

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 2006 (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 2006.

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 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.

Details of the principal activities of the subsidiaries of the Company are set out in note 17 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 39. 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 2006.

The Board recommends a bonus issue of one new share of HK\$0.10 each credited as fully paid for every twenty issued shares of the Company (“Shares”) held on the register of members of the Company on 18 June 2007. An amount standing to the credit of the share premium account of the Company will be capitalized and applied in making payment in full, at par, for the new shares. The issue of bonus shares is conditional upon the passing of the relevant resolutions at the Annual General Meeting, and the Listing Committee of the Stock Exchange granting approval to the listing of and permission to deal in the new shares. Such new shares will not, however, rank for the proposed bonus issue but will in all other respects rank pari passu with the existing issued Shares. A circular containing further details of the bonus issue will be despatched to the shareholders on or about 25 May 2007.

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.

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Investment Properties

The details of the properties held by the Group for investment purposes during the year, including an office building located at Rooms 1 and 4, 16th Floor, Jianhui Building, 922 Hengshan Road, Xujiahui District, Shanghai, the PRC for office purposes held on long leases under two certificates of real estate ownership, are set out in note 15 to the Financial Statements.

Share Capital

Details of the issued share capital of the Company and its movements since the Company's incorporation along with the relevant explanations are set out in note 30 to the Financial Statements.

Reserves

Movements of reserves of the Group and the Company on a consolidated basis are set out in note 31 to the Financial Statements.

Distributable Reserves

Under the Companies Law of the Cayman Islands, share premium amounting to approximately RMB74,235,000 is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or 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 2006, the Company had distributable reserve available for distribution to Shareholders amounting to approximately RMB158,477,000.

Closure of Register of Members

The register of members will be closed from Monday, 11 June 2007 to Monday, 18 June 2007 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed bonus issue, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Friday, 8 June 2007.

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

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Directors (Continued)

Independent non-executive Directors

Du Haibo

Zhou Tai-Ming

Uang Chii-Maw

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. Norman L. Matthew, Mr. Douglas Charles Stuart Fresco, Mr. Li Jung Hsing and Ms. Irene Shih 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 and thereafter will continue until terminated by not less than three calendar months’ notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter.

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 appointed for a term of three years 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 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.

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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 2006, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 16,570,000 shares. The total number of shares available for issue under the Scheme (excluding options already granted) is 16,570,000 shares, representing approximately 4.1% of the total issued share capital of the Company on that date.

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Share Option Scheme (Continued)

As at 31 December 2006, 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 2006	Number of shares subject to options lapsed/ cancelled as at 1 January 2006	Number of options exercised since 1 January 2006	Number of shares subject to outstanding options as at 31 December 2006
Mr. Wu Kwan-Hong <i>Executive Director</i>	28 February 2005	1 January 2006 to 12 February 2015 <i>(Note 1)</i>	HK\$0.94	HK\$0.94	4,000,000	–	600,000	3,400,000
Ms. Hung Ying-Lien <i>Executive Director</i>	28 February 2005	1 January 2006 to 12 February 2015 <i>(Note 2)</i>	HK\$0.94	HK\$0.94	4,000,000	–	600,000	3,400,000
Mr. Lu Yuan Cheng <i>Executive Director</i>	28 February 2005	1 January 2006 to 12 February 2015 <i>(Note 3)</i>	HK\$0.94	HK\$0.94	4,000,000	–	750,000	3,250,000
Continuous contract employees in aggregate	28 February 2005	From 1 January 2006 <i>(Note 4)</i>	HK\$0.94	HK\$0.94	9,830,000	870,000 <i>(Note 5)</i>	3,530,000	5,430,000
Continuous contract employees in aggregate	5 July 2005	From 1 January 2006 <i>(Note 4)</i>	HK\$1.01	HK\$1.00	1,710,000	265,000	355,000	1,090,000
Total					23,540,000	1,135,000	5,835,000	16,570,000

Notes:

- Share options in respect of 600,000 underlying shares were exercised during the period from 1 January 2006 to 31 December 2006 and the remaining share options are exercisable during the period from 1 January 2006 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.
- Share options in respect of 600,000 underlying shares were exercised during the period from 1 January 2006 to 31 December 2006 and the remaining share options are exercisable during the period from 1 January 2006 to 12 February 2015 subject to such performance targets or conditions as determined by the Board.
- Share options in respect of 750,000 underlying shares were exercised during the period from 1 January 2006 to 31 December 2006 and the remaining share options are exercisable during the period from 1 January 2006 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 9 years subject to such performance targets or conditions as determined by the Board.
- Options lapsed due to termination of employment.

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

As at 31 December 2006, 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 in which interested (other than under equity derivatives) (Note 1)	Percentage of issued shares
Mr. Hung Wei-Pi, John	Interest in a controlled company (Note 2)	162,020,000(L)	39.93%
Mr. Douglas Charles Stuart Fresco	Interest in a controlled company (Note 3)	50,524,000(L)	12.45%

Notes:

1. The letter "L" denotes a long position in the shares.
2. 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.
3. These 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.

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Directors' and Chief Executives' Interest and Short Positions in the Shares of the Company and its Associated Corporations (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 2006 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 2006 to 12 February 2015	HK\$10.00 (for all)	HK\$0.94 (per share)	1%
Ms. Hung Ying-Lien	Beneficial owner	3,400,000(L)	1 January 2006 to 12 February 2015	HK\$10.00 (for all)	HK\$0.94 (per share)	1%
Mr. Lu Yuan Cheng	Beneficial owner	3,250,000(L)	1 January 2006 to 12 February 2015	HK\$10.00 (for all)	HK\$0.94 (per share)	1%

Notes:

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

(ii) **The associated corporation**

As at 31 December 2006, 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.

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

As at 31 December 2006, 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) (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	162,020,000(L)	Nil	162,020,000	39.93%
Ms. Jin Xiao-Yan	Family interest (Note 2)	162,020,000(L)	Nil	162,020,000	39.93%
Golden Century Industrial Limited	Beneficial owner	50,472,000(L)	Nil	50,472,000	12.44%
Ms. Linda Fresco	Family interest (Note 3)	50,472,000(L)	Nil	50,472,000	12.44%

Notes:

1. The letter "L" denotes a long position in the shares.
2. 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 Sharp Concept Industrial Limited which in turn is wholly and beneficially owned by Mr. Hung Wei-Pi, John.
3. 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.

Save as disclosed above, the Directors are not aware of any person, other than a Director or 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 2006.

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.

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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

There were no purchases, sales or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the Year.

Connected Transactions

During the Year, the Group had the following connected transactions:

(A) Continuing Connected Transactions

During 2006, the following connected transactions were carried out by the Company pursuant to Rule 14A.34 of the Listing Rules of the Hong Kong Stock Exchange. These connected transactions were subject to reporting and announcement but were exempt from independent shareholders' approval requirements under the Listing Rules.

(1) Custom Accessories Sales Agreement

On 13 February 2005, Shanghai New Focus Auto Parts Co., Ltd. ("NFA Parts"), New Focus Light and Power Technology (Shanghai) Co. Limited ("NF Light & Power") and Custom Accessories Asia Limited ("Custom Accessories") entered into a sales agreement (the "Custom Accessories Sales Agreement") pursuant to which NFA Parts and NF Light & Power will supply various automotive parts and accessories manufactured by them to Custom Accessories for a period commencing from the listing date of the Company to 31 December 2006. Details of the transaction was disclosed in the prospectus of the Company dated 17 February 2005.

For the year ended 31 December 2006, the sales to Custom Accessories by NFA Parts and NF Light & Power amounted to HK\$2,513,000 in total.

(2) Longsheng Purchase Agreement

On 19 October 2006, New Focus Light and Power Technology (Shanghai) Co. Ltd. ("NF Light & Power") entered into a purchase agreement ("Longsheng Purchase Agreement") with Shangdong New Focus Longsheng Auto Parts Co. Ltd. ("Longsheng") pursuant to which NF Light & Power would purchase certain automotive parts and accessories from Longsheng for its manufacturing operation for a period from 19 October 2006 to 31 July 2009.

Details of this transaction was disclosed in the announcement of the Company dated 20 October 2006.

For the year ended 31 December 2006, the total purchases of goods under the Longsheng Purchase Agreement by NF Light & Power from Longsheng amounted to HK\$2,627,000.

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Connected Transactions (Continued)

Confirmation of Independent Non-executive Directors

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

- (1) the transactions were entered into in the ordinary and usual course of the business of the Company;
- (2) the transactions were conducted either on normal commercial terms or on terms that are fair and reasonable so far as our independent shareholders are concerned;
- (3) the transactions were entered into in accordance with the agreements governing those connected transactions; and
- (4) the amounts of the transactions had not exceeded the annual caps announced by the Company.

(B) Connected Transactions

In 2006, the Company carried out the following one-off connected transactions.

On 1 June 2006, 山東新焦點龍盛汽車配件有限公司 (Shandong New Focus Longsheng Auto Parts Co., Ltd.), an indirectly non-wholly owned subsidiary of the Company which is owned 51% by Perfect Progress Investment Limited, a wholly owned subsidiary of the Company, entered into the an assets purchase agreement with 龍口市安博貿易有限公司 for the acquisition of 40 items of equipment and machinery, a vehicle and 37 buildings and structures with a total floor area of 10,626.84 m² which include several dormitories, plants and their ancillary structures, warehouses and canteens and a 10 cm thick road surface material for a gross area of 3,315.29 m² and another assets purchase agreement with 龍口龍盛電線電纜有限公司 for the acquisition of three land use rights in relation to three parcels of lands all located at Xiao Jiang Jia Village, Zhu You Guan Town, Longkou City, Shandong Province (山東省龍口市諸由觀鎮小姜家村) with an aggregate gross area of 48,087 m² and a building ownership in respect of a wiring plant for a gross floor area of 2,880 m². Details of this transaction was disclosed in the announcement of the Company dated 11 December 2006. The transactions constituted connected transactions and were carried out in compliance with the reporting and announcement requirements under Rule 14A.23 the Listing Rules.

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Major Customers and Suppliers

Sales to the Group's five largest customers accounted for 52% of the total sales for the year, whereas sales to the largest customer accounted for 19%. Purchases from the Group's five largest suppliers accounted for 19% of the total purchases for the year, whereas purchases from the largest supplier accounted for approximately 6%.

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 Consolidated Financial Statements of the Group have been audited by BDO McCabe Lo Limited who retire and, being eligible, offer themselves for re-appointment.

During the year, PricewaterhouseCoopers resigned and BDO McCabe Lo Limited was appointed auditor of the Company. A resolution will be proposed at the forthcoming annual meeting of the Company to re-appoint BDO McCabe Lo Limited as auditor of the Company.

On behalf of the Board

Hung Wei-Pi, John

Chairman

Hong Kong, 16 May 2007