

INDEPENDENT AUDITORS' REPORT

Certified Public Accountants
Member of Grant Thornton International

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均富會計師行

To the shareholders of Compass Pacific Holdings Limited

(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Compass Pacific Holdings Limited (the "Company") set out on pages 36 to 111, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the 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 of the Company are responsible for the preparation and the true and fair presentation of these 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 these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, 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. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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Basis for disclaimer of opinion

Existence and valuation of inventories

Included in inventories of HK\$111,024,000 in the consolidated balance sheet of the Group as at 31 December 2006 are motor vehicles recovered from the legal proceedings as detailed in note 39 (3) to the financial statements with a total cost of HK\$51,222,000 and aggregate impairment provision of HK\$10,721,000 as at 31 December 2006 ("Motor Vehicles"). We have not been provided with the access to these Motor Vehicles physically and there were no alternative audit procedures which we could adopt to ascertain the existence and conditions of these Motor Vehicles. Accordingly we have been unable to obtain all the audit evidence that we considered necessary for our audit purpose in relation to the existence and valuation of these Motor Vehicles. Any adjustments to the balance of the Motor Vehicles and the associated impairment provision would have a consequential effect on the net liabilities and loss of the Group as at 31 December 2006 and for the year then ended respectively.

Books and records of Guangzhou Shenfei Automobile Sales and Services Company Limited and its subsidiaries (collectively "Guangzhou Shenfei")

The Group's consolidated financial statements include the assets and liabilities, results and cash flows of Guangzhou Shenfei as at 31 December 2006 and for the year then ended respectively. As detailed in note 18 to the financial statements, Guangzhou Shenfei ceased operations during the year. The books and records of Guangzhou Shenfei prior to its cessation of operations were kept and maintained by the local management of Guangzhou Shenfei ("Local Management"). The Local Management had left the Group following the cessation of the Guangzhou Shenfei operations and the books and records of Guangzhou Shenfei as made available to us by the Group's management were incomplete for our audit purposes. Under circumstances as explained above, we were not able to carry out audit procedures which we considered necessary on the books and records of Guangzhou Shenfei, to satisfy ourselves as to the existence, completeness, accuracy and valuations of the assets and liabilities and completeness, occurrence and accuracy of the income and expenses of Guangzhou Shenfei as at 31 December 2006 and for the year then ended, for the purpose of our audit of the Group's financial statements. The amounts of the net liabilities, income and loss of Guangzhou Shenfei as at 31 December 2006 and for the year then ended which have been included in the consolidated financial statements are HK\$76,069,000, HK\$15,618,000 and HK\$5,781,000 respectively.

Any adjustments to the net liabilities, results and cash flows of Guangzhou Shenfei as at 31 December 2006 and for the year then ended may have consequential significant effects on the assets, liabilities, loss and cash flows of the Group as at 31 December 2006 and for the year then ended.

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Going concern basis for the preparation of the financial statements

As explained in note 3.1 to the financial statements, the financial statements of the Group have been prepared on the going concern basis, notwithstanding that the Group had significant net current liabilities and net liabilities as at 31 December 2006, on the basis that a substantial shareholder will provide sufficient financial support to the Group to enable it to continue in business as a going concern. We were not provided with the evidence showing the financial position of this substantial shareholder and there were no alternative audit procedures that we could adopt to satisfy ourselves as to the ability of the substantial shareholder to fulfil such undertaking. Should the Group be not able to continue in business as a going concern, adjustments would be necessary to reclassify all non-current assets as current and to write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments.

Disclaimer of opinion on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006 and the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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