

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of New Focus Auto Tech Holdings Limited, I hereby present to our shareholders the audited results for the year 2006.

Results Performance and Dividend Policy

New Focus Auto Tech Holdings Limited is principally engaged in the manufacturing and sale of electronic and power-related automotive 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. Its manufacturing business focuses on the innovative areas of Auto Green Lighting and automotive electronic and power-related parts and accessories while its service business focuses on the provision of professional automotive aftermarket services. It endeavours to become the leader in the automotive aftermarket chain service sector in the Great China region.

For the year ended 31 December 2006, the Group's consolidated turnover amounted to RMB533,302,000, representing a growth of 5% from the corresponding period in 2005. Profit attributable to shareholders were RMB14,218,000 and earnings per share were RMB0.035. The Board recommends a bonus issue of one new share for every twenty existing shares of the Company.

Business of manufacturing Auto Green Lighting and automotive electronic and power-related parts and accessories – NFA

The consolidated turnover of NFA amounted to RMB477,131,000, representing a growth of approximately 5% from the corresponding period in 2005. The manufacturing business witnessed a 7% drop in gross profit margin from the corresponding period in 2005 despite recording sales increase. The drop in gross profit was mainly due to the surge in the raw material price, the appreciation of Renminbi, the increase in the Group's expenses for market exploration in the PRC, the slower development of new products as compared to expectation and the markdown promotions of obsolete products. However, as the manufacturing industry timely adjusts its strategy, the sales market of NFA gradually shifts from the international market to the booming Greater China market and from the AM market to the OEM market. Currently, the manufacturing business' effort in extending its reach in the PRC market begins to bear fruit. The proportion of sales in the PRC to the sales of the Group rose steadily from 2% in 2004 to 17% in 2006. Sales of HID light ballasts surged by 76% when compared with 2005. The market share of the Group's vehicle inverter, an automotive electronic product, reaches 20% in both the PRC and the international automotive aftermarket and reaches 35% and 16% in the PRC and international OEM markets respectively.

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The Automotive Aftermarket Chain Service Business – Autolife

The consolidated turnover of Autolife amounted to RMB56,171,000, representing a growth of approximately 8% from the corresponding period in 2005. Gross profit experienced a decrease despite recording an increase in consolidated turnover. The drop in gross profit was mainly attributable to the investment necessary for the establishment of large scale distribution channels in the Great China region under the Group's strategies. During the period under review, Autolife has established its Greater China regional centres in Shanghai, Taipei and Chengdu. With the Beijing regional centre also set up by now and the number of chain stores increasing from 39 in 2004 to 289 by the end of 2006, the distribution network that covers the first tier cities of the Greater China region has basically been established. As its chain stores continue to increase in size, sales capability and influence in the industry, Autolife is making rapid and significant progress towards its objective of becoming the leader in the automotive aftermarket chain service sector in the Great China region.

Business Progress

Business of manufacturing Auto Green Lighting and automotive electronic and power-related parts and accessories – NFA

In 2006, the manufacturing business of NFA faced immense pressure from the unfavourable internal and external environments. External factors such as the surge in the prices of raw materials and the substantial appreciation of Renminbi brought unprecedented impact to export-driven enterprises. NFA was affected by internal factors such as the increase in the expense for market exploration in the PRC, the slower than expected development

pace of new products and the system problems in upgrading ERP system for manufacturing business. These factors led to the decrease in the profit of NFA during the period under review. Under such unfavourable conditions, NFA still adhered to its strategic plan of transforming from an export-oriented enterprise to an enterprise which emphasizes on the development of the automobile market in the PRC, shifting its focus from the AM market to the OEM market and from diversified products to automotive electronic and Green Lighting products. In response to all these challenges and difficulties, the management actively pursued the following measures:

In order to avoid the adverse impact brought about by the appreciation of Renminbi, NFA is stepping up its channel expansion in the PRC market while maintaining its sales share in the international market and such strategy is gradually achieving success. Regarding the automotive aftermarket in the PRC:

- 1) The market share of NFA's vehicle inverters exceeds 20%;

The management recognises the huge potential of Green Lighting – HID light ballasts and automotive electronic product – vehicle inverter in the OEM market. The investment of the Company's resources in new products development begins to bear fruit:

- 1) In the international OEM market: NFA, being the sole OEM supplier of Germany's Volkswagen, is now entering the final stage of product testing by two internationally renowned automobile manufacturers in Europe;

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- 2) In the PRC OEM market: NFA has already become the OEM supplier of renowned automobile manufacturers such as DPCA and Huacheng Jinbei with its three major products, including vehicle inverter and HID, are now undergoing the final stage of testing conducted by the five largest automobile manufacturers in the PRC;

Clearly differentiate the production base and expedite the development of new products to increase the gross profit margins of products.

- 1) In May 2006, NFA acquired 51% stake in 山東新焦點龍盛汽車配件有限公司 (Shandong New Focus Longsheng Auto Parts Co., Ltd.). The production of certain products with lower gross profit margins but higher market shares was transferred to the production base in Shandong, to take advantage of its lower production cost so as to raise the gross profit margins of these products and to a certain extent, lengthen these products' lifecycles;
- 2) Due to its geographical advantages and research and development strengths, the Shanghai production base has become the research and development center and marketing center of the Group's manufacturing business and focused on the manufacture of products with high gross profit margins;
- 3) HID light ballasts managed to maintain a high gross profit margin, its sales amount surged by more than 76% from the corresponding period in 2005. Its stronger sales trend is set to continue and will create enormous room for growth.

During the period under review, NFA witnessed a drop in profit due to unfavourable internal and external operating environment, but the implementation of the above strategies enabled its manufacturing business to further capture the boundless business opportunities arising from the robust development of the automobile market in the PRC and might basically eased the impact of external unfavourable factors such as the appreciation of Renminbi on the gross profit and profit of the manufacturing business, and lay a solid foundation for its healthy and steady development in future.

The Automotive Aftermarket Chain Service Business – Autolife

Autolife adhered to its expansion strategy of establishing service headquarter – regional centres – chain stores to secure its leading position in the automotive aftermarket chain service sector in the PRC in 2007. Through organic expansion, mergers and acquisitions, Autolife invested substantial capital in building an extensive chain network so as to establish an efficient operating system, and has currently established three District centers in Chengdu, Shanghai and Taipei respectively during the period under review. The Beijing District center was set up in early 2007 and the construction work of 20 Superstores has also been completed. With the systematic implementation of the strategy in the first tier cities of the Greater China region according to its strategic plan, the value from its strategic network established in 2006 will be gradually realized in 2007.

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In the PRC, the rapid increase in ownership of passenger cars and the maturing consumption concepts highlight the huge market potential of automotive service chains. The "one-stop" service model, brand effect and efficient management style of Superstores will be the key business model for the future development of Autolife:

- In May 2006, Autolife opened its first Superstore in Chengdu, a western city with the highest ownership of private cars;
- In September 2006, Autolife set up a Superstore in Shanghai that occupies an area of more than 3000 square metres;
- In October 2006, Autolife successfully acquired Richahaus, Taiwan's largest automotive service operator. The company has been established for 16 years in Taiwan and now has a total of 8 Superstores, each with an area of more than 2000 square metres;
- In late 2006, Autolife entered into the actual operating stage in its strategic cooperation with Beijing Aiyihang Auto Service Ltd (北京愛義行汽車服務有限公司), marking another milestone in the development history of Autolife. As the capital and the city with the highest ownership of private cars in the PRC, Beijing has unparalleled influence over its surrounding regions and even the entire country when compared with other cities. At present, Beijing Aiyihang Auto Service Ltd has a total of 10 own operated super stores and 12 super chain stores.

As at the end of 2006, Autolife has already set up 289 chain stores, including 20 Superstores and 3 district centers newly established within 12 months. In terms of scale, number, sales capability and market position, Autolife's chain stores has initially secured the leading position in the Greater China regions.

Prospect

The Group will leverage on its own advantages and focus on the manufacture of relevant products of Auto Green Lighting and automotive electronic and power-related parts and accessories. In order to capture the tremendous opportunities brought by the robust development of the PRC automotive market and the emergence of the automotive aftermarket chain service industry, the Group will devote further resources in 2007 to capture opportunities arising from the continuous increase in the consumption power in the PRC market. By stepping up its efforts to increase its PRC market share, the Group expects its PRC sales amount will account for more than 30% of its total sales.

- 1) NFA – 2007 marks the beginning of the implementation of NFA's five-year strategy. NFA will start integrating and linking up the industry chain and form strategic alliances on a timely basis so as to step up the development of automotive aftermarket and OEM market for its core products HID light ballasts and vehicle inverters. It is expected that these two core products will capture a significantly higher share in both the PRC market and the international market in 2007. At present, the Company has been appointed as the OEM supplier of inverters for FAW Volkswagen and it is expected that the

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cooperation between NFA and the PRC automobile manufacturers will achieve significant breakthrough in 2007.

- 2) Autolife – In 2007, Autolife will adhere to its development model that combines chain store expansion and resource integration. The development of “one-stop” own operated super stores will be the major means to increase brand influence and generate more sales. It is expected that sales will increase by multiples in 2007.

Appreciation

I would like to take this opportunity to extend my sincere gratitude to all the members of the Board for their hard work, dedication and solidarity under the adverse environment last year. In addition, I would like to thank all the shareholders, business partners, suppliers and customers for their strenuous support over the past year, and all our employees for their selfless contributions and relentless efforts over the years.

Looking ahead, I am fully confident about the future development of the Group and hope to share with every shareholder the Group's great achievement in future.