

REPORT OF THE AUDITOR



BDO McCabe Lo Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 0002

德豪嘉信會計師事務所有限公司

香港干諾道中一百一十一號
永安中心二十五樓
電話:(八五二)二五四一五〇四一
傳真:(八五二)二八一五〇〇〇二

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF NEW FOCUS AUTO TECH HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Report on the Financial Statements

We have audited the financial statements of New Focus Auto Tech Holdings Limited set out on pages 39 to 102, which comprise the consolidated and company balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and 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 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, 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 as described in the basis for qualified opinion paragraph, 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.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

We were unable to carry out auditing procedures necessary to obtain adequate assurance regarding inventories and accrued purchases. Details are set out below:

Inventories

- The Company was unable to provide sufficient evidence to substantiate the costs of raw materials, work in progress and finished goods. In addition, the Company was unable to quantify the financial effect, if any, should the cost of inventories be improperly stated. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the carrying amount of the inventories as at 31 December 2006.

- The Company was unable to reconcile the quantities of work in progress as at the physical count date with the final inventory listing as at 31 December 2006 and to quantify the financial effect of the unreconciled differences. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the existence and completeness of the work in progress as at 31 December 2006.

Accrued purchases

- The Company was unable to provide sufficient documentation and evidence to substantiate the accrued purchases of RMB9.4 million included in trade payables. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the accuracy of the accrued purchases as at 31 December 2006.

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Any adjustments to inventories and accrued purchases as at 31 December 2006 in the financial statements would have a consequential effect on the net assets as at 31 December 2006 and the profit and cash flows for the year then ended.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to inventories and accrued purchases, the financial statements give a true and fair view of the state of the affairs of the Group and the Company as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work relating to inventories and accrued purchases:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

BDO McCabe Lo Limited

Certified Public Accountants

Lesley Yeung Kit Kam

Practising Certificate no. P04342

Hong Kong, 16 May 2007