# NEW FOCUS AUTO TECH HOLDINGS LIMITED
# 新焦點汽車技術控股有限公司*

*(Incorporated in Cayman Islands with limited liability)*
**(Stock Code: 360)**

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

The unaudited results of New Focus Auto Tech Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2007 (the "Period") are as follows:

***Condensed Consolidated Income Statement***
*For the six months ended 30 June 2007*

| | | Unaudited | |
|---|---|---|---|
| | | Six months ended 30 June | |
| | *Note* | **2007** **RMB'000** | 2006 RMB'000 (Restated) |
| Sales | *4* | **330,190** | 197,401 |
| Cost of goods sold | | **(267,313)** | (159,382) |
| Gross profit | | **62,877** | 38,019 |
| Other revenue and gains | *4* | **6,401** | 12,461 |
| Selling and distribution costs | | **(30,213)** | (13,147) |
| Administrative expenses | | **(27,168)** | (22,193) |
| Operating profit | *4* | **11,897** | 15,140 |
| Finance costs | *5* | **(3,597)** | (290) |
| Profit before income tax | | **8,300** | 14,850 |
| Income tax expense | *6* | **(1,906)** | (2,007) |
| Profit for the period | | **6,394** | 12,843 |
| Attributable to: | | | |
| Equity holders of the Company | | **5,354** | 12,907 |
| Minority interests | | **1,040** | (64) |
| | | **6,394** | 12,843 |
| Earnings per share for profit attributable to the equity holders of the Company during the period | | | |
| – Basic | *7* | **RMB0.012** | RMB0.031 |
| – Diluted | *7* | **RMB0.012** | RMB0.030 |
| Dividends | *8* | **–** | 33,433 |

* *for identification purpose only*

***Condensed Consolidated Balance Sheet***

*As at 30 June 2007*

| | *Note* | **As at 30 June 2007 RMB'000 (unaudited)** | As at 31 December 2006 RMB'000 (audited and restated) |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| Non-current assets | | | |
| Property, plant and equipment | | **90,265** | 96,742 |
| Investment properties | | **14,419** | 14,419 |
| Leasehold land and land use rights | | **39,997** | 21,665 |
| Other intangible assets | | **10,036** | 10,381 |
| Goodwill | | **40,659** | 2,749 |
| Other assets | | **13,193** | 6,851 |
| Deferred tax assets | | **74** | 195 |
| | | **208,643** | 153,002 |
| Current assets | | | |
| Inventories | | **126,984** | 85,105 |
| Trade receivables | *9* | **115,128** | 87,887 |
| Prepayments, deposits and other receivables | | **48,535** | 47,648 |
| Amounts due from related parties | | **338** | 1,481 |
| Amount due from a director | | **181** | – |
| Term deposits with initial term of over three months | | **1,185** | 1,148 |
| Cash and cash equivalents | | **137,595** | 65,941 |
| | | **429,946** | 289,210 |
| Total assets | | **638,589** | 442,212 |

| | Note | **As at 30 June 2007 RMB'000 (unaudited)** | As at 31 December 2006 RMB'000 (audited and restated) |
|---|---|---|---|
| Current liabilities | | | |
| Trade payables | | **150,369** | 110,505 |
| Accruals and other payables | | **32,965** | 35,979 |
| Current tax liabilities | | **4,169** | 1,011 |
| Bank borrowings, secured | | **68,150** | 23,355 |
| Amounts due to directors | | **2** | 15,049 |
| Amounts due to related parties | | **6,541** | 23,207 |
| | | **262,196** | 209,106 |
| Non-current liabilities | | | |
| Bank borrowings, secured | | **17,066** | 17,999 |
| Convertible bond | | **82,004** | – |
| Deferred tax liabilities | | **769** | 769 |
| | | **99,839** | 18,768 |
| Total liabilities | | **362,035** | 227,874 |
| Net current assets | | **167,750** | 80,104 |
| Net assets | | **276,554** | 214,338 |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | | **46,394** | 42,987 |
| Reserves | | **203,110** | 162,054 |
| Minority interests | | **27,050** | 9,297 |
| Total equity | | **276,554** | 214,338 |

***Condensed Consolidated Statement of Changes in Equity***

*For the six months ended 30 June 2007*

| | Unaudited | | | | |
|---|---|---|---|---|---|
| | Attributable to equity holders of the Company | | | | |
| | **Share capital RMB'000** *(Note 18)* | **Share premium and reserves RMB'000** *(Note 19)* | **Retained earnings RMB'000** *(Note 19)* | **Minority interests RMB'000** | **Total RMB'000** |
| Balance as at 1 January 2007: | | | | | |
| As reported | **42,987** | **104,102** | **70,391** | **9,297** | **226,777** |
| Prior period adjustments *(Note 2.2)* | **–** | **–** | **(12,439)** | **–** | **(12,439)** |
| As restated | **42,987** | **104,102** | **57,952** | **9,297** | **214,338** |
| Issue of new shares from exercise of share options | **–** | **45** | **–** | **–** | **45** |
| Profit for the period | **–** | **–** | **5,354** | **–** | **5,354** |
| Bonus share | **–** | **(2,048)** | **–** | **–** | **(2,048)** |
| Exchange realignment | **–** | **(17)** | **–** | **–** | **(17)** |
| Proceeds from shares issued | **9** | **–** | **–** | **–** | **9** |
| Arising on acquisition of subsidiaries | **–** | **29,713** | **–** | **–** | **29,713** |
| Arising on issue of convertible bonds | **–** | **8,009** | **–** | **–** | **8,009** |
| Minority interest arising on acquisition of subsidiaries and additional injection from minority shareholders | **–** | **–** | **–** | **16,713** | **16,713** |
| Minority interests' share of profit | **–** | **–** | **–** | **1,040** | **1,040** |
| Bonus issue | **2,048** | **–** | **–** | **–** | **2,048** |
| Issue of new shares arising of subsidiary | **1,350** | **–** | **–** | **–** | **1,350** |
| **Balance as at 30 June 2007** | **46,394** | **139,804** | **63,306** | **27,050** | **276,554** |

| | Unaudited | | | | |
|---|---|---|---|---|---|
| | Attributable to equity holders of the Company | | | | |
| | **Share capital RMB'000** *(Note 18)* | **Share premium and reserves RMB'000** *(Note 19)* | **Retained earnings RMB'000** *(Note 19)* | **Minority interests RMB'000** | **Total RMB'000** |
| Balance as at 1 January 2006 | 42,400 | 96,936 | 92,333 | – | 231,669 |
| Release of reserve on disposal of investment properties | – | (557) | – | – | (557) |
| Profit for the period (restated) | – | – | 12,907 | – | 12,907 |
| Employee share option scheme: – value of employee services | – | 498 | – | – | 498 |
| Proceeds from shares issued | 567 | 4,778 | – | – | 5,345 |
| Dividend | – | – | (33,433) | – | (33,433) |
| Minority interest arising on acquisition of subsidiaries | – | – | – | 8,299 | 8,299 |
| Minority interests' share of loss | – | – | – | (64) | (64) |
| Balance as at 30 June 2006 (restated) | 42,967 | 101,655 | 71,807 | 8,235 | 224,664 |

***Condensed Consolidated Cash Flow Statement***

*For the six months ended 30 June 2007*

| | **Unaudited** | |
|---|---|---|
| | **Six months ended 30 June** | |
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Net cash (used in)/generated from operating activities | **(44,377)** | (2,043) |
| Net cash used in investing activities | **(16,377)** | (5,446) |
| Net cash generated from financing activities | **132,408** | 9,455 |
| Net increase in cash and cash equivalents | **71,654** | 1,966 |
| Cash and cash equivalents at the beginning of the period | **65,941** | 74,616 |
| Cash and cash equivalents at the end of the period | **137,595** | 76,582 |
| Analysis of cash and cash equivalents | | |
| Cash and bank balances | **137,595** | 76,582 |

## *Notes to the Consolidated Financial Statements*

**1. Organisation**

New Focus Auto Tech Holdings Limited (the "Company") was incorporated in the Cayman Islands on 15 May 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

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

**2.1 Basis of preparation and accounting policies**

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

These unaudited condensed consolidated interim financial statements should be read in conjunction with the 2006 annual financial statements included in the Company's 2006 Annual Report.

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006. The Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA, that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007.

The Group considered that the adoption of the new and revised HKFRSs has had no material impact on the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007.

**2.2 Prior period adjustments**

(i) During the six months ended 30 June 2007, the directors of the Company obtained additional information about the valuation and quantities of the Group's raw materials, work-in-progress, finished goods and merchandise goods as at 31 December 2006 and considered that there were overstatements of raw materials, work-in-progress and finished and merchandise goods as at 31 December 2006. In restating the financial statements of the Group to correct this fundamental error, a prior period adjustment has been made. The effect is to reduce the consolidated profit for the six months ended 30 June 2006 and 31 December 2006 by approximately RMB4,366,000 and RMB8,073,000 respectively, and to reduce consolidated inventories, retained profits and net assets of the Group as at 31 December 2006 by approximately RMB12,439,000. There is no net tax effect in respect of this adjustment.

(ii) During the six months ended 30 June 2007, the directors of the Company obtained additional information about the Group's accrued purchases of approximately RMB9,400,000 included in trade payables as at 31 December 2006 and considered that there is an overstatement of accrued purchases and inventories of the Group as at 31 December 2006. In restating the financial statements of the Group to correct this fundamental error, a prior period adjustment has been made. The effect is to reduce the Group's inventories and trade payables as at 31 December 2006 by approximately RMB2,000,000. There is no net tax effect in respect of this adjustment.

3. **Impact of issued but not yet effective Hong Kong Financial Reporting Standards**

At the date of authorisation of these financial statements, the following HKFRSs were in issue but not yet effective:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HK(IFRIC) – Int 11 | HKFRS 2 – Group and Treasury Share Transactions | 1 March 2007 |
| HK(IFRIC) – Int 12 | Service Concession Arrangements | 1 January 2008 |
| HKAS 23 (Revised) | Borrowing Costs | 1 January 2009 |
| HKFRS 8 | Operating segments | 1 January 2009 |

The Group is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of initial application.

4. **Turnover, other revenue and gains and segment information**

The Group is principally engaged in the manufacturing and sales of automobile accessories and the provision of automobile repair, maintenance and restyling services. Revenues recognised during the period are as follows:

| | **Unaudited Six months ended 30 June** | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Turnover – Sale of goods | **330,190** | 197,401 |
| Other revenue and gains | | |
| Interest income | **1,492** | 531 |
| Government subsidies | **20** | 196 |
| Gain on disposal of property, plant and equipment | **2** | 7,155 |
| Gain on disposal of investment properties | **–** | 232 |
| Tax refund on capitalised profit on which corporate income tax was previously charged | **2,442** | 4,300 |
| Rental income | **600** | – |
| Transportation income | **609** | – |
| Gain an sale of scrap materials | **1,096** | – |
| Others | **140** | 47 |
| | **6,401** | 12,461 |
| Total | **336,591** | 209,862 |

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

The Group operates in two business segments, the manufacturing and sales of automobile accessories; and the provision of automobile repair, maintenance and restyling services.

Analysis of the segment revenues and results is as follows:

| | Unaudited Six months ended 30 June 2007 | | | |
|---|---|---|---|---|
| | **Manufacturing and sales of automobile accessories RMB'000** | **Provision of automobile repair, maintenance and restyling services RMB'000** | **Eliminations RMB'000** | **Group RMB'000** |
| Segment revenues | | | | |
| External sales | **255,781** | **74,409** | **–** | **330,190** |
| Inter-segment sales | **4,818** | **4,735** | **(9,553)** | **–** |
| Other revenue and gains | **3,388** | **208** | **–** | **3,596** |
| Inter-segment other revenue and gains | **–** | **363** | **(363)** | **–** |
| | **263,987** | **79,715** | **(9,916)** | **333,786** |
| Segment results | **15,781** | **(2,312)** | | **13,469** |
| Unallocated other revenue and gains | | | | **2,805** |
| Unallocated costs | | | | **(4,377)** |
| Operating profit | | | | **11,897** |
| Finance costs | | | | **(3,597)** |
| Profit before income tax | | | | **8,300** |
| Income tax expense | | | | **(1,906)** |
| Profit for the period | | | | **6,394** |
| Segment assets | **358,813** | **206,139** | | **564,952** |
| Unallocated corporate assets | | | | **73,637** |
| Total assets | | | | **638,589** |
| Segment liabilities | **214,593** | **67,298** | | **281,891** |
| Unallocated corporate liabilities | | | | **80,144** |
| Total liabilities | | | | **362,035** |
| Capital expenditure | **22,667** | **–** | | **22,667** |
| Unallocated capital expenditure | | | | **83** |
| | | | | **22,750** |
| Depreciation and amortisation charges | **6,523** | **2,945** | | **9,468** |
| Unallocated depreciation and amortisation charges | | | | **7** |
| | | | | **9,475** |

| | Unaudited and restated Six months ended 30 June 2006 | | | |
|---|---|---|---|---|
| | Manufacturing and sales of automobile accessories RMB'000 | Provision of automobile repair, maintenance and restyling services RMB'000 | Eliminations RMB'000 | Group RMB'000 |
| Segment revenues | | | | |
| External sales | 177,610 | 19,791 | – | 197,401 |
| Inter-segment sales | 1,875 | 76 | (1,951) | – |
| Other revenue and gains | 597 | 144 | – | 741 |
| Inter-segment other revenue and gains | 38 | – | (38) | – |
| | 180,120 | 20,011 | (1,989) | 198,142 |
| Segment results | 13,867 | (3,899) | | 9,968 |
| Unallocated other revenue and gains | | | | 11,720 |
| Unallocated costs | | | | (6,548) |
| Operating profit | | | | 15,140 |
| Finance costs | | | | (290) |
| Profit before income tax | | | | 14,850 |
| Income tax expense | | | | (2,007) |
| Profit for the period | | | | 12,843 |
| Segment assets | 283,570 | 53,145 | | 336,715 |
| Unallocated corporate assets | | | | 20,069 |
| Total assets | | | | 356,784 |
| Segment liabilities | 126,494 | 4,796 | | 131,290 |
| Unallocated corporate liabilities | | | | 780 |
| Total liabilities | | | | 132,070 |
| Capital expenditure | 28,946 | 2,224 | | 31,170 |
| Unallocated capital expenditure | | | | 21 |
| | | | | 31,191 |
| Depreciation and amortisation charge | 4,529 | 1,288 | | 5,817 |
| Unallocated depreciation and amortisation charges | | | | 11 |
| | | | | 5,828 |

4. **Turnover, other revenue and gains and segment information** *(continued)*

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

The Group operates in five geographical areas. An analysis of the geographical segment turnover is as follows:

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Segment turnover | | |
| North America | **189,403** | 119,953 |
| Europe | **22,183** | 23,902 |
| Asia Pacific | **8,982** | 21,281 |
| Greater China (including Taiwan and the People's Republic of China (the "PRC")) | **109,352** | 32,223 |
| Africa | **270** | 42 |
| Total | **330,190** | 197,401 |

There are no sales between the geographical segments during the six months period ended 30 June 2007 and 2006.

5. **Finance costs**

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **2,609** | 290 |
| Convertible bond wholly repayable within five years | **988** | – |
| | **3,597** | 290 |

6. **Income tax expense**

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

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Current tax – PRC and Taiwan corporate income tax | **1,789** | 2,608 |
| Deferred tax | **117** | (601) |
| | **1,906** | 2,007 |

(a) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong during the six month ended 30 June 2007 (2006: nil).

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

In accordance with the relevant tax laws and regulations in the PRC, NFA Parts is qualified as an Export Oriented Enterprise if it has over 70% export sales per annum and will therefore be entitled to a 50% reduction in corporate income tax for the period. Accordingly, corporate income tax was provided at a rate of 12% for the six months ended 30 June 2007 (2006: 12%).

(ii) New Focus Light and Power Technology (Shanghai) Co., Ltd. ("NF Light & Power")

Being qualified as a foreign investment production enterprise in an industrial development zone in the PRC, NF Light & Power is exempted from local income tax and is subject to an applicable corporate income tax rate of 24%. In accordance with the approval from the relevant tax authorities, NF Light & Power is entitled to two years exemption from corporate income tax followed by three years of 50% reduction in corporate income tax commencing from the first profit-making year net of losses carried forward. The year ended 31 December 2003 is NF Light & Power's first profit-making year net of losses carried forward from previous years, and hence NF Light & Power is entitled to enjoy 50% reduction in corporate income tax at a rate of 12% for the six months ended 30 June 2007 (2006: 12%).

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

As a domestic enterprise, NFA Service is subject to an applicable corporate income tax rate of 33%. For the six months ended 30 June 2007, NFA Service was in loss-making position, accordingly, no income tax has been provided (2006: Nil).

## 7. Earnings per share

– *Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, as adjusted to reflect the bonus issue during the period.

| | Unaudited Six months ended 30 June 2007 | 2006 (Restated) |
|---|---|---|
| Profit attributable to equity holders of the Company (RMB thousands) | **5,354** | 12,907 |
| Weighted average number of ordinary shares in issue (thousands) | **431,849** | 422,438 |
| Basic earnings per share (RMB per share) | **0.012** | 0.031 |

– *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares arising from share options and convertible bond. For the share options and convertible bond, a calculation is carried out to determine the number of shares that could have been acquired at fair value (determined as the average period market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and convertible bond.

| | Unaudited Six months ended 30 June 2007 | 2006 (Restated) |
|---|---|---|
| Profit attributable to equity holders of the Company and used to determine diluted earnings per share (RMB thousands) | **5,888** | 12,907 |
| Weighted average number of ordinary shares in issue (thousands) | **431,849** | 422,438 |
| Adjustments for share options (thousands) | **82** | 2,288 |
| Adjustments for convertible bond (thousands) | **45,217** | – |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **477,148** | 424,726 |
| Diluted earnings per share (RMB per share) | **0.012** | 0.030 |

## 8. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007.

## 9. Trade receivables

Details of the aging analysis are as follows:

| | **Unaudited 30 June 2007 RMB'000** | Audited 31 December 2006 RMB'000 |
|---|---|---|
| Current to 30 days | **50,472** | 38,164 |
| 31 to 60 days | **33,298** | 39,326 |
| 61 to 90 days | **23,424** | 7,669 |
| Over 91 days | **11,403** | 4,056 |
| | **118,597** | 89,215 |
| *Less*: Impairment on receivables | **(3,469)** | (1,328) |
| | **115,128** | 87,887 |

Credit terms generally range from 30 days to 90 days.

## ***MANAGEMENT DISCUSSION AND ANALYSIS***

For the six months ended 30 June 2007, the Group continued to focus on the development of its business in the automotive aftermarket. Based on the core business of manufacturing and distribution of automotive electronic and power-related parts and accessories (the "Manufacturing Business"), the Group took a strategic decision to enter the automotive aftermarket service chain store business in 2002 (the "Chain Store Business"). Presently, the Manufacturing Business is still the primary business of the Group with its turnover accounted for 77.5% of the Group's total turnover during the Period (corresponding period in 2006: 89.97%). At the same time, the Chain Stores Business also grew rapidly with its turnover accounted 22.5% of the Group's total turnover during the Period (corresponding period in 2006: 10.03%), representing an increase of 12.5%.

### ***Review of operation***

It was a hard time for Chinese export-oriented manufacturers. During the Period, the Group faced a series of challenges. Despites of the significant growth in sales and profit, impacted by various unfavorable factors in the macro economic environment, the increase in profit was not satisfactory. Although the Chain Store Business achieved significant progress, and owing to the revenue from other businesses, the Group's turnover increased by 67.27% while profit attributable to shareholders declined by 49.79% as compared to the corresponding period in 2006.

### ***Turnover***

During the Period, the Group recorded a turnover of approximately RMB330,190,000 (corresponding period in 2006: approximately RMB197,401,000), representing a increase of 67.27%, in which the turnover of the Manufacturing Business and Chain Store Business increased by 44.01% and 275.97% respectively.

The continuous increase in the turnover of the Manufacturing Business was mainly attributed to the enhancement of the Group's sales team, the adoption of the business strategy of developing both domestic and export markets in the Period and the emphasis on maintaining and extending its sales channel. As the price of raw materials continues to rise, the competition from the market becomes increasingly intense and the increasing appreciation of RMB, the best way to safeguard the Company's return is to increase turnover.

In relation to the Chain Store Business, with the effective implementation of various business expansion strategies, this operation has been showing favorable growth. The number of chain stores had increased from 257 as at 30 June 2006 to 328 as at 30 June 2007. Although the increase in the number of chain stores was not significant, under the strategy of turning small and medium sized directly-operated stores into franchised shops while expanding directly-operated large scale stores and district centres, the quality of the management of the stores had increased enormously which resulted in the growth in turnover.

### ***Gross profit***

During the Period, the gross profit of Manufacturing Business continued to be adversely impacted by the appreciation of Renminbi and the persistent rise of costs of raw materials and hence the Group's gross profit margin amounted to 19.26%, which approximated to 19.04% as recorded in the corresponding period in 2006. However, the Chain Store Business has maintained its high gross profit margin particularly for the relatively matured markets like Taiwan and Beijing which managed to record gross profit margin of 28% and 52% respectively.

### *Other revenue*

During the Period, the Group recorded other revenue of approximately RMB6,401,000 (corresponding period in 2006: approximately RMB12,461,000), which was mainly attributable to:

(1) the settled payable income tax of approximately RMB2,442,000; and

(2) interest income of approximately RMB1,492,000.

The reasons for the reduction compared to the same period in 2006 were that there was a one off profit from the disposal of a factory in 2006 and there was a tax refund in relation to reinvestments. By discounting the effects of these two items, the Group had in fact experienced a significant improvement in the period under review. The increase in profit of its on-going operations were approximately 85%.

### *Expenses*

During the Period, sales and marketing expenses were approximately RMB30,213,000 (corresponding period in 2006: approximately RMB13,147,000), up 129.81%. The increase of the expense was due to several new acquired entities in Shangdong, Taiwan and Beijing, which further expanded the Group's size. The proposed development strategies for expansion require compatible and complementary sales and marketing activities. The Group believes that such expenses would become a solid basis for further development of the Group.

Administrative expenses during the Period was approximately RMB27,168,000 approximately RMB22,193,000), representing a growth of 22.42%, which was also arised from the addition of the newly acquired entities.

### *Profit attributable to shareholders*

During the Period, profit attributable to shareholders as recorded by the Group amounted to approximately RMB6,394,000 (corresponding period in 2006: approximately RMB17,273,000), representing a decline of 49.79%, which was due to the factors such as changes in revenue of other businesses and financial expenses.

### *Analysis of Progress of Manufacturing Business*

During the Period, the Group continued to implement its 5-year business development strategies according to the business plan formulated in 2007. Under these strategies, the Group focused on the development of OEM (Original Equipment Manufacture) market and high margin products like HID (High Intensity Discharge) ballast. The Group achieved significant progress in the development of new customers while healthy improvement had been recorded in both product mix and turnover.

**Development of OEM market**

Subsequent to the approval of Volkswagen (Germany), Dongfeng Peugeot Citroen, Brilliance Jinbei, Dongfeng and Chery Auto of the Group as their OEM suppliers of automobile inverter or refrigerator, during the Period, the Group was successfully approved as the OEM supplier of inverter for Faw-Volkswagen (FAW-VW) in Changchun. These achievement played a good model for the co-operation of the Group with other international renowned automotive manufacturers. The Group's turnover of the OEM business for the period amounted to RMB 4,844,036, representing an increase of 116.35% compared with the corresponding period last year (corresponding period in 2006: RMB2,239,000). Although the growth in the turnover of the OEM business was slow in terms of the orders, with the growth in the orders of the OEM business, we believe that the income of the OEM business will continue to maintain a stable growth in the coming years.

The growth in the Group's OEM business was significant. The Group grasped the chance to extend its parts and accessories in the OEM market, and fully made use of the opportunities generated from the intense competition in the global automotive market which induced automotive assemblers to upgrade their equipments and resort to external procurement of parts and accessories to reduce costs. These situations offered more opportunities for the Group to cooperate with automobile assemblers in the area of electronic instrument-related parts and accessories. Presently, the Group's OEM product line includes inverters, HID ballasts, refrigerators and stoplights etc.

**Progress of HID ballast business**

HID light ballast, a high profit margin product with technical edge, is one of the three major products developed by the Group besides inverters and multi-function power packs. Along with the higher requirement on driving safety and comfort, HID light has gradually become a standard configuration for middle and top range automobiles. This creates a boom for the HID ballast market. During the Period, this product accounted for approximately 4% and 8.6% (corresponding period in 2006: 4.91% and 10.67% respectively) respectively of the turnover and gross profit of the Manufacturing Business. Because the new orders for HID Light ballast have not been reflected in the period under review, there was a reduction in sales compared to the same period in 2006.

In order to grasp the business opportunity brought by the expansion of market, the Group has already formulated a comprehensive expansion plan with a view to capture the potential development and the opportunities arising from the fact that there is currently no dominant brand name in the PRC's HID ballast market as well as the well-developed distribution channel of overseas automotive aftermarket. On top of extending its marketing efforts on HID light ballast through the self-owned chain store network and regional retailers, the Group has also started to implement a vertical integration business strategy with existing HID light OEM suppliers in order to enter this OEM market with low costs base. The HID ballast manufactured for a number of Chinese automobile manufacturers were being tested and such cooperation is likely to extend to other products.

***Analysis of progress of chain store business***

The Group is the pioneer in the China automotive aftermarket service chain store industry and is committed to establish the leading position in the Greater China market. During the Period, China's GDP and its retail volume of consumer goods maintained their steady growth. As the world's third largest automobile consumption country, China's retail sales on automobile consumables maintained a double-digit, year on year increase during the Period. The market is full of exciting challenges because the market participants are hungry for growth yet the regulations in the market is ladicy.

The Group continued to expand its chain store network and increase its market share by implementing the strategy of improving operation support that will result in long-term core competitive edge. The year 2007 has been a year of development for the Group's Chain Store Business which to a great extend benefit from the effect of last year's external expansion. Along with the self-expansion of the Group's large-scale Super store in Shanghai, and the consolidation of the large-scale super store chain scale network of Richahaus Taiwan and Beijing Aiyihang, the Group is gradually becoming the largest chain store business in autonative aftermarket in the Greater China region.

**Expansion of chain store network**

In order to provide professional, convenient and high quality service to the consumers at low prices, and continue to expand its market share, the Group has adopted multi-level (being the four store models, namely Super, Creative, Express and Beauty) and multi-mode (namely, acquisition, cooperation, direct operation and franchise operation) network expansion strategies. At present, except for the Super store which is under direct operation, other stores are mainly operated under franchise arrangements.

Catering for china's special characteristic of vast territory, unbalanced economy development and huge differences in market environment, the Group implements the two level business system of "Headquarters - Regional Headquarters", of which the Local Regional Headquarters can provide effective support, control to the local business network as well as new stores expansion. Apart from the Shanghai, Chengdu and Taiwan District Centers, the Beijing Regional Headquarters is taking shape.

At the same time, the Group also expedited its pace in expanding mega Super stores and small franchised stores. Presently, there are over 20 large-scale stores in the Greater China area and is set to continue such growth. As at 30 June 2007, the number of chain stores had increased from 257 (29 directly-operated stores and 228 franchised stores) as at 30 June 2006 to 328 (40 directly-operated stores and 288 franchised stores).

**Progress of the establishment of operation support function**

The Group has gradually established a two tier – operation support system of "the Chain Store Business Headquarters-District Center". This system not only ensures that the business supports the scale of operation as intended but also maintains the comprehensiveness, convenience and agility of the services provided through various District Centers. For merchandise supply, the Group can supply abundant merchandise totaling more than 18,000 types including automobile stereo, tire, wheels, maintenance products and automobile modifications. The Group also developed merchandise/equipment under its own brand name, which has begun to yield financial results. In technical support aspect, the Group has the operation right of Shanghai Huaqian Professional Technical Training School, which is the first school qualified to certify national professional qualification of automobile beauty care and refit under approved procedure. The Group has established a multi-level technical support system of "Comprehensive technical training-technical support team-new technology development and training". The Group also continued to develop technical training across different provinces and to enhance technical support on new technologies. In terms of logistics, the Group has developed a national logistic system with various transportation methods including self-transportation, supplier transportation and dedicated logistic company transportation. In terms of brand promotion, besides promoting its brand through media and marketing campaigns, the Group also placed emphasis on participating in various automobile activities to promote its competitive edges and expand its influence in the industry.

**Progress of acquisition**

Subsequent to the completion of acquisition in Chengdu and Taiwan, during the period, the Group has completed the acquisition of 51% equity interests in Beijing Aiyihang. This acquisition is a mean to enter the city with largest automobile ownership is China and will no doubt enhance the corporate image of the Group's Service Business. Following the strategic deployment in two of the most influential cities in China — Shanghai and Beijing, the currently fragmented automobile service business in China will gradually be improved, setting a milestone for the consolidation strategy of the Group.

The successful acquisition of Beijing Aiyihang will enable the Group's Service Business to increase its number of large-scale stores to over 20. On the procurement front, there is ample space for integration and complementation in respect of products such as tires, car stereo, automobile navigation and automobile accessories between New Focus and Aiyihang. The existing procurement channels of the Company have been optimized, enhancing the Company's bargaining power as well as substantially reducing its procurement costs. Lastly, from a perspective of increasing operating income, it is expected that the completion of the acquisition of Aiyihang will be able to generate an operating income of around RMB40 million for the Group's Service Business.

In the next stage, merger and acquisition will still play an important role in the expansion of the Group's automotive chain business. Based on the Group's strategies and the current market nature, the acquisition target will focus on the major regional chain entities in the PRC. It is expected that in the coming one or two years, the number of the Group's large-scale automotive chain stores will enter a new level. In line with the on-going enhancement of the business supporting infrastructure of the Headquarters, and the results of the service business will be significantly improved and enhanced.

***Prospects***

The Group was pleased with the progress of its expansion during the first half of 2007. Such progress is expected to fuel the growth momentum for the second half of the year and even the coming few years. Looking ahead, opportunities come with challenges. The Group is actively adapting itself to the changes in its business environment in order to sustain long term growth. The OEM and HID ballast market have already shown signs of rapid growth. The Group will continue to develop new products to satisfy market needs and extend its product range as well as distribution channels by vertical and horizontal integration. These measures will bring more revenue and countervail the impact of RMB appreciation and the generally rising prices of materials and fuel which put a lot of downward pressure on the gross profit margin. The Board believes that the turnover and profitability of the Manufacture Business will continue to increase in light of the new business and products which will results in the improvement of gross profit.

In respect of its Chain Store Business, the Group is implementing the business expansion strategy of "expansion-integration-expansion" systematically, turning the Group into the most competitive player in the China automobile aftermarket services business. 2007 is a year of business integration. At present, the Group is the largest business operator in Greater China in the automobile aftermarket. Discussions on possible co-operations with other chain store networks are also in progress. In the second half of 2007, the Group will focus more on business integration. Leveraging on the expansion of its chain network, sales from the Chain Store Business are expected to increase substantially and the market share will increase remarkably. At the same time, the synergies among each type of stores by strengthening the collective bargaining power of the Group, expanding its sources of income and the development of business support function will become more obvious. The result will be a sizable increase in profit of the Chain Store Business. The ability of the Group's expansion and business acquisition and integration will also be significantly enhanced. The Chain Store Business will gradually become an important source of profit growth for the Group and contributing to the strengthening of the leading position of the Group.

***Financial conditions and liquidity***

The Group maintained its stable balance sheet throughout the Period. During the period under review, operation of the Group was mainly financed by internally generated resources, bank facilities and the issue of convertible bonds. As at 30 June 2007, the Group had adequate cash and bank balance amounting to approximately RMB137,595,000.

As at 30 June 2007, current assets of the Group maintained at a healthy level with a liquidity ratio (current assets: current liabilities) of 1.64 (31 December 2006: 1.94). Gearing ratio (total liabilities: total assets) was 0.56 (31 December 2006: approximately 0.37). As at 30 June 2007, the Group had no long-term loans; while short-term loans totaled to RMB68,150,000.

As at 30 June 2007, the Group had no material pledged asset, material contingent liability or external guarantee. The Group will continue to maintain a healthy financial situation. Given a positive cash inflow from operations and available bank facilities, the Group has sufficient financial resources to meet its commitments, working capital requirements and investments for future expansion.

***Material acquisitions and disposals of subsidiaries and associated companies***

During the Period, the Group had no material acquisitions and disposals of subsidiaries and associated companies.

***Significant investments***

During the period, the Group has no material investment. The Group acquired 51% equity interests in Beijing Aiyiyang Auto Service Ltd by RMB12,000,000 in cash and the issue of the Company's share with the aggregate amount of RMB28,000,000.

During the period under review, the total capital expenditure of the Group amounted to approximately RMB22,667,000 was used.

***Use of proceeds***

The Group conducted an open offer and placing of 100,000,000 new shares in February 2005. The net proceeds raised net of the relevant listing expenses amounted to approximately HK$74,700,000, among which up to 30 June 2007,

(1) approximately RMB33,655,241 was used for R&D of the Manufacturing Business, construction of new plant and new production lines;

(2) approximately RMB14,228,571 was used for the development of the Chain Store Business supporting function, expansion of chain stores and as working capital.

The balance of the unutilized net proceeds has been placed as short-term deposit with banks in the PRC.

***Exchange risk***

During the Period under review, approximately 67% of sales were conducted with overseas customers and suppliers and were mainly settled in USD.

In connection with the currency reform whereby an unified exchange rate system was long-established in 2005, the PRC had switched to a managed floating exchange rate regime based on market demand and supply and adjustments of which would be made by reference to a basket of currencies such that RMB is no longer pegged only to USD. The Group has mitigated the impact of such currency reform by signing long-term combined settlement contract with the People's Bank of China, expanding sales in the China market and further tightening the proportion of overseas procurement. During the Period, turnover attributable to the China market increased to 33% from 15% of the corresponding period in 2006. In addition, the Group will also leverage on its strong bargaining power and established relationships with customers and suppliers to transfer the additional costs arising from movements in exchange rates.

### ***Employees and remuneration policy***

As at 30 June 2007, the Group employed 2,240 full-time employees, of which 80 were dedicated to the research and development of new products. The Group has been committed to the recruitment of talents to enrich its human resources structure. In order to attract and retain outstanding employees, the Group provided benefits such as medical insurance and housing benefits in addition to the various mandatory pension schemes stipulated by the municipal government. The Group also operates a provident fund scheme registered under Chapter 485 of the laws of Hong Kong for all its Hong Kong employees. Outstanding employees of the Group will also be granted discretionary bonuses and share options as incentives.

### ***Dividend***

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007.

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

Neither the Company nor any of it subsidiaries purchased, sold or redeemed any of the Company's listed shares during the Period.

### ***Corporate Governance***

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

### ***Directors' Securities Transactions***

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

### ***Audit Committee***

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

*By order of the Board*
**New Focus Auto Tech Holdings Limited**
**HUNG Wei Pi, John**
*Chairman*

Hong Kong, 30 August 2007

*As at the date of this announcement, the Board comprises 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 as executive directors of the Company; Mr. Low Hsiao-Ping, Mr. Li Jung Hsing and Ms. Irene Shih as non-executive directors of the Company; and Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw as independent non-executive directors of the Company.*