of HK\$0.1 each                             | 2,000,000                   | 200,000            | 200,000           | 2,000,000                   | 200,000            | 200,000           |
| Issued and fully paid:                                      |                             |                    |                   |                             |                    |                   |
| At beginning of year  | 440,564                     | 44,056             | 46,394            | 405,835                     | 40,584             | 42,987            |
| Issue of shares on exercise<br>of share options (note (i))  | 30                          | 3                  | 3                 | 90                          | 9                  | 9                 |
| Bonus issue (note (ii))                                     | 11,014                      | 1,101              | 980               | 20,979                      | 2,097              | 2,048             |
| Issue of shares on acquisition<br>of a subsidiary (Note 31) | -                           | -                  | -                 | 13,660                      | 1,366              | 1,350             |
| Repurchase of shares<br>and cancelled (note (iii))          | (264)                       | (26)               | (23)              |                             |                    |                   |
| At end of year  | 451,344                     | 45,134             | 47,354            | 440,564                     | 44,056             | 46,394            |

**Note:**

- (i) In July 2008, 30,000 (2007: 90,000) share options were exercised to subscribe for 30,000 (2007: 90,000) ordinary shares of the Company of HK\$0.1 each at a consideration of RMB25,000 (2007: RMB82,000) of which RMB3,000 (2007: RMB9,000) was credited to share capital and the remaining balance of RMB22,000 (2007: RMB73,000) was credited to the share premium account and RMB3,000 (2007: RMB12,000) has been transferred from the share options reserve (included in other reserves) to the share premium account.
- (ii) The Company issued one bonus share of HK\$0.10 each credited as fully paid for every forty (2007: twenty) issued shares held on the register of members of the Company on 18 June 2008 (2007: 18 June 2007). An amount standing to the credit of the share premium account of the Company was capitalised and applied in making payment in full, at par, for the new shares. Such bonus shares rank pari passu with the existing issued shares.
- (iii) During the year ended 31 December 2008, by virtue of exercise of the rights granted by the Company's shareholders to the directors under general mandate, the Company repurchased on The Stock Exchange of Hong Kong Limited 264,000 ordinary shares of HK\$0.1 each at a total consideration before expenses of RMB202,000. These shares were cancelled.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 29. RESERVES

### (i) Reserves of the Group

|  | Share<br>premium<br>account<br>RMB'000<br>(note a) | Statutory<br>reserve<br>fund<br>RMB'000<br>(note b) | Reorgani-<br>sation<br>reserve<br>RMB'000<br>(note c) | Enterprise<br>expansion<br>fund<br>RMB'000<br>(note d) | Retained<br>profits<br>RMB'000 | Others,<br>including<br>share<br>options<br>reserve<br>RMB'000<br>(note e) | Capital<br>redemption<br>reserve<br>RMB'000<br>(note f) | Exchange<br>reserve<br>RMB'000<br>(note f) | Total<br>RMB'000 |
|--|--|---|---|--|--------------------------------|--|---|--|------------------|
| Balance as at 1 January 2007   | 74,235   | 22,596  | 2,738   | 2,756  | 53,084                         | 2,698  | -   | (921)                                      | 157,186          |
| Issue of shares for acquisition<br>of a subsidiary (Note 31)   | 29,713   | -   | -   | -  | -                              | -  | -   | -  | 29,713           |
| Issue of shares on exercise of<br>share options (Note 28(i))   | 85   | -   | -   | -  | -                              | (12)   | -   | -  | 73               |
| Fair value adjustment upon<br>transfer of property, plant<br>and equipment to investment<br>properties | -  | -   | -   | -  | -                              | 602  | -   | -  | 602              |
| Lapse of share options   | -  | -   | -   | -  | 575                            | (575)  | -   | -  | -                |
| Profit for the year  | -  | -   | -   | -  | 17,849                         | -  | -   | -  | 17,849           |
| Transfer of reserves   | -  | 2,432   | -   | -  | (2,432)                        | -  | -   | -  | -                |
| Bonus issue (Note 28(iii))   | (2,048)  | -   | -   | -  | -                              | -  | -   | -  | (2,048)          |
| Exchange realignment   | -  | -   | -   | -  | -                              | -  | -   | (3,052)                                    | (3,052)          |
| At 31 December 2007  | 101,985  | 25,028  | 2,738   | 2,756  | 69,076                         | 2,713  | -   | (3,973)                                    | 200,323          |
| Repurchase of shares and<br>cancelled (Note 28(iii))   | (179)  | -   | -   | -  | (23)                           | -  | 23  | -  | (179)            |
| Profit for the year  | -  | -   | -   | -  | 10,922                         | -  | -   | -  | 10,922           |
| Issue of shares on exercise of<br>share options (Note 28(i))   | 25   | -   | -   | -  | -                              | (3)  | -   | -  | 22               |
| Lapse of share options   | -  | -   | -   | -  | 238                            | (238)  | -   | -  | -                |
| Transfer of reserves   | -  | 1,865   | -   | -  | (1,865)                        | -  | -   | -  | -                |
| Bonus issue (Note 28(iii))   | (980)  | -   | -   | -  | -                              | -  | -   | -  | (980)            |
| Exchange realignment   | -  | -   | -   | -  | -                              | -  | -   | (4,632)                                    | (4,632)          |
| At 31 December 2008  | 100,851  | 26,893  | 2,738   | 2,756  | 78,348                         | 2,472  | 23  | (8,605)                                    | 205,476          |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 29. RESERVES (Continued)

### (i) Reserves of the Group (Continued)

Notes:

#### (a) Share premium

The balance represents the excess of consideration received for issue of shares over the corresponding par value of the issued shares. The application of the share premium account is governed by the applicable laws of the Cayman Islands.

#### (b) Statutory reserve fund

The Group's wholly-foreign-owned subsidiaries established in the PRC are required to transfer no less than 10% of the profit after taxation, as determined in accordance with the applicable PRC accounting standards, to statutory reserve fund until the fund aggregates to 50% of their respective registered capital.

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

#### (c) 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 therefor;
- (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 became 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% ownership 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 became 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 issue 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 difference of RMB4,000 between the nominal value of the shares of issued by the Company and the transferring interest's 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## **29. RESERVES** *(Continued)*

### **(i) Reserves of the Group** *(Continued)*

*Notes: (Continued)*

#### **(d) Enterprise expansion fund**

In accordance with the Company Law of the PRC and the articles of association of a subsidiary, the subsidiary shall appropriate 5% of its annual statutory net profit (after offsetting any prior years' losses) to enterprise expansion fund.

#### **(e) Share options reserve**

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company and other parties recognised in accordance with the accounting policy in Note 3(u).

#### **(f) Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in Note 3(s).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 29. RESERVES (Continued)

### (ii) Reserves of the Company

|  | Share<br>premium<br>RMB'000 | Contributed<br>surplus<br>RMB'000 | Others,<br>including<br>share options<br>reserve,<br>capital<br>redemption<br>reserve and<br>exchange<br>reserve<br>RMB'000 | Accumulated<br>losses<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------------------|-----------------------------------|---|----------------------------------|------------------|
| Balance at 1 January 2007                                    | 74,235                      | 84,242                            | 1,011   | –                                | 159,488          |
| Issue of shares for acquisition<br>of a subsidiary (Note 31) | 29,713                      | –                                 | –   | –                                | 29,713           |
| Issue of shares on exercise<br>of share options              | 85                          | –                                 | (12)  | –                                | 73               |
| Lapse of share options                                       | –                           | –                                 | (575)   | 575                              | –                |
| Loss for the year  | –                           | –                                 | –   | (6,911)                          | (6,911)          |
| Bonus issue  | (2,048)                     | –                                 | –   | –                                | (2,048)          |
| Balance at 31 December 2007                                  | 101,985                     | 84,242                            | 424   | (6,336)                          | 180,315          |
| Issue of shares on exercise<br>of share options              | 25                          | –                                 | (3)   | –                                | 22               |
| Lapse of share options                                       | –                           | –                                 | (238)   | 238                              | –                |
| Repurchase of shares<br>and cancelled                        | (179)                       | –                                 | 23  | (23)                             | (179)            |
| Bonus issue  | (980)                       | –                                 | –   | –                                | (980)            |
| Loss for the year  | –                           | –                                 | –   | (9,558)                          | (9,558)          |
| Exchange realignment   | –                           | –                                 | (2,143)   | –                                | (2,143)          |
| Balance at 31 December 2008                                  | 100,851                     | 84,242                            | (1,937)   | (15,679)                         | 167,477          |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 30. DISPOSAL OF INTEREST IN A SUBSIDIARY

On 13 November 2007, the Group disposed of 85% equity interest in its subsidiary, Beforly.

The net assets of Beforly at the date of disposal were as follows:

|                                       | Notes | 2007<br>RMB'000 |
|---------------------------------------|-------|-----------------|
| Net assets disposed of:               |       |                 |
| Property, plant and equipment         | 14    | 651             |
| Other intangible assets               | 18    | 113             |
| Inventories                           |       | 584             |
| Trade and other receivables           |       | 385             |
| Amount due from a related company     |       | 1,110           |
| Bank and cash balances                |       | 1,512           |
| Trade and other payables              |       | (5,851)         |
|                                       |       | (1,496)         |
| Attributable goodwill                 | 17    | 1,393           |
|                                       |       | (103)           |
| Gain on disposal                      | 6     | 953             |
| Cash consideration received           |       | 850             |
| Net cash outflow arising on disposal: |       |                 |
| Cash consideration received           |       | 850             |
| Bank and cash balances disposed of    |       | (1,512)         |
|                                       |       | (662)           |

Beforly contributed RMB2,320,000 to the Group's turnover and resulted a loss of RMB209,000 to the Group's results for the year ended 31 December 2007.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 31. BUSINESS COMBINATIONS

### Acquisitions of subsidiaries

In April 2007, the Group acquired 51% equity interest in Aiyihang from Mr. Xing Aiyi for a total consideration of RMB44.3 million, of which RMB13.3 million was satisfied in cash and RMB31.0 million was satisfied by the issue of 13,660,442 shares of HK\$0.1 each of the Company. Aiyihang is engaged in providing automobile services, namely repair, maintenance and restyling services, and sale of automobile products in the PRC. As a result, amounts of RMB1,350,000 and RMB29,713,000 were credited to share capital and share premium respectively. In addition, the Group also placed an earnest money deposit of RMB3,000,000 with the vendor, which is unsecured, interest free and is unconditionally refundable in 2010. Accordingly, the amount is classified as a non-current asset and has been discounted into its present value of RMB2,500,000 (Note 20(a)) at the initial recognition and the remaining balance of RMB500,000 is considered as an additional cost of acquisition.

In July 2008, the Group acquired 100% equity interest in Road Star Limited (“Road Star”), a company incorporated in Taiwan, for a total consideration of NT\$4.5 million (equivalent to RMB1,007,000) in cash. Road Star is engaged in providing automobile services, namely repair, maintenance and restyling services, and sales of automobile products in Taiwan.

Details of net assets acquired and goodwill arising therefrom are as follows:

|   | <i>Notes</i> | <b>2008<br/>RMB'000</b> | 2007<br>RMB'000 |
|---|--------------|-------------------------|-----------------|
| Purchase considerations:  |              |                         |                 |
| Cash paid   |              | <b>1,007</b>            | 13,282          |
| Issue of shares of the Company  | 28 & 29      | –                       | 31,063          |
| Cost directly attributable to the acquisitions                            |              | –                       | 1,601           |
| Effect of discounting the non-current deposit placed for the acquisitions |              | –                       | 500             |
| Fair value of net assets acquired – shown as below                        |              | <b>(398)</b>            | (7,195)         |
| Goodwill  | 17           | <b>609</b>              | 39,251          |

The directors believe that the acquisitions would create synergy and strengthen the competitiveness of the Group’s automobile service business.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 31. BUSINESS COMBINATIONS (Continued)

The Group had no presence in Beijing and Southern part of Taiwan before the acquisitions of equity interest in Aiyihang and Road Star, respectively. Aiyihang and Road Star, on the other hand, have been operating in the cities with well established network and reputation. It has been the Group's plan to have establishment in Beijing and Taiwan, the two most influential cities in the Greater China Region. Given the vast differences in the level of economic development and consumer behaviours and preference in different cities in the Greater China Region, entry into the Beijing and Taiwan markets through acquisitions of Aiyihang and Road Star, companies already operating there, would be the most efficient and effective way in terms of both time and costs.

The acquisitions also helped to improve the overall strengths of the Group. The Group now has more chain stores providing automobile services, most of which are medium-sized stores.

The net assets acquired in the acquisitions are as follows:

|   | Note | Fair value of net assets acquired |                 |
|---|------|-----------------------------------|-----------------|
|   |      | 2008<br>RMB'000                   | 2007<br>RMB'000 |
| Property, plant and equipment                                     | 14   | 842                               | 13,386          |
| Inventories   |      | 279                               | 9,160           |
| Trade receivables   |      | 1,315                             | 994             |
| Deposits, prepayments and other receivables                       |      | 623                               | 6,395           |
| Cash and cash equivalents   |      | 1,129                             | 5,851           |
| Bank loan   |      | (231)                             | (3,000)         |
| Trade payables  |      | (1,541)                           | (11,651)        |
| Accruals and other payables                                       |      | (2,018)                           | (7,027)         |
|   |      | <b>398</b>                        | 14,108          |
| Less: Minority interests  |      | –                                 | (6,913)         |
| Fair value of net assets acquired                                 |      | <b>398</b>                        | 7,195           |
| Purchase considerations settled in cash                           |      | 1,007                             | 13,282          |
| Cash paid for the costs directly attributable to the acquisitions |      | –                                 | 1,601           |
| Cash and cash equivalents in the subsidiaries acquired            |      | (1,129)                           | (5,851)         |
| Net cash (inflow)/outflow on acquisitions                         |      | <b>(122)</b>                      | 9,032           |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 31. BUSINESS COMBINATIONS (Continued)

The carrying amount of the acquirees' assets and liabilities approximates the fair value of the assets and liabilities acquired.

Since the acquisition in 2007, Aiyihang contributed RMB45 million to the Group's turnover and a profit of RMB3 million to the Group's results for the prior year.

Had the acquisition taken place at the beginning of the prior year, Aiyihang would have contributed to the turnover of the Group and the profit of the Group for the prior year by the amounts of RMB57 million and a profit of RMB3 million respectively.

Since the acquisition in 2008, Road Star contributed insignificant amounts to the Group's turnover and results for the current year. Had the acquisition taken place at the beginning of the year, Road Star would have also contributed insignificant amounts to the Group's turnover and results for the current year.

## 32. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy financial institutions with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged time deposits approximate their fair values.

### The Group

|  | 2008<br>RMB'000 | 2007<br>RMB'000 |
|--|-----------------|-----------------|
| Cash and cash equivalents were denominated in: |                 |                 |
| RMB  | 47,602          | 61,984          |
| US\$   | 44,654          | 70,254          |
| HK\$   | 1,807           | 1,184           |
| EUR  | 6               | 133             |
| TWD  | 1,657           | 1,955           |
| GBP  | —               | 14              |
| YEN  | —               | 8               |
|  | <b>95,726</b>   | <b>135,532</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 32. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (Continued)

### The Company

As at 31 December 2008 and 2007, most of the cash and cash equivalents of the Company were denominated in United States dollar.

## 33. MATERIAL NON-CASH TRANSACTIONS

- (a) During the year ended 31 December 2007, non-current subcontracting prepayment and current subcontracting prepayment of RMB5,000,000 and RMB1,400,000 respectively were utilised by the Group.
- (b) Additional consideration for acquisition of a subsidiary of RMB2,544,000 (2007: RMB1,799,000) has not been paid by the Group and was included in accruals and other payables of the Group as at 31 December 2008.

## 34. COMMITMENTS

Capital commitments outstanding at the balance sheet date not provided for in the financial statements were as follows:

|   | The Group       |                 | The Company     |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2008<br>RMB'000 | 2007<br>RMB'000 | 2008<br>RMB'000 | 2007<br>RMB'000 |
| Construction of buildings,<br>contracted but not provided for | 11,814          | 29,468          | –               | –               |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 35. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

Significant leasing arrangements in respect of land and buildings classified as being held under operating leases are described in Notes 14 and 15.

|  | <b>2008</b><br><b>RMB'000</b> | 2007<br>RMB'000 |
|--|-------------------------------|-----------------|
| Minimum lease payments under operating leases recognised as an expense in the year | <b>29,280</b>                 | 21,784          |

At the balance sheet date, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

|                                      | <b>2008</b><br><b>RMB'000</b> | 2007<br>RMB'000 |
|--------------------------------------|-------------------------------|-----------------|
| Within one year                      | <b>24,129</b>                 | 20,542          |
| After one year but within five years | <b>54,401</b>                 | 66,947          |
| After five years                     | <b>15,439</b>                 | 12,659          |
|                                      | <b>93,969</b>                 | 100,148         |

### The Group as lessor

As at 31 December 2008, the Group leased out its investment properties under operating leases.

At the balance sheet date, the Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

|                                      | <b>2008</b><br><b>RMB'000</b> | 2007<br>RMB'000 |
|--------------------------------------|-------------------------------|-----------------|
| Within one year                      | <b>1,377</b>                  | 638             |
| After one year but within five years | <b>195</b>                    | –               |
|                                      | <b>1,572</b>                  | 638             |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 36. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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 operations.

On 28 February 2005, the Company granted share options of 23,780,000 to its employees. 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 from 31 December 2006 to 31 December 2014 and the 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 ended on 31 December 2008. The options were 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.

The number and weighted average exercise prices of the share options are as follows:

|                            | <b>Share options</b><br>(in thousands) |
|----------------------------|--|
| At 1 January 2007          | 16,570                                 |
| Exercised                  | (90)                                   |
| Lapsed                     | (1,100)                                |
| <hr/>                      |  |
| At 31 December 2007        | 15,380                                 |
| Exercised                  | (30)                                   |
| Lapsed                     | (2,240)                                |
| <hr/>                      |  |
| <b>At 31 December 2008</b> | <b>13,110</b>                          |

The weighted average exercise prices for the share options exercised and lapsed during the year were HK\$0.940 (2007: HK\$0.963) and HK\$0.970 (2007: HK\$0.957), respectively.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 36. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

At the balance sheet date and the date of approval of these financial statements, the Company had 13,110,000 share options outstanding under the Scheme which represented 2.9% of the Company's shares in issue as at that date. The exercise in full of the remaining outstanding share options would, under the present capital structure of the Company, result in the issue of 13,110,000 additional ordinary shares of the Company and additional share capital of RMB1,156,000 and share premium of RMB9,713,000 (before issue expenses).

Share options outstanding as at 31 December 2008 and 2007 have the following expiry dates and exercise prices:

### 2008

| Expiry date                            | Exercise price<br>HK\$ per share | Share options                   |                                 | Total<br>'000 |
|--|----------------------------------|---------------------------------|---------------------------------|---------------|
|  |                                  | granted to<br>directors<br>'000 | granted to<br>employees<br>'000 |               |
| 31 December 2010                       | 0.94                             | –                               | 3,070                           | 3,070         |
| 12 February 2015                       | 0.94                             | 10,040                          | –                               | 10,040        |
|  |                                  | 10,040                          | 3,070                           | 13,110        |
| Weighted average exercise price (HK\$) |                                  | 0.94                            | 0.94                            | 0.94          |

### 2007

| Expiry date                            | Exercise price<br>HK\$ per share | Share options                   |                                 | Total<br>'000 |
|--|----------------------------------|---------------------------------|---------------------------------|---------------|
|  |                                  | granted to<br>directors<br>'000 | granted to<br>employees<br>'000 |               |
| 31 December 2008                       | 0.94                             | –                               | 1,070                           | 1,070         |
| 31 December 2008                       | 1.01                             | –                               | 800                             | 800           |
| 31 December 2010                       | 0.94                             | –                               | 3,470                           | 3,470         |
| 12 February 2015                       | 0.94                             | 10,040                          | –                               | 10,040        |
|  |                                  | 10,040                          | 5,340                           | 15,380        |
| Weighted average exercise price (HK\$) |                                  | 0.94                            | 0.95                            | 0.94          |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 37. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note. Except for disclosed in Notes 7, 23 and 24, details of transactions between the Group and other related parties are disclosed below.

- (a) During the year and in the ordinary course of business, the Group had the following material transactions with related parties which are not members of the Group:

|                                      | <b>2008</b>    | 2007    |
|--------------------------------------|----------------|---------|
|                                      | <b>RMB'000</b> | RMB'000 |
| Sales of goods to Custom Accessories | <b>7,812</b>   | 4,525   |

Sales of goods were made at the Group's usual list prices discounted to reflect the quantity of purchased and the relationships between the parties.

- (b) Members of key management during the year comprised only of the executive directors whose remuneration is set out in Note 9(a).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 38. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the borrowings and convertible bond disclosed in Notes 24 and 26 respectively, cash and cash equivalents and pledged time deposits in Note 32 and equity attributable to equity holders of the Company, comprising share capital, reserves and retained profits as disclosed in Notes 28 and 29(i) respectively.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 10–20% determined as the proportion of net debt to equity. Based on the management's recommendations, the Group expects to increase its gearing ratio closer to 25% through the issue of new debt and the payment of dividends.

The gearing ratio at the year end was as follows:

|   | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|-----------------|-----------------|
| Debts   | 178,880         | 178,421         |
| Cash and cash equivalents and pledged time deposits | (97,603)        | (138,874)       |
| Net debt  | 81,277          | 39,547          |
| Equity  | 286,370         | 278,384         |
| Net debt to equity ratio                            | 28.4%           | 14.2%           |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## **39. FINANCIAL RISK MANAGEMENT**

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk. The Group is also exposed to equity price risk mainly arising from its own equity share price.

These risks are limited by the Group's financial management policies and practices described below.

### **(a) Credit risk**

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Normally, the Group does not obtain collateral from customers.

Investments are normally only in liquid securities quoted on a recognised stock exchange.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 28% (2007: 31%) and 65% (2007: 75%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the manufacture and sale of automobile accessories business segment.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 22.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 39. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

#### The Group

|   | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 year but less than 5 years | More than 5 years |
|---|-----------------|--|----------------------------|--|--|-------------------|
|   | RMB'000         | RMB'000                                  | RMB'000                    | RMB'000                                | RMB'000                                | RMB'000           |
| <b>2008</b>   |                 |  |                            |  |  |                   |
| Bank borrowings   | 110,289         | 111,271                                  | 96,922                     | 1,069                                  | 2,969                                  | 10,311            |
| Convertible bond  | 68,591          | 87,846                                   | 4,263                      | 83,583                                 | –                                      | –                 |
| Trade and other payables and amounts due to directors and related parties | 150,451         | 150,451                                  | 150,451                    | –                                      | –                                      | –                 |
| <b>Total</b>  | <b>329,331</b>  | <b>349,568</b>                           | <b>251,636</b>             | <b>84,652</b>                          | <b>2,969</b>                           | <b>10,311</b>     |
| <b>2007</b>   |                 |  |                            |  |  |                   |
| Bank borrowings   | 102,423         | 111,939                                  | 87,704                     | 1,560                                  | 3,580                                  | 19,095            |
| Convertible bond  | 75,998          | 100,947                                  | 7,379                      | 4,541                                  | 89,027                                 | –                 |
| Trade and other payables and amounts due to directors and related parties | 195,991         | 195,991                                  | 195,991                    | –                                      | –                                      | –                 |
| <b>Total</b>  | <b>374,412</b>  | <b>408,877</b>                           | <b>291,074</b>             | <b>6,101</b>                           | <b>92,607</b>                          | <b>19,095</b>     |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 39. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Liquidity risk (Continued)

#### The Company

|   | Carrying amount<br>RMB'000 | Total contractual undiscounted cash flow<br>RMB'000 | Within 1 year or on demand<br>RMB'000 | More than 1 year but less than 2 years<br>RMB'000 | More than 2 year but less than 5 years<br>RMB'000 |
|---|----------------------------|---|---------------------------------------|---|---|
| <b>2008</b>                                 |                            |   |                                       |   |   |
| Convertible bond                            | 68,591                     | 87,846  | 4,263                                 | 83,583  | –   |
| Other payables and amount due to a director | 1,596                      | 1,596   | 1,596                                 | –   | –   |
| <b>Total</b>                                | <b>70,187</b>              | <b>89,442</b>                                       | <b>5,859</b>                          | <b>83,583</b>                                     | <b>–</b>  |
| <b>2007</b>                                 |                            |   |                                       |   |   |
| Convertible bond                            | 75,998                     | 100,947   | 7,379                                 | 4,541   | 89,027  |
| Other payables and amount due to a director | 6,097                      | 6,097   | 6,097                                 | –   | –   |
| <b>Total</b>                                | <b>82,095</b>              | <b>107,044</b>                                      | <b>13,476</b>                         | <b>4,541</b>                                      | <b>89,027</b>                                     |

### (c) Interest rate risk

The Group's and the Company's fair value interest-rate risk mainly arises from bank borrowings and convertible bond as disclosed in Notes 24 and 26 respectively. Most of bank borrowings and convertible bond were issued at fixed rates which expose the Group and Company to fair value interest-rate risk. The Group and the Company have no significant cash flow interest-rate risk as there are no significant borrowings which bear floating interest rates for a significant period of time during the year. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The interest rates and terms of repayment of the Group's and the Company's borrowings and convertible bond are disclosed in Notes 24 and 26.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 39. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US\$.

The Group and Company are also exposed to foreign currency exchange risk arising from the cash and cash equivalents and convertible bond denominated in US\$.

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

#### The Group

|                                       | 2008<br>US\$'000 | 2007<br>US\$'000 |
|---------------------------------------|------------------|------------------|
| Trade and other receivables           | 9,814            | 11,360           |
| Cash and cash equivalents             | 6,535            | 9,654            |
| Convertible bond and interest payable | (10,040)         | (10,443)         |
| Bank loans                            | (2,443)          | –                |
| Overall net exposure                  | <b>3,866</b>     | 10,571           |

#### The Company

|                                       | 2008<br>US\$'000 | 2007<br>US\$'000 |
|---------------------------------------|------------------|------------------|
| Cash and cash equivalents             | 3,086            | 1,687            |
| Convertible bond and interest payable | (10,040)         | (10,443)         |
| Overall net exposure                  | <b>(6,954)</b>   | (8,756)          |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 39. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Currency risk (Continued)

The following table indicates the approximate change in the Group's profit for the year and retained profits and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the RMB strengthens against the relevant currency. For a weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

|                    | 2008                              |  |  | 2007                              |  |  |
|--------------------|-----------------------------------|--|--|-----------------------------------|--|--|
|                    | Increase in foreign exchange rate | Effect on profit for the year and retained profits RMB'000 | Effect on other components of equity RMB'000 | Increase in foreign exchange rate | Effect on profit for the year and retained profits RMB'000 | Effect on other components of equity RMB'000 |
| <b>The Group</b>   |                                   |  |  |                                   |  |  |
| US\$               | 7%                                | (2,055)  | -  | 7%                                | (5,385)  | -  |
|                    |                                   |  |  |                                   |  |  |
|                    | 2008                              |  |  | 2007                              |  |  |
|                    | Increase in foreign exchange rate | Effect on profit for the year and retained profits RMB'000 | Effect on other components of equity RMB'000 | Increase in foreign exchange rate | Effect on profit for the year and retained profits RMB'000 | Effect on other components of equity RMB'000 |
| <b>The Company</b> |                                   |  |  |                                   |  |  |
| US\$               | 7%                                | 1,674  | -  | 7%                                | 4,460  | -  |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2007.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## **39. FINANCIAL RISK MANAGEMENT** (Continued)

### **(e) Price risk**

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own ordinary shares underlie the fair value of derivative component of convertible bond as further disclosed in Note 26.

As the Group's exposure of price risk for its trading securities is not significant, no sensitivity analysis is presented therefor.

If the price of the Company's shares had been 5% higher/lower, profit for the year ended 31 December 2008 would decrease/increase by RMB258,000 (2007: RMB1,265,000) and RMB224,000 (2007: RMB2,241,000) for the Group as a result of the changes in fair value of the derivative component of convertible bond.

In management's opinion, the sensitivity analysis above is unrepresentative of the price risk in derivative financial liability as the year end exposure does not reflect the exposure during the year.

### **(f) Fair values**

All financial instruments of the Group and Company are carried at amounts not materially different from their fair values as at 31 December 2007 and 2008 except that the fair value of the liability component of convertible bond, with a carrying amount of RMB71,772,000 as at 31 December 2008 (2007: RMB65,122,000), was RMB80,851,000 (2007: RMB79,421,000).

### **(g) Fair values estimation**

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments of the Group set out in Notes 20, 24 and 26.

#### *(i) Trading securities*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

#### *(ii) Interest-bearing bank borrowings and liability component of convertible bond*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

#### *(iii) Derivative component of convertible bond*

The estimate of fair value of the conversion option embedded in convertible bond is measured using an option pricing model.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## 40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2008 and 2007 may be categorised as follows:

|   | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|-----------------|-----------------|
| <b>Financial assets</b>   |                 |                 |
| Fair value through profit or loss – held for trading                                  | 227             | 737             |
| Loans and receivables (including cash and cash equivalents and pledged time deposits) | 236,654         | 320,448         |
| <b>Financial liabilities</b>  |                 |                 |
| Financial liabilities measured at amortised cost                                      | 328,249         | 360,609         |
| Derivative component of convertible bond at fair value                                | 1,082           | 13,803          |

## 41. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

### The Company

|   | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|-----------------|-----------------|
| Guarantee given to a bank in connection with banking facilities granted to a subsidiary | 29,378          | 35,148          |

The banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of RMBNil and RMB31,291,000 as at 31 December 2008 and 2007, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

## **42. SIGNIFICANT NON-ADJUSTING POST BALANCE SHEET EVENT**

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, US\$4,000,000 and US\$5,000,000 are repayable on 26 February 2009, 30 April 2009 and 30 June 2009, respectively. The obligation of the Company under the Promissory Note is fully and irrecoverably guaranteed by a director of the Company. Details of the transaction are set out in the Company's announcement dated 23 February 2009.

# FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified and adjusted as appropriate, is set out below:

## RESULTS

|                               | <b>1.1.2008<br/>to<br/>31.12.2008<br/>RMB'000</b> | 1.1.2007<br>to<br>31.12.2007<br>RMB'000 | 1.1.2006<br>to<br>31.12.2006<br>RMB'000<br>(Restated) | 1.1.2005<br>to<br>31.12.2005<br>RMB'000 | 1.1.2004<br>to<br>31.12.2004<br>RMB'000 |
|-------------------------------|---|---|---|---|---|
| Turnover                      | <b>707,426</b>                                    | 763,451                                 | 533,302   | 507,471                                 | 356,729                                 |
| Profit before taxation        | <b>17,791</b>                                     | 22,429                                  | 2,460   | 65,542                                  | 49,918                                  |
| Income tax                    | <b>(4,996)</b>                                    | (1,067)                                 | (4,201)   | (9,924)                                 | (37)                                    |
| Profit/(loss) for the year    | <b>12,795</b>                                     | 21,362                                  | (1,741)   | 55,618                                  | 49,881                                  |
| Attributable to:              |   |   |   |   |   |
| Equity holders of the Company | <b>10,922</b>                                     | 17,849                                  | (3,089)   | 55,618                                  | 50,327                                  |
| Minority interests            | <b>1,873</b>                                      | 3,513                                   | 1,348   | –                                       | (446)                                   |
|                               | <b>12,795</b>                                     | 21,362                                  | (1,741)   | 55,618                                  | 49,881                                  |

## ASSETS AND LIABILITIES

|                   | <b>31.12.2008<br/>RMB'000</b> | 31.12.2007<br>RMB'000 | 31.12.2006<br>RMB'000<br>(Restated) | 31.12.2005<br>RMB'000 | 31.12.2004<br>RMB'000 |
|-------------------|-------------------------------|-----------------------|-------------------------------------|-----------------------|-----------------------|
| Total assets      | <b>617,821</b>                | 653,867               | 442,212                             | 325,910               | 201,993               |
| Total liabilities | <b>(331,451)</b>              | (375,483)             | (232,742)                           | (94,241)              | (83,296)              |
|                   | <b>286,370</b>                | 278,384               | 209,470                             | 231,669               | 118,697               |