

**BEA securities**

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HONG KONG RESEARCH**17th February 2005****Analyst: Ernest Tan****Main Board Listing – Research**

新焦點汽車技術控股有限公司

New Focus Auto Tech Holdings Limited [Stock Code: 0360]**Sponsor and Joint Lead Manager** : Barits Securities (Hong Kong) Limited**Co-Sponsors and Joint Lead Managers** : Partners Capital International Limited
SBI Crosby Limited**Sector** : Consumer Discretionary**Business** : Auto Parts and Equipment

Total Share Offer: <u>100,000,000</u> shares (25% of the enlarged share capital) Public Offer: 10,000,000 shares (10%) Placing: 90,000,000 shares (90%)	<u>Business of New Focus Auto Tech (NFA)</u> The Group is principally engaged in the manufacturing and sale of electronic and power-related automotive parts and accessories that include five major categories: (i) inverters; (ii) multi-functional power packs; (iii) automotive lights (in particular, HID lights); (iv) cooler/warmer boxes; and (v) other accessories (such as chargers and converters). Other than manufacture under its customers' brand name, the Group also sells its products under the brand name of "NFA" through its own distribution network of automotive aftermarket service chain stores in Shanghai and Jiangsu of the PRC. In respect of the sales of the Group's products for the ten months ended 31 st October 2004, approximately 92.5% of the sales were attributable to the OEM business and 7.5% were attributable to sales under its own brand name. The Group has established a network of customers located across North America, Japan and Europe. During the track record period, over 89.3% of the Group's sales of automotive parts and accessories were made to overseas market while the remaining sales were made to the greater China market.
Price: HK\$0.70 – HK\$0.94 per share Market Cap.: HK\$70 million – HK\$94 million Prospective FY2004 P/E: 6.00x – 8.00X Unaudited Pro Forma Adjusted NTA: HK\$0.393 – HK\$0.452 per share Staffing: 1,663	
HK Public Offer period: 17 th February 2005 – 22 nd February 2005 Share registrar: Computershare Hong Kong Investor Services Limited Receiving bank: BOC (Hong Kong) Limited Listing date: 28 th February, 2005	

Major Shareholders after Listing

Sharp Concept – wholly owned by Mr. Hung Wei Pi – John, Chairman	45.00%
Golden Century – wholly owned by Mr. Douglas Charles Stuart Fresco, Executive Director	15.00%
NMLLC*	15.00%
	<u>75.00%</u>

*NMLLC is owned by Mr. Norman L. Matthew, Executive Director, as to 28.2%, his relatives namely Mr. Kenneth S. Matthew as to 28.20%, Mr. Edward B. Matthew as to 28.20%, Mr. Abe J. Matthew as to 5.98%, Ms. Nettie Matthew as to 4.43% and Mr. Glenn Fingerhut as to 2.00% and an Independent Third Party, Mr. Vince Alesi as to 2.99%.

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Use of Proceeds

Net proceeds from the offer are estimated to be approximately HK\$63 million.

(Based on the offer price of HK\$0.82 per share, being the mid-point of the indicative offer price range)

	HK\$ million
Expansion of production plant	30
Research and development of automotive lights and automotive electronic products	9
Installation of new production line	9
Expansion of the Group's automotive aftermarket services business and establishment of automotive aftermarket service chain stores	12
General working capital	3

Financial Highlights

	Year ended 31 st December			10 months ended
	2001	2002	2003	31 st October 2004
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	164,710	197,319	296,908	294,498
Gross profit / (loss)	46,969	53,521	81,179	79,721
Gross margin (%)	28.52	27.12	27.34	27.07
Operating profit / (loss)	30,470	33,307	52,471	44,822
Net profit / (loss)	23,350	26,121	49,347	43,860
Net margin (%)	14.18	13.24	16.62	14.89

Breakdown of Revenue by Product Category

	Year ended 31 st December						10 months ended	
	2001		2002		2003		31st Oct 2004	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Inverters	78,968	47.9	91,971	46.6	138,548	46.7	136,573	46.4
Multi-functional power packs	-	-	34,779	17.6	90,738	30.6	92,339	31.4
Automotive lights	60,755	36.9	39,143	19.8	30,102	10.1	24,947	8.5
Cooler/Warmer boxes	20,741	12.6	28,285	14.3	23,601	8.0	21,087	7.2
Automotive aftermarket service	-	-	919	0.5	8,767	3.0	12,742	4.3
Others	4,246	2.6	2,222	1.1	5,512	1.7	6,810	2.2
Total	164,710	100.0	197,319	100.0	296,908	100.0	294,498	100.0

Breakdown of Revenue by Geographical Region

	Year ended 31 st December						10 months ended	
	2001		2002		2003		31st Oct 2004	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
North America	121,520	73.8	136,401	69.1	223,018	75.1	200,031	67.9
Europe	6,462	3.9	10,033	5.1	15,610	5.3	22,314	7.6
Asia – Pacific	29,179	17.7	39,923	20.2	33,240	11.2	29,208	9.9
Greater China (including Taiwan)	5,697	3.5	10,596	5.4	25,040	8.4	42,945	14.6
Others	1,852	1.1	366	0.2	-	-	-	-
Total	164,710	100.0	197,319	100.0	296,908	100.0	294,498	100.0

Strengths/Opportunities

- ✓ Given the continuous rising number of automobiles in the PRC, there are strong demand for automotive aftermarket services, i.e. maintenance and repair. This trend is shown by the strong turnover growth of this business segment during the Group's track record period.
- ✓ Valuation of this IPO is not demanding, i.e. FY 2004E PER of 6.0 – 8.0x as compared with the pricing of other auto components manufacturer, i.e. 9x of JinHeng Automotive Safety Technology (8293) and 12.7x of Xinyi Glass Holdings (0868).

Weaknesses/Threats

- × The Group's customers are major retailers and wholesalers of the related products that have strong pricing power. Furthermore, products of the Group are "generic" and "discretionary" in nature, i.e. accessories such as DC/AC converters for electric appliances used in cars. Given that over 86% of its costs are attributable to raw materials, NFA's margins are susceptible to be squeezed in many ways and it has to rely on boosting turnover to achieve earnings growth.
- × Majority of the Group's products (75.1% of its FY2003 turnover) are sold to the United States that is a mature market for automobiles and their related products. It is therefore hard to see any substantial growth of turnover in this region in the coming years.
- × Despite the strong potential of the PRC automotive maintenance and repair business, the market is highly fragmented and the entry barrier is low. In order to gain a strong foothold in the business, the Group might need to increase its capital expenditure (speed up the opening of outlets in strategic locations) and absorb certain level of initial losses (gain market share by price competition). Hence, the benefits on earnings might not be reflected in the near future.

Recommendation: Caveat Emptor