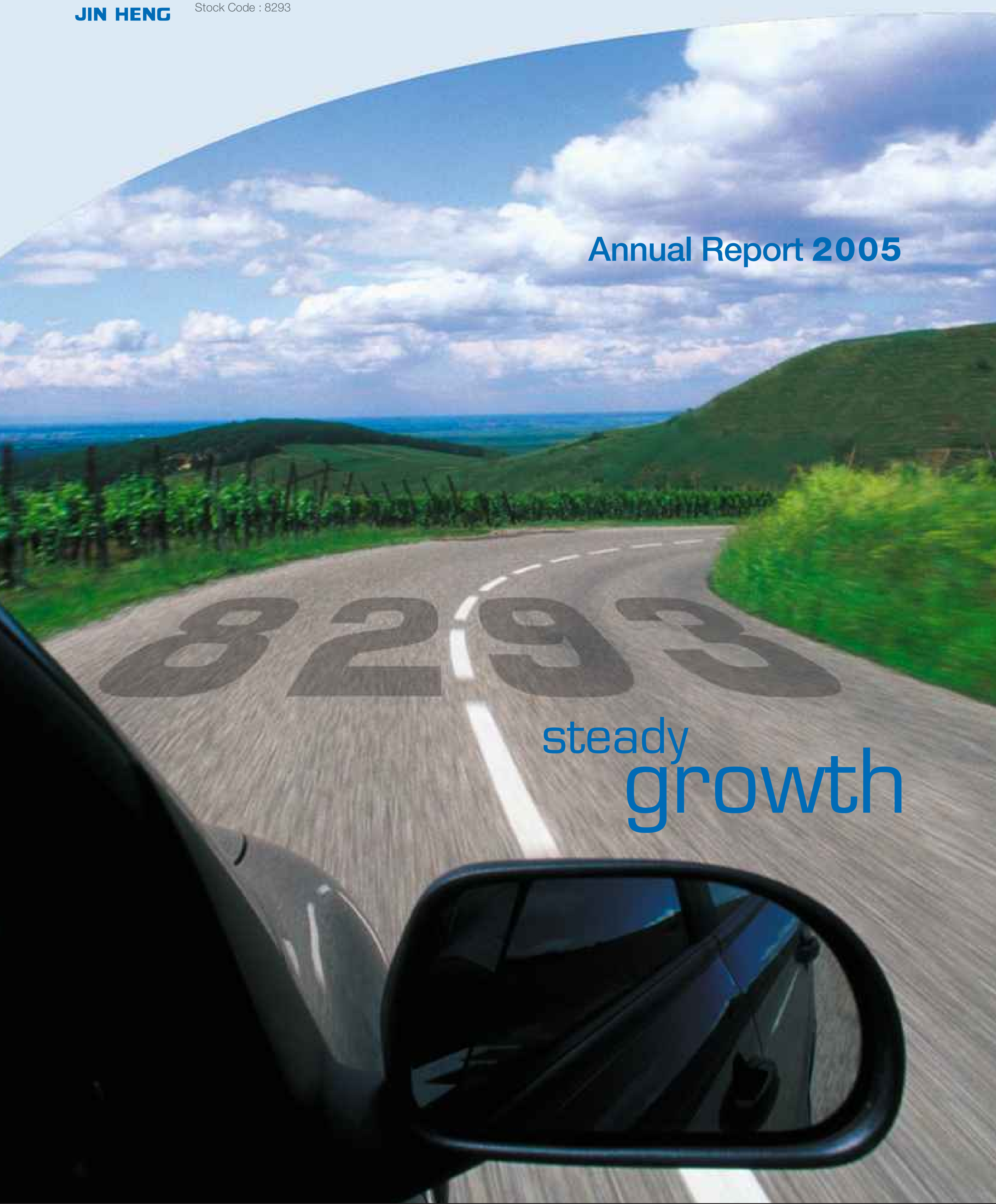
JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED
錦恒汽車安全技術控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8293

Annual Report **2005**



steady growth

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This report, for which the directors of Jinheng Automotive Safety Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company (the "Directors"), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Li Feng, *Chairman*
Mr. Xing Zhanwu, *Chief Executive Officer*
Mr. Zhao Qingjie
Mr. Yang Donglin
Mr. Foo Tin Chung, Victor, *Financial Controller*

Non-Executive Directors
Mr. Li Hong
Mr. Zeng Qingdong

Independent Non-Executive Directors
Mr. Chan Wai Dune
Mr. Huang Shilin
Mr. Zhu Tong

Company Secretary
Mr. Foo Tin Chung, Victor, *CPA, CPA (Aust.)*

Authorised Representatives
Mr. Li Feng
Mr. Foo Tin Chung, Victor, *CPA, CPA (Aust.)*

Compliance Officer
Mr. Foo Tin Chung, Victor, *CPA, CPA (Aust.)*

Qualified Accountant
Mr. Foo Tin Chung, Victor, *CPA, CPA (Aust.)*

Audit Committee
Mr. Chan Wai Dune
Mr. Huang Shilin
Mr. Zhu Tong

Nomination Committee
Mr. Xing Zhanwu
Mr. Chan Wai Dune
Mr. Zhu Tong

Remuneration Committee
Mr. Xing Zhanwu
Mr. Huang Shilin
Mr. Zhu Tong

Registered Office
Century Yard, Cricket Square
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George Town, Grand Cayman
Cayman Islands, British West Indies

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Chaoyang District, Beijing
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Principal Place of Business in Hong Kong
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Hong Kong

Principal Share Registrar And Transfer Office
Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Town
Grand Cayman
Cayman Islands

Principal Bankers
The Bank of East Asia
Bank of Communication
Industrial and Commercial Bank of China

Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
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Hong Kong

Auditors
KPMG
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Central, Hong Kong

Sponsor
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Legal Advisers
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George Town, Grand Cayman, Cayman Islands

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Hong Kong

Stock Quote
8293

Web Site of the Company
www.jinhengairbag.com

To Our Shareholders

On behalf of the board of Directors (the "Board"), I am pleased to present the second annual report of Jinheng Automotive Safety Technology Holdings Limited (the "Company") and its subsidiaries (the "Group") and its audited results for the fiscal year ended 31 December 2005.

Following the Group's successful listing on the GEM Board through initial public offering and institutional placing on 9 December 2004, we dedicated ourselves to carry out various tasks during 2005, so as not only to lay a sound foundation for future development, but also provide the Group a golden opportunity to become one of the international suppliers of automobile safety devices.

Business Review

The Group is principally engaged in the design, research and development, manufacture and sale of automotive safety airbag systems. Currently, the Group's major products are safety airbag systems used in automobiles.

With the slowing down in the growth of the PRC automobile industry in the second half of 2004, the major automobile manufacturers unavoidably faced fierce competition, leading to the delayed launch of some automobile models. This situation only saw gradual improvement in the fourth quarter of 2005. Although this situation has also had some impact on the Group, our sales during 2005 did not see a decrease but in contrast recorded an increase of approximately HK$13.4 million, representing a growth of 7.3% as compared to 2004. This is due to our success in exploring new markets, in particular the developing markets of safety airbag systems in the Middle East and Malaysia. Also, we have been approved by one of the three major airbag systems suppliers in the world, and have already exported to it our first batch of airbags. This is the first case in which the Group undertakes the entire system development process for an overseas automobile manufacturer, as well as the first time the Group becomes the system provider for overseas customer. This attests to our technology level, quality assurance ability, cost and production capabilities, which are being accepted by overseas customers, paving the way for it to become a global supplier.

At the same time, the Group has also defeated various other international automotive airbag system developers in the year, and successfully obtained a number of development rights for the automotive safety airbag system for different models of globally renowned automobile models that are manufactured in the PRC. This proves that the technology level, quality assurance ability, cost control and production capabilities of the Group have been accepted and recognized by the PRC manufacturers of internationally renowned automobile models. During the year, the Group has been engaged for 13 types automotive safety airbag systems specifically designed for different automobile models, and has entered into long term and stable business relationship with 20 major automobile manufacturers.

The profit for the year was approximately HK$32.0 million, representing a 37.7% decrease as compared to 2004. The decrease was caused by a change in sales mix which in turn led to narrowing of profit margin in the short term, as well as by the adoption of new accounting policies. However, the gross profit margin of the fourth quarter of 2005 represents an improvement of approximately 6.9% as compared to the first quarter of the same year.

In the year, the Group has also carried out a number of strategic measures to consolidate our position as the largest self-owned automotive safety airbag system provider in the PRC. With the aims for complete localization, production cost reduction and enhancement of quality, the wholly-owned subsidiary of the Group, Jinzhou Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"), has established a joint venture, Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega"), with an automotive component provider in the PRC in October 2005. The joint venture has commenced production in October 2005, and possesses an annual production capacity of 300,000 different types of automobile steeling wheels. Its customers include other automobile manufacturers apart from Jinheng Automotive. As at 31 December 2005, Jinheng Sega has started to generate profit.

On the other hand, the commercial negotiation for the joint production of electronic inflators is still in progress, while the aggressive research and development work on our own has been initiated. The Directors believe, this cooperation project will help to cut down the Group's cost significantly in the future.

Meanwhile, Harbin Hafei Jinheng Automotive Safety System Co. Ltd. ("Hafei Jinheng"), the joint venture established by the Group and Hafei Motor Co. Ltd., has also commenced production in April 2005 with an annual production capacity of 100,000 sets, and it is expected that it will start to generate profit in the first quarter of 2006. The construction of the production plant of Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng") has completed in the fourth quarter of 2005, and the related capital and share enlargements by the Group were completed in the beginning of 2006. The annual production capacity of the plant reaches approximately 100,000 sets.

In January 2005, the Group completed the construction of the new production plant of Jinheng Automotive with a gross floor area of 4,900 square meters located in the Economic & Technical Development Zone, Jinzhou, Liaoning Province. Upon completion of the production plant, the annual production capacity of the Group can reach 280,000 sets on a single shift basis. In the second quarter of 2005, the Group has also extended a piece of land of an area of 33,000 square meters located to the north of the automobile plant of Jinheng Automotive in the Economic & Technical Development Zone, Jinzhou, Liaoning Province, with the purpose of building a research and development center and road test field, coupled with the introduction of the world's most advanced state-of-the-art slope trial system from the United States. It is expected that the research and development center will complete construction and be ready for use in the second quarter of 2006, significantly boosting the research and development capability of the Group. In June 2005, a new automated production line for spray painting on safety airbag covers was installed to Jinheng Automotive, substantially enhancing the quality level and production capacity of the Group's airbag covers.

In 2005, the Group has conducted its first real-car collision test of the side airbag systems for five automobile models and also commenced the research works on curtain airbag systems and smart airbag systems. Apart from this, Jinbei Jinheng has also commenced the research and development of the technologies in respect of three-point seat belt and pre-tension seat belt. It is expected that the research and development will be completed in the fourth quarter of 2006, and upon that time, Jinbei Jinheng will possess an annual production capacity of 500,000 sets seat belts, making the Group the first comprehensive system provider in the PRC. Moreover, the Company has sent over 10 man-times of engineers to a technical center in Holland for learning and education in 2005, and is also cooperating with this technical center for the development of a total safety system. The Directors believe that these new product development projects are of great significance to the Group in promoting its competitiveness in the future.

The Group has officially commenced the ISO 14001 certification process for environmental management systems in 2005, which represents great importance to the Group in enhancing its corporate image in the international market.

Outlook and Future Prospects

Looking forward to the future of the automobile industry in the PRC, there will see gradual recovery in 2006 into a reasonably stable growth stage. Certain automobile models, which have been postponed launching in 2005, will be put into market successively in the first quarter of this year. In 2005, the Company has concluded its strategic preparatory work for complete localization, which in turn will be completed by the end of 2006, significantly increasing the consolidated competitiveness of the Company. With the Group's other joint ventures commencing production successively in 2006, the Directors are positive that 2006 holds a bright future for the Group.

Continuing from the success of the last year, the Group will continue to reinforce its effort in market exploration, in particular in the market of internationally renowned automobile models produced in the PRC and the overseas market. This is paralleled by the efforts of broadening the Group's customer base, improving its customer structure, stepping up the exploring of Russia, India and other overseas markets, and visiting customers in North America and Europe, with the objective of penetrating the international sourcing and supplying system for automotive components.

Leveraging on the first-time commercial sales of airbag system components to internationally renowned supplier that has commenced in 2005, the Group will look to the cooperation with other automotive component sourcing and supplying platform in the international scene, with the aim to explore more new markets.

It is expected that subsequent to the completion of construction of the Group's research and development centre and its getting into use in the second quarter of 2006, the Group will have the world's most advanced state-of-the-art slope trial system and thus enabling the Group to position itself at a world level in terms of research and development capabilities.

With the completion of production localization of steering wheels and the commercial negotiation for the joint production of electronic inflators reaching the final stage in the fourth quarter of 2005, the Group will look at the localization of other major components for automotive airbag system, such as inflators and electronic control unit for airbags. This is aimed at achieving production cost control and providing strong technical support for technical development of airbag systems, as well as maintaining the Group's competitive edges in the future.

To match up the development strategies of 2005, the Group is aggressively seeking to form strategic alliances with major component suppliers both in the PRC and overseas in order to strengthen its competitiveness and cutting down the research and development process involved in component localization.

In addition to stepping up its efforts in developing side airbag system, curtain airbag system and other new products, the Group has also studied other automotive products like automotive electronic items and engine components for the diversification of its product mix, which in turn forms a solid foundation for the strategic objective of taking automobile safety as its core business for the Group that is engaged in a comprehensive automotive component business.

The Group will continue its quest for forming joint ventures with automobile manufacturers in the PRC and overseas to consolidate its market share and explore overseas markets of airbag systems for the Group's becoming an international automotive safety system supplier.

The Directors believe that, with the gradual implementation of its future development plan, the Group will see a significant improvement in its competitiveness and a consolidation of its leading position in the safety airbag industry in the PRC. The management will devote its best endeavor and efforts to bring fruitful return to its shareholders.

Appreciation

On behalf of the Board, I would like to express our gratitude to the shareholders for their longstanding support, and to our colleagues for their valuable contributions in the year. The management will devote its best endeavor and efforts to bring fruitful return to its shareholders.

Li Feng
Chairman

Hong Kong, 24 March 2006

Results of Operations

For the fiscal year ended 31 December 2005, the Group reported turnover of approximately HK$195.7 million, representing an increase of approximately 7.3% from the fiscal year ended 31 December 2004. The increase was mainly attributed by our significant achievements in several projects during the year. The Group has successfully contracted and completed its first safety airbags development contract with one of the largest automobile manufacturers in the Middle East region after competing with various international automotive safety products suppliers; it also accomplished a new order for components of airbag systems with an international renowned airbag supplier. Hence, sales of automotive safety system components and other safety products substantially increased to approximately HK$51.7 million from approximately HK$16.6 million last fiscal year. The sluggish recovery from the weakened automotive industry started since the second quarter of 2005 and the recovery is expected to continue in 2006, resulted in a substantial increase in sales of mechanical and electronic airbag systems for the second half of 2005 by approximately HK$19.8 million or approximately 32.0% in comparison with the first half of 2005. The poor market condition in the first half of 2005, which caused the postpone of 5 new models to be launched to the market, attributed to a decrease in the total sales of mechanical and electronic airbag systems in 2005 by approximately HK$21.7 million from approximately HK$165.7 million last fiscal year. 2 postponed models have been confirmed to be launched in the first half of 2006 while the other 3 are also expected to be launched in the fiscal year 2006.

Owing to the difference in sales mix of mechanical and electronic airbag systems, the average gross profit margin of both airbag systems for the last year recorded a slight decrease by approximately 5.1% to approximately 33.6%. Increase in sales of automotive safety system components and other safety products with relatively lower margin contributed approximately 26.4% of total sales compared with only approximately 9.1% during 2004, bring about a decrease in average gross profit margin to approximately 32.0% from approximately 39.0% of 2004.

The current year profit from operations was approximately HK$35.5 million, representing a decrease of approximately 36.2% as compared to the fiscal year 2004. This was resulted from the adoption of new accounting policies and change of sales mix.

Other revenue increased mainly because of the increase in interest income. For the fiscal year 2005, it increased by approximately 12.0% to approximately HK$0.8 million.

Distribution costs increased to approximately HK$3.9 million or approximately by 18.4%. The increase was mainly due to increased sales and marketing activities and also the development of new overseas market.

Research and development expenses for fiscal year 2005 decreased from approximately HK$3.1 million to approximately HK$2.5 million. The decrease was mainly due to the delay of production plan of various automobile models from 2005 to 2006.

Administrative expenses were approximately HK$21.4 million for the fiscal year 2005, representing an increase of approximately HK$11.9 million. The increase was mainly due to the share-based payment expenses of pre-IPO share options of approximately HK$5.8 million caused by the adoption of new accounting policy, the directors' salaries amounting approximately to HK$3.0 million and also the commencement of operation of 2 subsidiaries, Hafei Jinheng and Jinheng Sega.

The decrease in finance costs is approximately HK$0.7 million. Such decrease was mainly contributed by the repayment of long-term loans and also an interest expense subsidy, which was designated to cover the actual interest expenses on the loan of RMB28.0 million utilized for financing the technological reform project.

Share of losses of jointly controlled entities for the fiscal year 2005 decreased by approximately 61.3% to approximately HK$0.3 million. This was because the Shanxi Jinheng Automotive Spare Parts Co., Ltd, a 35% owned jointly controlled entity of the Group, has started recording a profit of approximately HK$0.8 million.

Profit for the fiscal year 2005 was approximately HK$32.0 million. Although the Group recorded a turnover of approximately HK$195.7 million in 2005 while there were only approximately HK$182.3 million in 2004, the decrease of gross profit margin and the increase of administrative expenses have led to a reduction in the profit for the fiscal year 2005 by approximately HK$19.4 million in comparison with the fiscal year 2004.

Liquidity, Financial Resources and Funding and Treasury Policy

The Group made use of the proceeds raised from issuance of shares and listed on the GEM on 9 December 2004 to finance the rapid development of the Group. As at 31 December 2005, the Group had bank and cash balances of approximately HK$44.4 million (2004: approximately HK$92.8 million) and net current assets of approximately HK$118.8 million. Non-current assets had approximately HK$118.5 million, representing an increase of 34.0% from approximately HK$88.4 million of last fiscal year. The increase was mainly due to investment in fixed assets by approximately HK$32.8 million.

As at 31 December 2005, the Group had non-current liabilities of approximately HK$27.4 million mainly for the expansion of the Group's production facilities. It includes a long-term bank loan of approximately HK$26.9 million (equivalent to RMB28.0 million), which is repayable in July 2007 and bears fixed interest rate of 5.58% per annum. The Group also had current term loan of HK$43.0 million, of which HK$11.5 million (equivalent to RMB12.0 million) bears fixed interest rate of 5.58% per annum, HK$11.5 million (equivalent to RMB12.0 million) bears fixed interest rate of 6.24% per annum, HK$15.5 million (equivalent to RMB16.1 million) bears fixed interest rate of 5.49% per annum and HK$4.5 million (equivalent to RMB4.7 million) discounted bills not yet matured at the year end date.

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2005, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Charge on Group Assets

As at 31 December 2005, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK$7.4 million for a bank loan of RMB16.1 million (equivalent to HK$15.5 million).

In additions, discounted bills with recourse totalling HK$4.5 million were secured by the related bills receivable and were repayable within one year.

Gearing Ratio

The Group's gearing ratio, which was derived from the total borrowings to total assets, decreased to 33.3% from 36.0% in 2004.

Future Plans for Material Investments

Except for those set out in the "Subsequent Events" in this report, the Group had an authorized but not contracted for capital expenditure commitments of approximately HK$9.3 million and had a contracted but not provided for capital commitments of approximately HK$11.2 million in respect of acquisition of fixed assets as at 31 December 2005.

Material Acquisitions and Disposals

On 17 August 2005, the Group's wholly-owned subsidiary, Jinheng Automotive, with a PRC partner to form a joint venture mainly engage in the sale and production of automotive steering wheel, which forms part of automotive safety systems. The joint venture is owned as to 51% by the Group. The total investment cost and registered capital of the joint venture company amounts to RMB20 million (equivalent to HK$19.2 million), of which RMB10.2 million (equivalent to HK$9.8 million) was paid in cash by Jinheng Automotive, and the remaining RMB9.8 million (equivalent to HK$9.4 million) will be contributed by the PRC partner. Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies in the course of year.

Significant Investment

There was no significant investment during the year.

Contingent Liabilities

As at 31 December 2005, the directors of the Company were not aware of any material contingent liabilities.

Subsequent Events

On 24 January 2006, pursuant to a subscription agreement dated 26 August 2005, a wholly owned subsidiary of the Company, Jinheng (Hong Kong) Limited (formerly Handfull Investments Limited), subscribed RMB5.0 million (equivalent to approximately HK$4.8 million) to Shenyang Jinbei Jinheng Automotive Safety System Co., Ltd. ("Jinbei Jinheng") for 5.6% of the increased equity interest of Jinbei Jinheng. After the completion of this transaction, the total registered capital of Jinbei Jinheng may thereof increase to RMB27.0 million (equivalent to approximately HK$26.0 million). The Group's ownership interest in Jinbei Jinheng increase from 50% to 55.6% effective on the same date.

Foreign Exchange Exposure

Since almost all transactions of the Group are denominated either in Renminbi or Hong Kong dollars or US dollars and the exchange rates of such currencies were stable over the years under review, the Directors believe that such exposure does not have any significant adverse effect to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

Employees and Remuneration Policy

As at 31 December 2005, the Group employed approximately 567 staff in the PRC and Hong Kong, representing an increase of 327 staff from 31 December 2004. The increase in staff was mainly from the PRC operations. Accordingly, the Group's remuneration to employees, including directors' emoluments, increased by approximately HK$6.3 million to approximately HK$11.2 million for the current fiscal year.

The Group reviews employee remuneration from time to time and salary increment is normally approved annually or by special adjustment depending on length of services and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

Retirement Schemes

The Group maintains a mandatory provident fund (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employee (up to a cap of monthly relevant income of HK$20,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Jinzhou, Harbin and Beijing, the PRC whereby the Group is required to make contributions to the Schemes at the rate ranging from 20% to 24% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

Capital Structure

The Company was listed on GEM of the Stock Exchange on 9 December 2004 through offering a total of 95,970,000 shares, in which 86,372,000 shares are placing shares and a public offering of 9,598,000 new shares. The 86,372,000 placing shares comprising 71,402,000 new shares and 14,970,000 sale shares. The net proceeds from this offering, after deduction for relevant expenses, is approximately HK$80.5 million. Since the listing of the Company's shares on GEM of the Stock Exchange on 9 December 2004, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

Sponsor's Interest

Pursuant to an agreement dated 29 November 2004 entered into between the Company and VC Capital Limited, the VC Capital Limited would receive a monthly fee for acting as the Company's retained sponsor for the remainder of the year ended 31 December 2004 and for the period of two years thereafter until 31 December 2006.

As at 31 December 2005, VC Capital Limited had indirect interest in the shares of the Company held by VC Strategic Investments Limited through its interests in certain associated companies, both VC Capital Limited and VC Strategic Investments Limited are wholly-owned subsidiaries of Value Convergence Holdings Limited, a company listed on GEM. As at 31 December 2005, VC Strategic Investments Limited was beneficially interested in 11% of the issued capital of Top Growth Assets Limited, and Top Growth Assets Limited was beneficially interested in 81.5% of the issued capital of WAG (Greater China) Limited. WAG (Greater China) Limited is beneficially interested in 9,000,000 shares of the Company, representing approximately 2.36% of the total issued capital of the Company.

Save as disclosed above, none of VC Capital Limited, its directors, employees or their respective associates had any shareholding interests in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2005.

Competing Interest

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

COMPARISON OF THE BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In compliance with the GEM Listing Rules, the Company sets out below a summary of actual business progress as measured against the business objectives set out in the Prospectus for the period from 22 November 2004 to 31 December 2005 (the "Relevant Period").

Business Objectives for the Relevant Period as stated in the Prospectus	Actual Business Progress
Expansion of Production Capacity	
• Install DAB and PAB assembling machines to new production premises	Installation of DAB and PAB assembling machines to new production premises was completed in June 2005.
• Install production facilities for SAB modules of safety airbag systems	Production facilities for SAB modules of safety airbag systems were installed in October 2005.
• Install circular cutting machine and additional production facilities for textile airbags which are one of the spare parts of the airbag safety systems	Installation of circular cutting machine and additional production facilities for textile airbags was completed on 20 June 2005.
• Hafei Jinheng commence commercial operation	Hafei Jinheng started commercial operation on 22 April 2005 and profit was expected to be recorded in the first quarter of 2006.
• Jinbei Jinheng commence commercial operation	The construction of the factory of Jinbei Jinheng was completed in the fourth quarter of 2005. It is expected to commence commercial operation in the second quarter of 2006.
Localization and self-production of key components	
• Conduct study and trial production of electronic DAB inflators	Study and trial production of electronic DAB inflators has been started.
• Conduct study and trial production of electronic PAB inflators	Study and trial production of electronic PAB inflators has been started.
• Complete installation of production facilities for manufacturing electronic DAB and PAB inflators	The Group partially completed the installation of the production facilities for manufacturing electronic DAB and PAB inflators.
• Conduct studies on the localization of seat belt pre-tensioner	Jinbei Jinheng started the research and development works for the seat belt pre-tensioner.

Business Objectives for the Relevant Period as stated in the Prospectus	Actual Business Progress
Enhancement of research and development capability	
• Recruit 2 technical expert for research and development	The Group has recruited 2 technical expert for research and development.
• Purchase of new equipment for the enhancement of the crash test laboratory	The Group has ordered the relevant equipment for the crash test laboratory from a renowned company in the U.S.
• Commence and continue the research and development for the simulation system and software	The Group has entered into an agreement with Jilin University in relation to the research and development of the simulation system and software, and the research of which has been duly commenced.
• Commence and continue the research and development of smart airbag systems and curtain airbag systems	The Group has duly commenced the research and development of smart airbag systems and curtain airbag systems.
• Commence and continue the research and development of seat belt pre-tensioner systems	The Group has duly commenced the research and development of research and development of seat belt pre-tensioner systems.
Formulating strategic alliances	
• Identify suitable major automobile manufacturers in the PRC for joint venture partnership	The Group is undergoing formal communication with a suitable automobile manufacturer.
• Form strategic alliance with major supplier in the PRC and international supplier of spare parts	The Group has selected a suitable supplier in the PRC and is under negotiation for the formation of strategic alliance.
• Commence and continue to discuss with the identified international supplier of spare parts	The Group has commenced negotiation with the identified international suppliers of spare parts and selected an international supplier of spare parts for in-depth business discussion.

Application of Proceeds from Capital Raising

The Group raised approximately HK$80.5 million from the issue of 81,000,000 new shares of the Company at HK$1.18 per share in December 2004. The Company's shares were successfully listed on GEM with effect from 9 December 2004. Up to the date of this report, the Group has applied part of the proceeds totalling approximately HK$51.5 million for the following purposes:

(i) approximately HK$16.1 million for the expansion of production capacity;

(ii) approximately HK$15.5 million for the localization and self-production of key components;

(iii) approximately HK$9.1 million for the enhancement of research and development capabilities;

(iv) approximately HK$10.0 million for formulating strategic alliances; and

(v) approximately HK$0.8 million as additional working capital of the group.

Consistent with the disclosure in the Prospectus, the Group intends to apply the remaining proceeds of approximately HK$29.0 million for the following purposes:

(i) as to approximately HK$3.2 million for further expansion of production capacity;

(ii) as to approximately HK$12.2 million for further localization and self-production of key components;

(iii) as to approximately HK$0.8 million for the enhancement of research and development capabilities;

(iv) as to approximately HK$7.7 million for formulating strategic alliances; and

(v) as to approximately HK$5.1 million as additional working capital of the Group.

The remaining net proceeds from the new share issue are currently placed on short term deposits with banks in Hong Kong and PRC.

Executive Directors

Mr. Li Feng, aged 44, is the chairman of the Company. Mr. Li, joined the Group in 1997 and is responsible for the overall general management of the Group. Mr. Li graduated from the Beijing University of Aeronautics and Astronautics in 1983 with a bachelor's degree in missile designing. From 1983 to 1996, Mr. Li was employed at Taiyuan Aero-Instruments Co., Ltd. ("Taiyuan Aero") as engineer. There is a service agreement between the Company and Mr. Li pursuant to which the emoluments payable to Mr. Li is HK$700,008 per annum. Mr. Li was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Li does not hold any other positions in the Company or other members of the Group.

Mr. Xing Zhanwu, aged 42, is the chief executive officer of the Company. Mr. Xing joined the Group in 1997 and is responsible for the Group's sales and marketing as well as the Group's overall business development. Mr. Xing graduated from Northwestern Polytechnical University with a bachelor's degree in machinery manufacture engineering in 1984. From July 1984 to August 1996, Mr. Xing had worked at Taiyuan Aero as engineer. In January 1997, Mr. Xing joined the Group as general manager and led the Group to succeed in two pioneering airbag system development projects with FAW Car Company Limited ("FAW") and Dongtong Peugeot Citro'n. There is a service agreement between the Company and Mr. Xing pursuant to which the emoluments payable to Mr. Xing is HK$500,004 per annum. Mr. Xing was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Xing does not hold any other positions in the Company or other members of the Group.

Mr. Zhao Qingjie, aged 48, joined the Group in October 1997. Mr. Zhao has extensive experience and knowledge in the automobile industry in the PRC and is responsible for strategic development and corporate development of the Group. In 1982, Mr. Zhao graduated from the Jinzhou Institute of Technology with a bachelor's degree in tractor. Since 1997, Mr. Zhao has been the chairman of Jinzhou Wonder Enterprises (Group) Co., Ltd. ("Jinzhou Wonder"). Mr. Zhao is also the chairman of Wonder Auto Group Limited and Jinzhou Halla Electrical Equipment Company Limited ("Jinzhou Halla"). There is a service agreement between the Company and Mr. Zhao pursuant to which the emoluments payable to Mr. Zhao is HK$500,004 per annum. Mr. Zhao was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Zhao does not hold any other positions in the Company or other members of the Group.

Mr. Yang Donglin, aged 40, is the deputy general manager of Jinheng Automotive. Mr. Yang is responsible for the overall technical and research and development of the Group. Mr. Yang graduated from Northwestern Polytechnical University in 1985 with a bachelor's degree in aircrafts designing. Mr. Yang had worked at Taiyuan Aero as engineer from 1985 to 1999. While working at the Taiyuan Aero. In 1997, Mr. Yang joined the Group and represented the Group in technical exchange programmes with overseas experts. Mr. Yang held the position of senior technician in a number of Group's airbag system development projects. There is a service agreement between the Company and Mr. Yang pursuant to which the emoluments payable to Mr. Yang is HK$180,000 per annum. Mr. Yang was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Yang does not hold any other positions in the Company or other members of the Group.

Mr. Foo Tin Chung, Victor, aged 37, has over ten years' experience in the finance and accounting fields. Mr. Foo is the financial controller, qualified accountant, company secretary and compliance officer of the Company. Mr. Foo holds a bachelor's degree in accounting and information system in the University of New South Wales in Australia. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is primarily responsible for the development of the Group's financial strategies, accounting and financial reporting and internal control procedures. He held management position at subsidiaries of listed companies in Hong Kong and was an auditor of an international audit firm. He joined the Group in July 2004 as the full time qualified accountant. There is a service agreement between the Company and Mr. Foo pursuant to which the emoluments payable to Mr. Foo is HK$624,000 per annum. Mr. Foo was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Foo does not hold any other positions in the Company or other members of the Group.

Non-Executive Directors

Mr. Li Hong, aged 43, joined the Group in 2001. Mr. Li graduated from the Beijing University of Aeronautics and Astronautics with a bachelor's degree in metal materials in 1983. In 1994, Mr Li graduated from the Beijing University of Aeronautics and Astronautics with a master's degree in corrosion and protection. From 1983 to 1996, Mr. Li was employed at Taiyuan Aero. Mr. Li is also a director of Taiyuan Daheng General Electric Appliance Manufacturing Company Limited ("Taiyuan Daheng"). There is no service agreement between the Company and Mr. Li. The emoluments payable to Mr. Li is HK$100,008 per annum. Mr. Li was not appointed for a fixed term but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

Mr. Zeng Qingdong, aged 42, is the brother-in-law of Mr. Gao Xiangdong who is a significant shareholder of the Company (has the meaning ascribed to it in the GEM Listing Rules). He joined the Group in August 2002. Mr. Zeng graduated from the Liaoning Institute of Technology in 1985 with a bachelor's degree in science and in 1988 from the Jilin Institute of Technology with a master's degree in science. Mr. Zeng joined Jinzhou Wonder in April 1997 and is currently a deputy general manager of Jinzhou Wonder. There is no service agreement between the Company and Mr. Zeng. The emoluments payable to Mr. Zeng is HK$100,008 per annum. Mr. Zeng was not appointed for a fixed term but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

Independent Non-Executive Directors

Mr. Chan Wai Dune, aged 53, is a fellow member of The Chartered Association of Certified Accountants, a fellow member of The Taxation Institute of Hong Kong and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Chan is the managing director of CCIF CPA Limited, a firm of certified public accountants in Hong Kong. Mr. Chan is currently a member of CPPCC of Guangzhou Municipal Committee of the Executive Council of China Overseas Friendship Association. Mr. Chan was a member of the Selection Committee for the establishment of the First Government of The Hong Kong Special Administrative Region. Mr. Chan was appointed as independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Chan. The emoluments payable to Mr. Chan is HK$150,000 per annum. Mr. Chan was not appointed for a fixed term but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

Mr. Huang Shilin, aged 72, graduated from 莫斯科汽車機械學院 (Moscow State Academy of Automobile Engineering) in 1957 and obtained an associate doctoral degree in 1959. Mr. Huang started working in the department of automobile engineering of Tsing Hua University, PRC in 1960. In 1987, he became a professor and doctorial tutor, deputy head of 汽車研究所 (Automobile Research Center) at Tsing Hua University, as well as the supervisor of 汽車碰撞實驗室 (Vehicle Collision Laboratory) of National Laboratory in Automotive Safety and Energy. He is currently the honorary supervisor of the 汽車安全技術分會 (Chapter of Automobile Safety Technology) of The Society of Automotive Engineers of China. Mr. Huang was appointed as an independent non-executive Director in November 2005. There is no service agreement between the Company and Mr. Huang. The emoluments payable to Mr. Huang is HK$80,004 per annum. Mr. Huang was not appointed for a fixed term but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

Mr. Zhu Tong, aged 34, is currently the assistant general manger of 興業証券股份有限公司 (Xing Ye Securities Co., Ltd.) Mr. Zhu graduated from the Research Institute of the People's Bank of China in 1998 with a master's degree in international finance. Mr. Zhu was appointed as an independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Zhu. The emoluments payable to Mr. Zhu is HK$80,004 per annum. Mr. Zhu was not appointed for a fixed term but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

Senior Management

Mr. Hao Dianqing, aged 54, is the general manager of Jinheng Automotive. He joined the Group in May 2003. Mr. Hao is responsible for the overall operation of Jinheng Automotive. In 1985, Mr. Hao graduated from Beijing Institute of Aeronautics with an associate's degree in system and management engineering. In 2000, Mr. Hao graduated from the Zheng Zhou Institute of Aernoautic Technology with a bachelor's degree in accounting.

Mr. Xing Zhanwen, aged 46, brother of Mr. Xing Zhanwu, is currently the deputy general manager of the Jinheng Automotive. Mr. Xing joined the Group in April 1998 and is responsible for the Group's sales and marketing. From 1980 to 1998, Mr. Xing was employed at Datong Dong Jiao Water Treatment Plant) firstly as the branch team lender and later as the vice plant manager before joining the Group in 1998.

Mr. Zhang Qiming, aged 41, joined the Group in July 1999 and is currently the deputy general manager of Jinheng Automotive. Mr. Zhang graduated from the Liaoning Institute of Technology in 1988. Prior to joining the Group, Mr. Zhang was employed at Jinzhou Wonder as a sales manager.

Mr. Zhu Jiangbin, aged 47, joined the Group in October 1999 and is currently the deputy general manager of Jinheng Automotive. Mr. Zhu graduated from Northwestern Polytechnical University with a bachelor's degree in 1981. Prior to joining the Group, Mr. Zhu was employed at Taiyuan Aero.

Ms. Zhang Liping, aged 43, joined the Group in April 1998 as the head of the finance department of Jinheng Automotive. Ms. Zhang graduated from 錦州師範學院分校化學系 (Jinzhou Teacher College Branch Campus -Chemistry Faculty) in 1982. Prior to joining the Group, Ms. Zhang was employed by Jinzhou Wonder as deputy department head in the finance department.

Mr. Cao Feng, aged 32, joined the Group in 1999 and is the assistant to chief executive officer of the Company. Mr. Cao is responsible for the coordination of the sales and marketing functions of the Group. Mr. Cao graduated from Taiyuan University of Technology with a bachelor's degree in industrial electrical automation in 1997. Mr. Cao successfully assisted the Group in establishing business relationship with a number of domestic automobile manufacturers.

Consultant

Mr. Zhu Xichan, aged 43, has been a consultant to the Group since January 2002 regarding the overall technical development and regulatory compliance. Mr. Zhu graduated from Tsinghua University in 1995 with a Doctor of Philosophy (PhD) degree in Automotive Engineering. Mr. Zhu is one of the experts in the development of automobile safety standards in the PRC. Mr. Zhu joined China Automotive Technical Research Centre in 1996. In 2001, Mr. Zhu was appointed as Specialist of China Automotive Engineer Association and team member of the National Automotive Standardisation and Technical Committee's Automotive Safety Airbag Standard Working Team.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited financial statements of Jinheng Automotive Safety Technology Holdings Limited ("the Company") and its subsidiaries (together with the "Group") for the year ended 31 December 2005.

Group Reorganisation

The Company was incorporated in the Cayman Islands on 26 February 2004 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 a group reorganisation (the "Reorganisation"), which was completed on 22 November 2004, to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company becomes the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation and the basis of preparation of the financial statements are set out in note 1 to the financial statements and in the Company's prospectus dated 30 November 2004 (the "Prospectus").

The Company's shares were listed on GEM on 9 December 2004.

Principal Activities

The principal activity of the Company is investment holding and the Group is principally engaged in production and sales of automotive safety products in the People's Republic of China ("the PRC"). The principal activities and other particulars of its subsidiaries are set out in note 19 on the financial statements.

The Group's turnover for the year is principally attributable to the sales of automotive safety products to customers net of sales tax and value added tax. An analysis of the turnover from the principal activities during the financial year is set out in note 5 on the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2005 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 32 to 88.

Dividends

Pursuant to a resolution passed at a directors' meeting on 24 March 2006, a final dividend of 3.3 HK cents per share totalling HK$12,573,000 was recommended to be paid to shareholders of the Company, subject to shareholders' approval at the forthcoming annual general meeting.

Charitable Donations

No donation was made by the Group during the year (2004: HK$Nil).

Fixed Assets

Details of movements in fixed assets are set out in note 17 on the financial statements.

Reserves

Details of movements in reserves of the Company and the Group during the year are set out in note 32 on the financial statements.

Share Capital

Details of movements in share capital of the Company during the year are set out in note 31 on the financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2005 are set out in note 28 on the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	27.9%	
Five largest customers in aggregate	76.4%	
The largest supplier		31.2%
Five largest suppliers in aggregate		80.2%

Shanxi Jinheng Automotive Spare Parts Co., Ltd. is the largest supplier, the 35% owned jointly controlled entity of the Group. Please refer to note 35 on the financial statements for details.

Save as disclosed above and so far as the Board are aware, neither the directors, their associates nor any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Directors

The directors during the financial year and up to the date of this report were:

Executive directors
Mr. Li Feng
Mr. Xing Zhanwu
Mr. Zhao Qingjie
Mr. Yang Donglin
Mr. Foo Tin Chung, Victor

Non-executive directors
Mr. Li Hong
Mr. Zeng Qingdong

Independent non-executive directors
Mr. Chan Wai Dune
Mr. Huang Shilin (appointed on 1 November 2005)
Mr. Zhong Zhihua (resigned on 1 November 2005)
Mr. Zhu Tong

In accordance with Articles 86(3) and 87(1) of the Articles of Association of the Company, 3 of the directors, namely, Messrs. Xing Zhanwu, Foo Tin Chung, Victor and Huang Shilin retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, would offer themselves for re-election.

Directors' Service Contracts

On 22 November 2004, all the executive directors entered into a service contract with the Company for an initial term of three years effective from 9 December 2004. Each executive director is committed by the respective service contracts to devote himself exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of his conduct of business affairs, among other commitments. All executive directors are also entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the Group attributable to shareholders of the Company. The percentage shall be determined by the board of directors but in any case the aggregate amount payable for each financial year to all the executive directors of the Company shall not exceed 4% of such profit.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other then statutory compensation.

Directors' and Chief Executive's Interest and Short Positions in Shares, underlying Shares and Debentures

As at 31 December 2005, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 the GEM Listing Rules were as follows:

(a) Long positions in issued shares

Name of director	Capacity	Number of shares	Approximate percentage of shareholding
Li Feng	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Xing Zhanwu	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Li Hong	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Yang Donglin	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Zhao Qingjie	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*

Directors' and Chief Executive's Interest and Short Positions in Shares, underlying Shares and Debentures *(Continued)*

(a) Long positions in issued shares *(Continued)*

Note: As at 31 December 2005, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited ("Applaud Group") which held approximately 62.63% in the Company:

Shareholder			Number of shares held in Applaud Group	%
The Controlling Group			5,467	54.67
Li Feng	2,286	22.86		
Xing Zhanwu	1,281	12.81		
Xu Jianzhong	719	7.19		
Li Hong	616	6.16		
Yang Donglin	565	5.65		
Zhao Qingjie			1,750	17.50
Gao Xiangdong			1,500	15.00
Zhao Jiyu			400	4.00
Lin Qing			223	2.23
Zhou Yuquan			214	2.14
Cao Feng			133	1.33
Zhang Chengyu			128	1.28
Zhang Chenye			100	1.00
Zhang Meina			85	0.85
Total			10,000	100

(b) Interests in underlying shares

The directors and chief executive of the Company have been granted options under the Pre-IPO Employee Share Option Scheme, details of which are set out in the section "Share Option Schemes" below.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or Rules 5.46 to 5.67 of the GEM Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

Share Option Schemes

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme as defined in the Prospectus which were adopted on 22 November 2004. A summary of principal terms of the share option schemes were disclosed in Appendix VI to the Prospectus.

The total number of securities available for issue under the share option schemes as at 31 December 2005 was 49,500,000 shares (including options for 11,400,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 12.99% of the issued share capital of the Company as at 31 December 2005.

Share Option Schemes *(Continued)*

As at 31 December 2005, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2005 is HK$0.94) granted for at a consideration of HK$1 under the share option schemes of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 each of the Company.

(a) Pre-IPO Employee Share Option Scheme

On 22 November 2004, the Company granted options to subscribe for a total of 11,400,000 Shares under the Pre-IPO Employee Share Option Scheme to three Directors and seven other employees of the Group, with the following details:

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options are exercisable	No. of share acquired on exercise of options during the year	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Mr. Li Feng (李峰)	Executive director and chairman of the Company	2,600,000	2,600,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	2,000,000	2,000,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	800,000	800,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	1,080,000	1,080,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Xing Zhanwen (邢占文)	Employee, deputy general manager of Jinheng Automotive	880,000	880,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	1,000,000	1,000,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Zhu Jiangbin (朱江濱)	Employee, deputy general manager of Jinheng Automotive	880,000	880,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	840,000	840,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	720,000	720,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Chen Lixin (沈立新)	Employee, general manager of Hafei Jinheng	600,000	600,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
		11,400,000	11,400,000			—			

The options granted to the Directors/employees are registered under the names of the directors/ employees who are also the beneficial owners.

* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Share Option Schemes *(Continued)*

(a) Pre-IPO Employee Share Option Scheme *(Continued)*

The weighted average value per option granted on 22 November 2004 and had not vested at 1 January 2005 using binomial lattice pricing model was HK$0.788. The calculation of the weighted average value per option granted during the period does not take into account options granted and forfeited during the period. The weighted average assumptions used are as follows:

	2005
Risk-free interest rate	2.1%
Expected life (in years)	4 years
Volatility	50.0%
Expected dividend per share	2.3%

The binomial lattice pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the binomial lattice pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

(b) Share Option Scheme

As at 31 December 2005, no option has been granted under the Share Option Scheme.

Substantial Interest in the Share Capital of the Company

As at 31 December 2005, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

	Capacity	**Ordinary shares held**	**Approximate percentage of total issued shares**
Applaud Group	Beneficial owner	238,620,000	62.63%
Direct Sino Holdings Limited	Beneficial owner	37,410,000	9.82%

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

Substantial Interest in the Share Capital of the Company *(Continued)*

Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 31 December 2005, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or 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 is, directly or indirectly, interested in 5% 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, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' Interests in Contracts

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year save and except for the agreements as stated in section headed "Connected transactions" in the Prospectus.

Adopted Code for Securities Transactions by Directors

During the year ended 31 December 2005, the Company has adopted the code set out in the Rules 5.46 to 5.68 of the GEM Listing Rules for securities transactions by Directors. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the adopted code regarding securities transactions by directors.

Independence of Independent Non-executive Directors

The Company has received from each independent non-executive Directors an annual confirmation for independence pursuant to Rule 5.09 of the GEM Listing Rules. The independent non-executive Directors have confirmed that they are independent.

Purchase, Sale or Redemption of Shares

Since the listing of the Company's shares on GEM on 9 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Continuing Connected Transactions

The Supply Contract under the Hafei JV Agreement — Continuing Connected Transactions

On 17 September 2003, the Group entered into a joint venture agreement with Hafei Motor Co. Ltd. ("Hafei Motor"). Pursuant to the Hafei JV Agreement, Harbin Hafei Jinheng Automotive Safety System Co. Ltd. ("Hafei Jinheng") was established and owned as to 90% by the Group and 10% by Hafei Motor and the products to be manufactured by Hafei Jinheng will be safety airbag systems which are suitable for different models of automobiles of Hafei Motor. It is the intention of the Group and Hafei Motor that all products of Hafei Jinheng will be sold to Hafei Motor.

Hafei Motor is a substantial shareholder holding 10% equity interest in Hafei Jinheng and therefore a connected person of the Group under the GEM Listing Rules.

On 22 November 2004, Jinheng Automotive, Hafei Jinheng and Hafei Motor entered into a tri-parties supply contract (the "Supply Contract") for a term ending on 31 December 2006 pursuant to which Hafei Motor indicated that the estimated maximum value of orders to be placed by Hafei Motor (the "Annual Cap") for the three years ending 31 December 2006 would not exceed HK$40 million, HK$50 million and HK$80 million, respectively.

Continuing Connected Transactions *(Continued)*

The Supply Contract under the Hafei JV Agreement — Continuing Connected Transactions *(Continued)*

The Directors expect that the aggregate orders from Hafei Motor for the three financial years ending 31 December 2006 will exceed HK$10,000,000 in each of the corresponding year under Rules 20.34 of the GEM Listing Rules. As such, the transactions under the Supply Contract will constitute non-exempt continuing connected transactions under Rule 20.35 of the GEM Listing Rules.

Sub-lease Agreement — Exempt Continuing Connected Transaction

Hafei Jinheng and Hafei Motor entered into a sub-lease agreement dated January 2004 whereby Hafei Motor would sub-let the property situate at Block 29B (except a mechanical room) inside a factory complex located at No. 15 You Xie Da Jie, Ping Fang District, Harbin, Heilongjiang Province, PRC with a total area of approximately 1,182.84 sq.m. to Hafei Jinheng. This sub-lease agreement was subsequently replaced by a new sub-lease agreement between the same parties dated 1 January 2004 (the "Sub-lease Agreement"). The Sub-lease Agreement is for a term of 20 years renewable for a further terms of 10 years commencing from 3 December 2003 to 2 December 2033. The total amount of rental in the sum of RMB1.3 million for the entire 30-year term had been paid by Hafei Jinheng to Hafei Motor. The Directors (including the independent non-executive Directors) consider that such transaction is in the ordinary course of business of the Company, on normal commercial terms, and is fair and reasonable and in the interest of the Shareholders as a whole. Upon the listing of the Shares on the GEM Board, the Sub-lease Agreement will constitute an exempt continuing connected transaction of the Company pursuant to Rule 20.34 of the GEM Listing Rules.

Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the continuing connected transaction requirements pursuant to Rule 20.42(3) of the GEM Listing Rules in respect of the Supply Contract for the three financial years ending 31 December 2006.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions are entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the Supply Contract governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange) confirming that the continuing connected transactions:

(i) have received the approval of the Board;

(ii) have been entered into in accordance with the Supply Contract governing the continuing connected transactions; and

(iii) have not exceeded the relevant Annual Cap.

Continuing Connected Transactions *(Continued)*

Waiver from the Stock Exchange *(Continued)*

Hafei Jinheng has commenced its commercial production and sell automotive safety airbag systems to Hafei Motor in the second quarter of 2005. The Directors expect that most of the transactions currently conducted between the Group and Hafei Motor will be carried out between Hafei Jinheng and Hafei Motor, whilst some will be carried out between Jinheng Automotive and Hafei Motor as Hafei Motor, depending on the types and models of automotive safety airbag systems, shall from time to time require.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Li Feng
Chairman

Hong Kong, 24 March 2006

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the rapid growth of the Group and for safeguarding and maximizing shareholders' interests.

On 8 December 2004, the Stock Exchange, in its note to subscribers for the amendments to the GEM Listing Rules — Update No. 20, issued the draft Code on Corporate Governance Practices (the "Code") and Rules on the Corporate Governance Report, which require inclusion by issuers of corporate governance reports in their annual reports. The rules became applicable to accounting periods commencing on or after 1 January 2005. The Board has already noted such changes and applied them to the Company.

During the period under review, the Company conducted voluntary reviews of its internal governance against the principles and provisions set out in the Code from time to time. In December 2005, the Code on Corporate Governance Practices of Jinheng Automotive Safety Technology Holdings Ltd. (the "Jinheng Code") was adopted on standards no less exacting than those required by the Code. The Board will continue to monitor and revise the Jinheng Code and assess the effectiveness of our corporate governance practices in tandem with changes in the environment and requirements and the increasingly stringent standards, to ensure such policies are in line with the expectations and interests of shareholders in order to gain recognition by the international capital market on the back of a fair, transparent and sound corporate governance system.

Pursuant to GEM Listing Rules 18.81 and 18.44, this report is to be incorporated in the Company's summary financial report and annual report, respectively, to disclose its corporate governance practices adopted in the year under review together with the prospective practices under development to the shareholders.

The Board

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibilities to create value for shareholders and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith.

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

The Board comprises 10 Directors, including 5 executive Directors and 5 non-executive Directors, three of whom being independent non-executive Directors, in compliance with the requirement of GEM Listing Rules which states that "every board of directors of an issuer must include at least 3 independent non-executive directors".

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;

- being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;

- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to quarterly, interim and annual reports of the Company, other price sensitive announcements published according to the GEM Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information disclosable under statutory requirements;

The Board *(Continued)*

- whilst executive Directors/chief executives, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy;

- the management is well informed of its power with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company; and

- regularly reviewing its own functions and the powers conferred upon executive Directors/chief executives to ensure appropriate arrangements are in place.

Commitments

The full Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the non-executive Directors, including independent non-executive Directors, are actively sought by the Company if they are unable to attend the meeting in person.

Experience

Executive and non-executive Directors possess administrative leadership, diversified expertise and extensive industrial management experience. Independent non-executive Directors possess extensive expertise, experience and judging capability in various fields, in particular the appropriate accounting qualifications possessed by Mr. Chan Wai Dune. During its decision-making process, the Board holds in high regard the views of the independent non-executive Directors, which serve as the effective direction of the Group's operations.

Board Meeting

Members of the Board, who are well-informed of their duties and responsibilities, held a total of 11 meetings during the year 2005. The Directors are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Proposals considered and approved by the Board during the period under review mainly included:

- financial performance and results of each period as well as review of corporate governance measures;

- a proposal to seek approval from shareholders in general meeting for distribution of final dividends to shareholders;

- a proposal to seek approval from shareholders in general meeting for re-election and re-appointment of Directors;

- a proposal to seek approval from shareholders in general meeting for re-appointment the Company's auditors and fixing their remuneration;

- a proposal to seek approval from shareholders in general meeting for issuance new shares and repurchases shares;

- application for listing on the Main Board of the Stock Exchange by way of introduction;

Board Meeting *(Continued)*

- appointment and resignation of members of the Board;
- establishment of remuneration committee and nomination committee;
- review internal audit procedures and results; and
- other material acquisitions, increase in equity stakes in joint venture and capital expenditure.

Details of Directors' attendance at Board meetings held in 2005 are set out as follows:

	Attendance
Executive Directors	
Mr. Li Feng	11/11
Mr. Xing Zhanwu	11/11
Mr. Zhao Qingjie	11/11
Mr. Yang Donglin	11/11
Mr. Foo Tin Chung, Victor	11/11
Non-Executive Directors	
Mr. Li Hong	11/11
Mr. Zeng Qingdong	11/11
Independent Non-Executive Directors	
Mr. Chan Wai Dune	11/11
Mr. Huang Shilin (appointed on 1 November 2005)	2/2
Mr. Zhong Zhihua (resigned on 1 November 2005)	9/9
Mr. Zhu Tong	11/11

Code for Dealing in Securities of the Company

Details of Directors' interests in securities of the Company have been historically disclosed in each of the published results announcements of the Company. The Company has adopted a model code of practice for securities dealings by Directors on terms no less exacting than the required standard of dealings. The Company has confirmed, after making specific enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the standard of dealings and model code of practice in relation to securities dealings by Directors for the period under review.

Chairman and Chief Executive Officer

Under A.2.1 of the Code, "the roles of chairman and chief executive officer should be separate and should not be performed by the same individual". Concurrently, Mr. Li Feng is the Chairman of the Board and Mr. Xing Zhanwu is the chief executive officer of the Company.

Appointment of Directors

During their terms of office, the Directors all carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. Meanwhile, they carried out the duties of directors imposed by the Company Law, the articles of association of the Company and the GEM Listing Rules, complied with the relevant requirements, strictly implemented resolutions of general meetings, promoted the continuous and healthy development of the Company's operations, pressed for the improvement of the governance standard of the Company and exerted the decision-making function of the Board in its full swing. In this regard, on the annual general meeting held on 21 April 2005, all the Directors were re-elected and re-appointed and subject to rotation and re-election at the Company's annual general meeting in accordance with the articles of association of the Company.

Appointment of Directors *(Continued)*

None of the independent non-executive Directors holds any other offices in the Company or any of its subsidiaries. Within the meaning of the laws and regulations issued by relevant securities regulatory authorities, none of them is interested in any shares of the Company. The Company has received from each of the independent non-executive Directors a written confirmation of his/her independence under Rule 5.09 of the GEM Listing Rules.

Names and biography of the Directors are set out on pages 13 to 15 of this annual report and also made available on the Company's website.

Audit Committee

The audit committee of the Company is primarily responsible for reviewing the financial reporting process, internal control system and the completeness of financial reports of the Company. The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong, with Mr. Chan Wai Dune as the chairman. During the year, the Company convened four meetings of the audit committee in compliance with GEM Listing Rules 5.28, 5.29 and 5.33. The audit committee of the Company, together with the senior management of the Company and external auditors, has reviewed the accounting principles and methods adopted by the Group and discussed, inter alia, matters relating to internal control and financial statements of the Company (i.e. quarterly, half-yearly and annual results) prepared in accordance with the generally accepted accounting principles of Hong Kong and has also made relevant recommendations.

Details of attendance of members at meetings of the audit committee held in 2005 are set out as follows:

	Attendance
Mr. Chan Wai Dune	4/4
Mr. Huang Shilin (appointed on 1 November 2005)	1/1
Mr. Zhong Zhihua (resigned on 1 November 2005)	3/3
Mr. Zhu Tong	4/4

Internal Controls

The Directors have conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries, which has covered major and material controls in areas of financial, operations, compliance and risk management of the Company.

Remuneration Committee

The remuneration committee was established in November 2005. The remuneration committee of the Company comprises executive Director Mr. Xing Zhanwu and independent non-executive Directors Mr. Zhu Tong and Mr. Huang Shilin, with Mr. Zhu Tong as the chairman. The committee performs its functions, which primarily include assisting the Board in the overall management of the remuneration practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the incentives for the Directors and senior management, in accordance with B.1.3 of the Code.

The remuneration policies and incentive mechanism applicable to the Directors and senior management were discussed and the overall remuneration system of the Company were further refined and reasonable recommendations were made to the Board in the meeting.

Remuneration Committee *(Continued)*

Details of attendance of members at meetings of the remuneration committee held in 2005 are set out as follows:

	Attendance
Mr. Zhu Tong	1/1
Mr. Huang Shilin	1/1
Mr. Xing Zhanwu	1/1

Remuneration of Directors and Senior Management

The main aims of the Company's remuneration policy are:

- to ensure that none of the Directors or any of their associates should determine their own remuneration;
- the remuneration should be broadly aligned with companies with which the Company competes for human resources;
- the Group should aim to attract and retain executives and to motivate them to pursue appropriate growth strategies whilst take into account individual performance and should avoid paying more than necessary for such purpose; and
- the remuneration should reflect the performance, complexity of duties and responsibility of the individual.

Nomination Committee

The nomination committee was established in November 2005. The nomination committee of the Company comprises executive Director Mr. Xing Zhanwu and independent non-executive Director Mr. Zhu Tong and Mr. Chan Wai Dune, with Mr. Chan Wai Dune as the chairman. The committee performs its functions, which primarily includes assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors in accordance with A.4.5 of the Code. The nomination committee considers the past performance, qualification, general market conditions and the Company's articles of association in seeking and recommending candidates for directorship.

Details of attendance of members at meetings of the nomination committee held in 2005 are set out as follows:

	Attendance
Mr. Chan Wai Dune	1/1
Mr. Zhu Tong	1/1
Mr. Xing Zhanwu	1/1

Accountability and Audit

The Directors are responsible for overseeing the preparation of accounts for each financial period by the management. Subsequent to each reporting period, quarterly, interim or annual financial highlights and business review are published as soon as possible (or in accordance with the GEM Listing Rules, as the case may be) to disclose all information that are necessary for shareholders to assess the performance, financial conditions and prospects of the Company.

Accountability and Audit *(Continued)*

The Board has the responsibility to regularly review the internal control and risk management systems of the Company to ensure their effectiveness and efficiency. With the support of the internal audit team, the practices, processes, expenses and internal control of the Company and its subsidiaries are reviewed on a regularly basis. Matters of importance reported by the internal audit team are monitored regularly by the management to ensure remedial measures are implemented as appropriate. The Board and senior management may also require the internal audit team to conduct auditing procedures on special scopes of importance and report significant findings to the Board and the audit committee.

During the period under review, the performance and remuneration of external auditors were reviewed. Auditors' remuneration payable to external auditors by the Group amounted to HK$0.8 million. Non-audit service charges included those for reviewing the interim financial report of the Group amounted to approximately HK$0.3 million.

Investor Relations

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- delivery of the quarterly, interim and annual results and reports to all shareholders;

- publication of announcements on the quarterly, interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the GEM Listing Rules; and

- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Company maintains effective communications with its shareholders, investors and analysts through, inter alia:

- establishing dedicated personnel for liaison with investors and analysts by answering their questions;

- arranging on-site visits to the production facilities of the Company to enhance their timely understanding of the situations and latest development of the Company's business operations;

- gathering, in a timely manner, opinions and comments from analysts and investors on the operations of the Company, compiling reports thereon at regular intervals and selectively adopting them in the Company's operations;

- making available information on the Company's website, including description of the Company, Board and corporate governance, results of the Company, financial highlights, promotional materials and press releases of the Company, etc.; and

- actively communicating with various parties, in particular, convening briefing sessions, press conferences and individual meeting with institutional investors upon the announcement of interim and annual results and making decisions on material investments. The Company also participates in a range of investor activities and communicates on one-on-one basis with its investors regularly.

Auditors' report to the shareholders of
Jinheng Automotive Safety Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 32 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 24 March 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005	2004 (Restated)
		$	$
Turnover	5	**195,668,737**	182,285,188
Cost of sales		**(133,133,369)**	(111,203,538)
Gross profit		**62,535,368**	71,081,650
Other revenue	6	**818,879**	731,458
Other net income/(loss)	7	**22,100**	(197,711)
Research and development expenses	8	**(2,492,694)**	(3,111,068)
Distribution costs		**(3,931,847)**	(3,319,434)
Administrative expenses		**(21,415,827)**	(9,520,863)
Profit from operations		**35,535,979**	55,664,032
Finance costs	10(a)	**(2,797,426)**	(3,503,497)
Share of losses of jointly controlled entities		**(269,165)**	(694,922)
Profit before taxation	10	**32,469,388**	51,465,613
Income tax	11(a)	**(446,043)**	(47,684)
Profit for the year		**32,023,345**	51,417,929
Attributable to:			
Equity shareholders of the Company		**32,016,170**	51,457,162
Minority interests		**7,175**	(39,233)
Profit for the year		**32,023,345**	51,417,929
Dividends payable to equity shareholders of the Company attributable to the year	15		
Dividends proposed after the balance sheet date		**12,573,000**	20,955,000
Earnings per share	16		
— Basic		**8.40 HK cents**	16.88 HK cents
— Diluted		**8.25 HK cents**	16.84 HK cents

The notes on pages 40 to 88 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005 $	2004 (Restated) $
Non-current assets			
Fixed assets			
— Property, plant and equipment	*17*	**64,988,078**	38,090,776
— Interest in leasehold land held for own use under operating leases	*17*	**8,775,732**	2,858,363
Deposits paid for acquisition of fixed assets		**8,671,894**	7,257,121
Construction in progress	*18*	**5,483,039**	10,199,985
Interest in jointly controlled entities	*20*	**18,203,923**	18,115,639
Other non-current financial assets	*21*	**48,077**	4,764,151
Intangible assets	*22*	**12,293,322**	7,160,376
Deferred tax assets	*23(b)*	**57,533**	—
		118,521,598	88,446,411
Current assets			
Inventories	*24*	**41,127,946**	39,184,992
Trade receivables, prepayments and other receivables	*25*	**110,895,525**	62,650,676
Current tax recoverable	*23(a)*	**48,320**	—
Pledged bank deposits		**4,624**	4,495
Cash and cash equivalents	*26*	**44,376,663**	92,823,795
		196,453,078	194,663,958
Current liabilities			
Trade and other payables	*27*	**34,541,781**	25,310,229
Bank loans	*28*	**43,037,023**	34,811,321
Current tax payable	*23(a)*	**24,460**	—
Dividend payables		**—**	67,018
		77,603,264	60,188,568
Net current assets		**118,849,814**	134,475,390
Total assets less current liabilities		**237,371,412**	222,921,801

CONSOLIDATED BALANCE SHEET

At 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005 $	2004 (Restated) $
Non-current liabilities			
Bank loans	*28*	**26,923,077**	41,603,774
Deferred tax liabilities	*23(b)*	**461,406**	—
		27,384,483	41,603,774
NET ASSETS		**209,986,929**	181,318,027
Capital and reserves			
Share capital	*31*	**3,810,000**	3,810,000
Reserves	*32*	**195,536,665**	176,320,845
Total equity attributable to equity shareholders of the Company		**199,346,665**	180,130,845
Minority interests	*32*	**10,640,264**	1,187,182
TOTAL EQUITY		**209,986,929**	181,318,027

Approved and authorised for issue by the board of directors on 24 March 2006

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 40 to 88 form part of these financial statements.

BALANCE SHEET

At 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005 $	2004 (Restated) $
Non-current assets			
Investments in subsidiaries	19	**100**	100
Current assets			
Trade receivables, prepayments and other receivables	25	**80,836,705**	44,799,310
Cash and cash equivalents	26	**4,453,906**	41,116,146
		85,290,611	85,915,456
Current liabilities			
Trade and other payables	27	**972,449**	4,196,479
Net current assets		**84,318,162**	81,718,977
NET ASSETS		**84,318,262**	81,719,077
Capital and reserves			
Share capital	31	**3,810,000**	3,810,000
Reserves	32	**80,508,262**	77,909,077
TOTAL EQUITY		**84,318,262**	81,719,077

Approved and authorised for issue by the board of directors on 24 March 2006

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 40 to 88 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005		2004 (Restated)	
		$	**$**	$	$
Total equity at 1 January:					
Attributable to equity shareholders of the Company (as previously reported at 31 December)		**176,727,088**		20,946,820	
Minority interests (as previously presented separately from liabilities and equity at 31 December)	*32*	**1,187,182**		1,226,415	
Prior period adjustments arising from changes in accounting policies	*4(a)(i)*	**3,403,757**		—	
As restated			**181,318,027**		22,173,235
Net income recognised directly in equity:					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	*32*		**2,380,480**		—
Profit for the year:					
As previously reported:	*4(a)(i)*				
— attributable to equity shareholders of the Company				51,802,162	
— minority interests				(39,233)	
				51,762,929	
Prior period adjustment arising from changes in accounting policies	*4(a)(i)*			(345,000)	
Profit for the year (2004: as restated)	*4(a)(i)*		**32,023,345**		51,417,929
Total recognised income and expense for the year (2004: as restated)			**34,403,825**		51,417,929
Attributable to:					
— Equity shareholders of the Company		**34,373,820**		51,457,162	
— Minority interests		**30,005**		(39,233)	
		34,403,825		51,417,929	
Dividends approved during the year	*15(b)*		**(20,955,000)**		—

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005		2004 (Restated)	
		$	**$**	$	$
Movements in equity arising from capital transactions:					
Equity settled share-based transactions (2004: as restated)	*32& 4(a)(i)*	**5,797,000**		345,000	
Capital contribution from minority shareholders	*32*	**9,423,077**		—	
Issuance of new shares	*31&32*	**—**		20,000,082	
Issuance of shares pursuant to the capitalisation issue	*31*	**—**		2,999,900	
Shares issued under the placing and public offer	*31*	**—**		810,000	
Net share premium received	*32*	**—**		80,168,124	
Share of capital reserve of jointly controlled entity (2004: as restated)	*4(a)(i)*	**—**		3,403,757	
			15,220,077		107,726,863
Total equity at 31 December			**209,986,929**		181,318,027
Restatements of total recognised expenses for the year are attributable to:					
Equity shareholders of the Company	*4(a)(i)*			(345,000)	
Minority interests				—	
					(345,000)
Arising from restatements of:					
Net income recognised directly in equity				—	
Profit for the year	*4(a)(i)*			(345,000)	
					(345,000)

The notes on pages 40 to 88 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005	2004 (Restated)
		$	$
Operating activities			
Profit before taxation		**32,469,388**	51,465,613
Adjustments for:			
— Depreciation		**5,766,099**	3,775,647
— Amortisation of intangible assets		**1,895,439**	1,376,427
— Amortisation of land lease premium for property held for own use		**95,295**	61,024
— Finance costs		**2,797,426**	3,503,497
— Interest income		**(683,589)**	(240,522)
— Share of losses of jointly controlled entities		**269,165**	694,922
— Loss on disposal of fixed assets		**—**	131,177
— Impairment losses for bad debts written back		**(141,339)**	(166,489)
— Equity settled share-based payment expenses		**5,797,000**	345,000
— Foreign exchange loss		**1,536,065**	—
Operating profit before changes in working capital		**49,800,949**	60,946,296
(Increase)/decrease in inventories		**(1,942,954)**	7,186,499
(Increase)/decrease in trade receivables, prepayments and other receivables		**(43,804,539)**	28,373,483
Decrease in net amounts due to jointly controlled entities		**(5,031,389)**	(10,672,799)
Increase/(decrease) in trade and other payables		**9,963,970**	(31,819,611)
Cash generated from operations		**8,986,037**	54,013,868
PRC income tax paid		**(66,030)**	(4,316,991)
Net cash generated from operating activities		**8,920,007**	49,696,877
Investing activities			
Payment for purchase of property, plant and equipment		**(17,530,334)**	(12,117,833)
Proceeds from disposal of non-current financial assets		**4,807,692**	—
Payment for the construction in progress		**(7,587,513)**	(8,981,689)
Payment for purchase of intangible assets		**(6,890,903)**	(3,143,617)
Increase in deposits paid for acquisition of fixed assets		**(1,414,773)**	(7,257,121)
Interest received		**683,589**	240,522
Net cash used in investing activities		**(27,932,242)**	(31,259,738)

For the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005	2004 (Restated)
		$	$
Financing activities			
(Increase)/decrease in pledged bank deposits		**(129)**	5,574,500
Repayment of bank loans		**(35,480,769)**	—
Bank loan interest paid		**(2,639,739)**	(2,802,214)
Proceeds from new bank loans		**27,556,253**	—
Capital contribution from minority interests		**1,564,231**	—
Other borrowing costs paid		**(157,687)**	(701,283)
Proceeds from loans from shareholders		**—**	923,000
Proceeds from issuance of shares by placing and public offer		**—**	99,018,000
Repayment of loans from shareholders		**—**	(32,550,683)
Repayment of other loans		**—**	(15,923,000)
Listing expenses		**—**	(15,039,976)
Dividends paid		**(21,022,018)**	(4,469,495)
Net cash (used in)/generated from financing activities		**(30,179,858)**	34,028,849
Net (decrease)/increase in cash and cash equivalents		**(49,192,093)**	52,465,988
Effect of foreign exchange rate difference		**744,961**	—
Cash and cash equivalents at 1 January		**92,823,795**	40,357,807
Cash and cash equivalents at 31 December	*26*	**44,376,663**	92,823,795

The notes on pages 40 to 88 form part of these financial statements.

1. Reorganisation

The Company was incorporated in the Cayman Islands on 26 February 2004 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 a group reorganisation (the "Reorganisation") completed on 22 November 2004 to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company becomes the holding company of the subsidiaries now comprising the Group. The Company's shares were listed on GEM on 9 December 2004.

Details of the Reorganisation are set out in the prospectus dated 30 November 2004 (the "Prospectus") issued by the Company.

2. Basis of presentation

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 22 November 2004. Accordingly, the consolidated results of the Group for the years ended 31 December 2004 and 2005 include the results of the Company and its subsidiaries with effect from 1 January 2004 or since their respective dates of incorporation, whichever is a shorter period as if the current Group structure has been in existence throughout the two years presented. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

3. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 4.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the ("Group")) and the Group's interest in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

3. Principal accounting policies *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgement made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 40.

(c) Subsidiaries and controlled entities

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses attributable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently report profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses *(see note 3(i))*.

3. Principal accounting policies *(Continued)*

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post acquisition and post-tax results of the jointly controlled entities for the year.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Other investments in equity securities

The Group's policies for investments in equity securities other than investments in subsidiaries and jointly controlled entities are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balances sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Non-trading investments in securities, which are classified as available for sale securities and do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses *(see note 3(i))*.

Investment are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

(f) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses *(see note 3(i))*.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, an appropriate proportions of production overheads and borrowing costs *(see note 3(u))*.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

3. Principal accounting policies *(Continued)*

(f) Property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.

Plant and machinery	3-10 years
Motor vehicles	10 years
Office, computer and other equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Construction in progress

Construction in progress represents buildings under construction and equipment pending installation, and is stated at cost less impairment losses *(see note 3(i))*. Cost comprises direct costs of construction as well as interest charges during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the People's Republic of China (the "PRC").

(h) Intangible assets

(i) Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation *(see note 3(h)(iii))* and impairment losses *(see note 3(i))*. Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation *(see note 3(h)(iii))* and impairment losses *(see note 3(i))*.

(iii) Amortisation of capitalised development cost is charged to profit or loss over the estimated life cycle (not more than 5 years) of the relevant products. Amortisation of other intangible assets is charged to profit or loss on a straight-line basis over their estimated useful lives as follows:

Acquired technology	5 years
Patent	10 years

Both the period and method of amortisation are reviewed annually.

3. Principal accounting policies *(Continued)*

(i) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

— For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets; and

— investments in subsidiaries and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

3. Principal accounting policies *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value is use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 3(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(i). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 3(s).

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(j) Leased assets *(Continued)*

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and other costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised costs less impairment losses for bad and doubtful debts *(see note 3(i))*, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts *(see note 3(i))*.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

Bills discounted with recourse are not derecognised from the balance sheet until actual settlement on maturity, and the related advances from banks in respect of discounted bills are classified as secured bank loans.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3. Principal accounting policies *(Continued)*

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

3. Principal accounting policies *(Continued)*

(q) Income tax *(Continued)*

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

3. Principal accounting policies *(Continued)*

(q) Income tax *(Continued)*

(iv) *(Continued)*

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the title to the goods and the related risks and rewards of ownership are passed to customers, the Group will not execute the right of supervision and control over the goods, either the proceeds are received or entitlement of proceeds is evidenced, and the cost of sale of goods can be estimated reliably. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in profit or loss and deducted in reporting the related expenses incurred in the same period.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Rental income under operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

3. Principal accounting policies *(Continued)*

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly as a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which related to that foreign operation is included in the calculation of the profit or loss on disposal.

(u) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (beings members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(Expressed in Hong Kong dollars)

4. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 3. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period *(see note 41)*.

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and Company's balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2004. The effects of the changes in accounting policies on the balances at I January 2004 and 2005 are disclosed in note 32.

(i) Effect on the consolidated financial statements

Consolidated income statement for the year ended 31 December 2004

	2004 (as previously reported)	Effect of new policy (increase/(decrease) in profit for the year) HKFRS 2 *(note 4(c))*	HKAS 1 *(note 4(d))*	2004 (as restated)
	$	*$*	*$*	*$*
Turnover	182,285,188	—	—	182,285,188
Cost of sales	(111,203,538)	—	—	(111,203,538)
Gross profit	71,081,650	—	—	71,081,650
Other revenue	731,458	—	—	731,458
Other net loss	(197,711)	—	—	(197,711)
Research and development expenses	(3,111,068)	—	—	(3,111,068)
Distribution costs	(3,319,434)	—	—	(3,319,434)
Administrative expenses	(9,175,863)	(345,000)	—	(9,520,863)
Profit from operations	56,009,032	(345,000)	—	55,664,032
Finance costs	(3,503,497)	—	—	(3,503,497)
Share of losses of jointly controlled entities	(694,922)	—	—	(694,922)
Profit before taxation	51,810,613	(345,000)	—	51,465,613
Income tax	(47,684)	—	—	(47,684)
	51,762,929	(345,000)	—	51,417,929
Minority interests	39,233	—	(39 233)	—
Profit for the year	51,802,162	(345,000)	(39,233)	51,417,929

(Expressed in Hong Kong dollars)

4. Changes in accounting policies *(Continued)*

(a) Restatement of prior periods and opening balances *(Continued)*

(i) Effect on the consolidated financial statements (Continued)

Consolidated income statement for the year ended 31 December 2004 (Continued)

	2004 (as previously reported)	Effect of new policy (increase/(decrease) in profit for the year) HKFRS 2 *(note 4(c))*	HKAS 1 *(note 4(d))*	2004 (as restated)
	$	$	$	$
Attributable to:				
Equity shareholders of the Company	51,802,162	(345,000)	—	51,457,162
Minority interests	—	—	(39,233)	(39,233)
	51,802,162	(345,000)	(39,233)	51,417,929
Dividends payable to equity shareholders of the Company attributable to the year	(20,955,000)	—	—	(20,955,000)
Earnings per share				
Basic	16.99 HK cents	(0.11) HK cents	—	16.88 HK cents
Diluted	16.95 HK cents	(0.11) HK cents	—	16.84 HK cents
Other significant disclosure item:				
Staff costs	(4,581,265)	(345,000)	—	(4,926,265)

(Expressed in Hong Kong dollars)

4. Changes in accounting policies *(Continued)*

(a) Restatement of prior periods and opening balances *(Continued)*

(i) Effect on the consolidated financial statements (Continued)

Consolidated balance sheet at 31 December 2004

	2004 (as previously reported) $	Effect of new policy (increase/(decrease) in net assets) HKFRS 2 *(note 4(c))* $	HKAS 1 *(note 4(d))* $	HKAS 17 *(note 4(e))* $	HKAS 31 *(note 4(g))* $	2004 (as restated) $
Non-current assets						
Property, plant and equipment	40,949,139	—	—	(2,858,363)	—	38,090,776
Interest in jointly controlled entities	14,711,882	—	—	—	3,403,757	18,115,639
Interest in leasehold land held for own use under operating leases	—	—	—	2,858,363	—	2,858,363
Other non-current assets	22,124,512	—	7,257,121	—	—	29,381,633
	77,785,533	—	7,257,121	—	3,403,757	88,446,411
Current assets	201,921,079	—	(7,257,121)	—	—	194,663,958
Current liabilities	(60,188,568)	—	—	—	—	(60,188,568)
Net current assets	141,732,511	—	(7,257,121)	—	—	134,475,390
Total assets less current liabilities	219,518,044	—	—	—	3,403,757	222,921,801
Non-current liabilities						
Bank loans	(41,603,774)	—	—	—	—	(41,603,774)
Minority interests	(1,187,182)	—	1,187,182	—	—	—
NET ASSETS	176,727,088	—	1,187,182	—	3,403,757	181,318,027
Capital and reserves						
Attributable to equity shareholders of the Company						
Share capital	3,810,000	—	—	—	—	3,810,000
Capital reserve	—	345,000	—	—	3,403,757	3,748,757
Retained profits	43,283,556	(345,000)	—	—	—	42,938,556
Other reserves	129,633,532	—	—	—	—	129,633,532
	176,727,088	—	—	—	3,403,757	180,130,845
Attributable to minority interests	—	—	1,187,182	—	—	1,187,182
TOTAL EQUITY	176,727,088	—	1,187,182	—	3,403,757	181,318,027

(Expressed in Hong Kong dollars)

4. Changes in accounting policies *(Continued)*

(a) Restatement of prior periods and opening balances *(Continued)*

(ii) Effect on the Company's balance sheet

Balance Sheet at 31 December 2004

	2004 (as previously reported) $	Effect of new policy (increase/ (decrease) in net assets) HKFRS 2 *(note 4(c))* $	2004 (as restated) $
Non-current assets			
Investments in subsidiaries	100	—	100
Current assets	85,915,456	—	85,915,456
Current liabilities	(4,196,479)	—	(4,196,479)
Net current assets	81,718,977	—	81,718,977
NET ASSETS	81,719,077	—	81,719,077
Capital and reserves			
Attributable to equity shareholders of the Company			
Share capital	3,810,000	—	3,810,000
Capital reserve	—	345,000	345,000
Accumulated losses	(2,259,047)	(345,000)	(2,604,047)
Other reserves	80,168,124	—	80 168,124
TOTAL EQUITY	81,719,077	—	81,719,077

(b) Estimated effect of changes in accounting policies on the current period

The following tables provides estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(Expressed in Hong Kong dollars)

4. Changes in accounting policies *(Continued)*

(b) Estimated effect of changes in accounting policies on the current period *(Continued)*

(i) Effect on consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31 December 2005

	Estimated effect of new policy (increase/(decrease) in profit for the year) HKFRS 2 *(note 4(c))* **$**
Turnover	—
Cost of sales	—
Gross profit	—
Other revenue	—
Other net income	—
Research and development expenses	—
Distribution costs	—
Administrative expenses	(5,797,000)
Profit from operations	(5,797,000)
Finance costs	—
Share of losses of jointly controlled entities	—
Profit before taxation	(5,797,000)
Income tax	—
Profit for the year	(5,797,000)
Effect attributable to:	
Equity shareholders of the Company	(5,797,000)
Minority interests	—
	(5,797,000)
Earnings per share	
Basic	(1.52) HK cents
Diluted	(1.49) HK cents
Other significant disclosure item:	
Staff costs	(5,797,000)

(Expressed in Hong Kong dollars)

4. Changes in accounting policies *(Continued)*

(b) Estimated effect of changes in accounting policies on the current period *(Continued)*

(i) Effect on consolidated financial statements *(Continued)*

Estimated effect on the consolidated balance sheet at 31 December 2005

	Estimated effect of new policy (increase/(decrease) in net assets)			
	HKFRS 2	**HKAS 17**	**HKAS 31**	**Total**
	(note 4(c))	*(note 4(e))*	*(note 4(g))*	
	$	*$*	*$*	*$*
Non-current assets				
Property, plant and equipment	—	(2,851,137)	—	(2,851,137)
Interest in jointly controlled entities	—	—	3,469,213	3,469,213
Interest in leasehold land held for own use under operating leases	—	2,851,137	—	2,851,137
Other non-current assets	—	—	—	—
	—	—	3,469,213	3,469,213
Current assets	—	—	—	—
Current liabilities	—	—	—	—
Net current assets	—	—	—	—
Total assets less current liabilities	—	—	3,469,213	3,469,213
Non-current liabilities				
Bank loans	—	—	—	—
NET ASSETS	—	—	3,469,213	3,469,213
Capital and reserves				
Effect attributable to equity shareholders of the Company				
Share capital	—	—	—	—
Capital reserve	5,797,000	—	3,403,757	9,200,757
Retained profits	(5,797,000)	—	—	(5,797,000)
Other reserves	—	—	65,456	65,456
	—	—	3,469,213	3,469,213
Effect attributable to minority interests	—	—	—	—
TOTAL EQUITY	—	—	3,469,213	3,469,213

(Expressed in Hong Kong dollars)

4. Changes in accounting policies *(Continued)*

(b) Estimated effect of changes in accounting policies on the current period *(Continued)*

(i) Effect on consolidated financial statements *(Continued)*

Estimated effect on amounts recognised as capital transactions with owners of the Group for the year ended 31 December 2005

	Estimated effect of new policy (increase/(decrease))		
	HKFRS 2 *(note 4(c))* **$**	**HKAS 31** *(note 4(g))* **$**	**Total** **$**
Effect attributable to:			
Equity shareholders of the Company	**5,797,000**	**3,469,213**	**9,266,213**
Minority interests	—	—	—
TOTAL EQUITY	**5,797,000**	**3,469,213**	**9,266,213**

(ii) Effect on the Company's balance sheet

Estimated effect on the balance sheet at 31 December 2005

	Estimated effect of new policy (increase/(decrease) in net assets) HKFRS 2 *(note 4(c))* **$**
Non-current assets	
Investments in subsidiaries	—
Current assets	—
Current liabilities	—
Net current assets	—
NET ASSETS	—
Capital and reserves	
Share capital	—
Capital reserve	**5,797,000**
Accumulated losses	**(5,797,000)**
Other reserves	—
TOTAL EQUITY	—

(Expressed in Hong Kong dollars)

4. Changes in accounting policies *(Continued)*

(b) Estimated effect of changes in accounting policies on the current period *(Continued)*

(ii) Effect on the Company's balance sheet *(Continued)*

Estimated effect on amounts recognised as capital transactions with owners of the Company for the year ended 31 December 2005

	Estimated effect of new policy (increase/(decrease)) HKFRS 2 *(note 4(c))* *$*
Effect attributable to equity shareholders of the Company	5,797,000

(c) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under this new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in the capital reserve within equity. Further details of the new policy are set out in note 3(p)(ii).

The new accounting policy has been applied retrospectively with comparatives restated. The adjustments for each financial statement line affected for the years ended 31 December 2005 and 2004 are set out in notes 4(a) and (b). No adjustments to the opening balances as at 1 January 2004 are required as no options existed at that time which were unvested at 1 January 2005.

Details of the employee share option scheme are set out in note 30.

(d) Change in presentation (HKAS 1, Presentation of financial statements)

Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented the consolidated income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 3(c). These changes in presentation have been applied retrospectively with comparatives restated as shown in note 4(a).

4. Changes in accounting policies *(Continued)*

(d) Change in presentation (HKAS 1, Presentation of financial statements) *(Continued)*

Deposits paid for acquisition of fixed assets (HKAS 1, Presentation of financial statements)

With effect from 1 January 2005, in order to comply with HKAS 1, the Group has critically reviewed the classification of current and non-current assets, and current and non-current liabilities. As a result, it has changed its accounting policy relating to presentation of deposits paid for acquisition of fixed assets. Under the new policy, deposits paid for acquisition of fixed assets are presented separately in the balance sheet as part of non-current assets. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 4(a).

(e) Leasehold land and buildings (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use (including land use rights paid to the PRC government authorities) were stated at costs less accumulated depreciation and impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 3(f) and (j). Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment and are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

(f) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in notes 3(e), (i), (l) to (n). Further details of the changes are as follows:

Investments in equity securities

In prior years, unquoted non-trading equity investments were classified as investment securities and stated at cost less provision.

With effect from 1 January 2005, and in accordance with HKAS 39, all non-trading investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses. There are no material adjustments arising from the adoption of the new policies for unquoted equity investments. Further details of the new policies are set out in note 3(e).

Bills discounted with banks

With effect from 1 January 2005, the Group recognises and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39.

This new policy has been adopted prospectively. As a result of this new policy, bills discounted with banks with recourse totalling $4,479,331 as at 31 December 2005 were not derecognised from the balance sheet, and the related bills receivables and advances from banks were reported under "bills receivable" and "secured bank loans" respectively. There were no discounted bills as at 31 December 2004.

(Expressed in Hong Kong dollars)

4. Changes in accounting policies *(Continued)*

(g) Interest in jointly controlled entities (HKAS 31, Interest in joint venture)

In prior years, the Group's share of changes in equity of jointly controlled entities accounted for using the equity method was not recognised in the equity of the Group. With effect from 1 January 2005, in order to comply with HKAS 31, the share of changes in equity of jointly controlled entities is recognised directly in equity of the Group and disclosed in the consolidated statement of changes in equity.

The Group has applied the new policy retrospectively by increasing the opening net assets as of 1 January 2005 by $3,403,757 (1 January 2004: $Nil) to include the share of changes in equity of jointly controlled entities in the Group's capital reserve. There is no net effect to the opening retained profits nor the profit or loss for the years presented.

(h) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 3(v) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members). The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

5. Turnover

The principal activities of the Group are production and sales of automotive safety products in the PRC.

Turnover represents the sales value of automotive safety products to customers net of sales tax and value added tax.

Turnover recognised during the year may be analysed as follows:

	2005	2004
	$	$
Sales of mechanical airbag systems	**68,186,371**	114,857,854
Sales of electronic airbag systems	**75,799,105**	50,856,805
Sales of automotive safety system components and other automotive safety products	**51,683,261**	16,570,529
	195,668,737	182,285,188

The Group's turnover and operating profit are almost entirely derived from the production and sales of automotive safety products in the PRC. Accordingly, no analysis by geographical and business segments has been presented.

6. Other revenue

	2005	2004
	$	$
Interest income	**683,589**	240,522
Experiment fee	**132,926**	253,987
Sundry income	**2,364**	46,854
Rental income	**—**	95,755
Bonus	**—**	94,340
	818,879	731,458

(Expressed in Hong Kong dollars)

7. Other net income/(loss)

	2005	2004
	$	$
Exchange gain/(loss)	22,100	(66,534)
Loss on disposal of fixed assets	—	(131,177)
	22,100	(197,711)

8. Research and development expenses

	2005	2004
	$	$
Research and development costs incurred during the year	9,381,496	5,881,645
Less: Development costs capitalised during the year *(note 22)*	(6,888,802)	(2,770,577)
Amounts charged to consolidated income statement	2,492,694	3,111,068

9. Staff costs

	2005	2004
		(Restated)
	$	$
Salaries, wages and bonuses	4,607,298	4,101,528
Equity settled share-based payment expenses	5,797,000	345,000
Staff welfare	518,780	262,486
Contributions to retirement benefit schemes	280,022	217,251
	11,203,100	4,926,265
Average number of employees during the year	515	226

10. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	2005	2004
	$	$
Interest expense on bank advances wholly repayable within five years	2,639,739	2,802,214
Discounting charges on discounted bills	157,687	151,573
Other borrowing costs	—	549,710
	2,797,426	3,503,497

(Expressed in Hong Kong dollars)

10. Profit before taxation *(Continued)*

(b) Other items:

	2005	2004
		(Restated)
	$	*$*
Cost of inventories *(note 24)*	**133,133,369**	111,203,538
Depreciation	**5,766,099**	3,775,647
Auditors' remuneration	**1,096,346**	826,132
Amortisation of land lease premium	**95,295**	61,024
Impairment losses for bad and doubtful debts written back	**(141,339)**	(166,489)
Amortisation of intangible assets *(note 22)*		
— Acquired technology	**810,692**	795,399
— Development costs	**1,082,558**	578,984
— Patent	**2,189**	2,044

11. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2005	2004
	$	*$*
Current tax		
PRC income tax for the year	**42,170**	—
Under-provision in respect of prior year	**—**	47,684
	42,170	47,684
Deferred tax		
Origination and reversal of temporary differences *(note 23(b))*	**403,873**	—
Total income tax expense	**446,043**	47,684

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year.

Pursuant to the income tax rules and regulations of the PRC, Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"), a subsidiary of the Company which is being a wholly owned foreign enterprise, is entitled to a tax concession period in which it is fully exempted from PRC income tax for 2 year starting from its first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years. Jinheng Automotive is in the second year following the first profit-making year.

Pursuant to the income tax rules and regulations of the PRC, Harbin Hafei Jinheng Automotive Safety System Co., Ltd. ("Hafei Jinheng") and Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega"), subsidiaries of the Company, are liable to enterprise income tax at a rate of 27% for the year.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(Expressed in Hong Kong dollars)

11. Income tax in the consolidated income statement *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2005	2004 (Restated)
	$	$
Profit before tax	**32,469,388**	51,465,613
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**12,047,646**	17,581,015
Tax effect of non-deductible expenses	**2,330,064**	683,377
Temporary differences not recognised	**(108,930)**	129,469
Tax effect of non-taxable revenue	**(1,084,717)**	(8,933)
Tax effect of tax concession period	**(12,738,020)**	(18,384,928)
Under-provision in respect of prior year	**—**	47,684
Tax expense	**446,043**	47,684

12. Directors' remuneration

Year ended 31 December 2005

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Share-based payments	Contributions to retirement benefit schemes	Total
	$	$	$	$	$	$
Executive directors						
Mr. Li Feng	—	700,008	—	1,322,123	—	2,022,131
Mr. Xing Zhanwu	—	500,004	—	1,017,018	—	1,517,022
Mr. Zhao Qingjie	—	500,004	—	—	—	500,004
Mr. Yang Donglin	—	180,000	—	—	—	180,000
Mr. Foo Tin Chung, Victor	—	624,000	—	406,807	12,000	1,042,807
Non-executive directors						
Mr. Li Hong	—	100,008	—	—	—	100,008
Mr. Zeng Qingdong	—	100,008	—	—	—	100,008
Independent non-executive directors						
Mr. Chan Wai Dune	—	150,000	—	—	—	150,000
Mr. Huang Shilin	—	13,334	—	—	—	13,334
Mr. Zhong Zhihua	—	66,670	—	—	—	66,670
Mr. Zhu Tong	—	80,004	—	—	—	80,004
Total	—	3,014,040	—	2,745,948	12,000	5,771,988

(Expressed in Hong Kong dollars)

12. Directors' remuneration *(Continued)*

Year ended 31 December 2004

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Share-based payments (restated)	Contributions to retirement benefit schemes	Total (Restated)
	$	$	$	$	$	$
Executive directors						
Mr. Li Feng	—	58,334	—	78,684	—	137,018
Mr. Xing Zhanwu	—	154,875	—	60,526	4,506	219,907
Mr. Zhao Qingjie	—	41,667	—	—	—	41,667
Mr. Yang Donglin	—	82,925	—	—	4,506	87,431
Mr. Foo Tin Chung, Victor	—	291,200	—	24,211	6,160	321,571
Non-executive directors						
Mr. Li Hong	—	8,334	—	—	—	8,334
Mr. Zeng Qingdong	—	8,334	—	—	—	8,334
Independent non-executive directors						
Mr. Chan Wai Dune	—	12,500	—	—	—	12,500
Mr. Zhong Zhihua	—	6,667	—	—	—	6,667
Mr. Zhu Tong	—	6,667	—	—	—	6,667
Total	—	671,503	—	163,421	15,172	850,096

The above emoluments include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. Details of these benefits in kind are disclosed under the paragraph "share options scheme" in the report of the directors and note 30.

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	Number of directors	
	2005	2004
$Nil to $1,000,000	**11**	10
	11	10

There were no amounts paid during the year to the directors in connection with their retirement from employment with the Group, or inducement to join. There was no any arrangement under which a director waived or agreed to waive any remuneration during the year.

(Expressed in Hong Kong dollars)

13. Senior management remuneration

Of the five individuals with the highest emoluments five (2004: three) are directors whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the other individuals are as follows:

	2005 $	2004 $
Salaries, allowance and benefits in kind	—	181,133
Share-based payments	—	62,947
Contributions to retirement benefit schemes	—	9,273
	—	253,353
Number of senior management	**Nil**	2

The above individuals' emoluments are within the band of $Nil to $1,000,000.

There were no amounts paid during the year to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

14. Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of $6,242,815 (2004 (restated): $2,604,047) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit/(loss) for the year:

	2005 $	2004 (Restated) $
Amount of loss attributable to equity shareholders dealt with in the Company's financial statements	**(6,242,815)**	(2,604,047)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**24,000,000**	—
Company's profit/(loss) for the year	**17,757,185**	(2,604,047)

15. Dividends

(a) Dividends attributable to the year

	2005 $	2004 $
Final dividend proposed after the balance sheet date of 3.3 HK cents per share (2004: 5.5 HK cents per share)	**12,573,000**	20,955,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(Expressed in Hong Kong dollars)

15. Dividends *(Continued)*

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2005	2004
	$	*$*
Final dividend in respect of the previous financial year, approved and paid during the year of 5.5 HK cents per share (2004: $Nil)	**20,955,000**	—

16. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company $32,016,170 (2004 (restated): $51,457,162) and the weighted average of 381,000,000 (2004: 304,882,192) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares	
	2005	2004
Issued ordinary shares at 1 January#	**381,000,000**	300,000,000
Effect of shares issued pursuant to the public offer	**—**	4,882,192
Weighted average number of ordinary shares (basic) at 31 December	**381,000,000**	304,882,192

Issued ordinary shares at 1 January 2004 represented shares of the Company in issue as at the date of the Prospectus, as if the shares were outstanding throughout 2004.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $32,016,170 (2004 (restated): $51,457,162) and the weighted average number of 388,024,242 (2004: 305,655,206) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Number of shares	
	2005	2004
Weighted average number of ordinary shares at 31 December	**381,000,000**	304,882,192
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration *(note 30)*	**7,024,242**	773,014
Weighted average number of ordinary shares (diluted) at 31 December	**388,024,242**	305,655,206

(Expressed in Hong Kong dollars)

17. Fixed assets

The Group

	Buildings held for own use carried at cost $	Machinery and equipment $	Motor vehicles $	Office equipment $	Sub-total $	Interest in leasehold land held for own use under operating leases $	Total fixed assets $
Cost:							
At 1 January 2004 (restated)	10,814,994	14,953,439	2,873,094	6,654,704	35,296,231	3,098,073	38,394,304
Additions	—	9,877,413	310,250	1,930,170	12,117,833	—	12,117,833
Disposals	—	—	(146,226)	—	(146,226)	—	(146,226)
At 31 December 2004 (restated)	10,814,994	24,830,852	3,037,118	8,584,874	47,267,838	3,098,073	50,365,911
At 1 January 2005	**10,814,994**	**24,830,852**	**3,037,118**	**8,584,874**	**47,267,838**	**3,098,073**	**50,365,911**
Exchange adjustments	**207,979**	**477,517**	**58,406**	**163,790**	**907,692**	**59,582**	**967,274**
Additions	**998,670**	**15,883,696**	**1,248,061**	**1,301,061**	**19,431,488**	**5,957,692**	**25,389,180**
Transfer from construction in progress *(note 18)*	**5,869,620**	**5,746,885**	**—**	**884,108**	**12,500,613**	**—**	**12,500,613**
At 31 December 2005	**17,891,263**	**46,938,950**	**4,343,585**	**10,933,833**	**80,107,631**	**9,115,347**	**89,222,978**
Accumulated depreciation:							
At 1 January 2004 (restated)	745,593	2,045,988	399,642	2,225,241	5,416,464	178,686	5,595,150
Charge for the year	490,070	1,713,459	284,252	1,287,866	3,775,647	61,024	3,836,671
Written back on disposal	—	—	(15,049)	—	(15,049)	—	(15,049)
At 31 December 2004 (restated)	1,235,663	3,759,447	668,845	3,513,107	9,177,062	239,710	9,416,772
At 1 January 2005	**1,235,663**	**3,759,447**	**668,845**	**3,513,107**	**9,177,062**	**239,710**	**9,416,772**
Exchange adjustments	**23,763**	**72,297**	**12,862**	**67,470**	**176,392**	**4,610**	**181,002**
Charge for the year	**559,975**	**2,939,697**	**293,785**	**1,972,642**	**5,766,099**	**95,295**	**5,861,394**
At 31 December 2005	**1,819,401**	**6,771,441**	**975,492**	**5,553,219**	**15,119,553**	**339,615**	**15,459,168**
Carrying amount:							
At 31 December 2004 (restated)	9,579,331	21,071,405	2,368,273	5,071,767	38,090,776	2,858,363	40,949,139
At 31 December 2005	**16,071,862**	**40,167,509**	**3,368,093**	**5,380,614**	**64,988,078**	**8,775,732**	**73,763,810**

(Expressed in Hong Kong dollars)

17. Fixed assets *(Continued)*

(a) The Group's interest in leasehold land and buildings for own use is held by the subsidiaries in the PRC. The interest in leasehold land and buildings represents the land use rights together with the buildings thereon situated in Beijing and Jinzhou, the PRC. The applications for the property ownership certificates of the leasehold land and building situated in Beijing and Jiuzhou with net book value of $973,298 and $5,223,883 respectively are still in progress and the property ownership certificates have not yet been issued to the Group by the relevant offices of the State-owned Land Bureau in the PRC as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has acquired the beneficial titles to these leasehold land and buildings as at 31 December 2005 and, the property ownership certificates can be obtained by June 2006.

(b) Leasehold land and buildings with carrying value totalling $7,448,830 (2004: $7,516,455) are mortgaged to banks for certain banking facilities granted to the Group as disclosed in note 28.

(c) In 2004, the Group leased out a motor vehicle under an operating lease. The lease ran for an initial period of three years. The lease did not include any contingent rentals. The gross carrying amount and accumulated depreciation charge of motor vehicle held for use in the operating lease were $350,042 and $100,901 respectively as at 31 December 2004. The operating lease was terminated in January 2005.

The total future minimum lease payments under non-cancellable operating leases were receivable as follows:

	2005	2004
	$	$
Within 1 year	**—**	38,522

18. Construction in progress

The Group

	2005	2004
	$	$
Cost:		
At 1 January	**10,199,985**	1,218,296
Exchange adjustments	**196,154**	—
Additions	**7,587,513**	8,981,689
Transfer to property, plant and equipment *(note 17)*	**(12,500,613)**	—
At 31 December	**5,483,039**	10,199,985

(Expressed in Hong Kong dollars)

19. Investments in subsidiaries

The Company

	2005	2004
	$	$
Unlisted shares, at cost	**100**	100

The following list sets out the details of the subsidiaries as at 31 December 2005:

Name of company	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest %	Proportion of ownership interest: Held by the Company %	Proportion of ownership interest: Held by subsidiary %	Principal activities and place of operation
Jinheng (BVI) Limited ("Jinheng (BVI)")	British Virgin Islands, limited liability company	$100	100	100	—	Investment holding in Hong Kong
Jinheng (Hong Kong) Limited ("Jinheng (Hong Kong)") (formerly Handfull Investments Limited)	Hong Kong, limited liability company	$70	100	—	100	Investment holding in Hong Kong
Jinzhou Jinheng Automotive Safety System Co., Limited ("Jinheng Automotive")	The PRC, limited liability company	$31,500,000	100	—	100	Production and sales of automotive safety products in the PRC
Harbin Hafei Jinheng Automotive Safety System Co., Limited ("Hafei Jinheng")	The PRC, limited liability company	RMB13,000,000	90	—	90	Production and sales of automotive safety products in the PRC
Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega")	The PRC, limited liability company	RMB20,000,000	51	—	51	Production and sales of automotive safety parts in the PRC

(Expressed in Hong Kong dollars)

20. Interest in jointly controlled entities

	2005	2004
	$	$
Share of net assets	**18,203,923**	18,115,639

Details of the Group's interest in the jointly controlled entities are as follows:

Name of joint venture	Place of incorporation and kind of legal entity	Particulars of registered and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Principal activities and place of operation
Shanxi Jinheng Automotive Spare Parts Co., Ltd. ("Jinheng Parts")	The PRC, limited liability company	RMB20,040,000	35%	—	35%	Manufacture and sale of automotive safety parts in the PRC
Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")	The PRC, limited liability company	RMB20,000,000	50%	—	50%	Manufacture and sale of automotive safety parts in the PRC

Summary financial information on jointly controlled entities — the Group's effective interest:

	2005	2004 (Restated)
	$	$
Non-current assets	**19,967,095**	16,118,017
Current assets	**10,290,972**	10,584,201
Non-current liabilities	**(134,615)**	(4,325,472)
Current liabilities	**(11,919,529)**	(4,261,107)
Net assets	**18,203,923**	18,115,639
Income	**14,228,949**	14,261,264
Expenses	**(14,498,114)**	(14,956,186)
Loss for the year	**(269,165)**	(694,922)

21. Other non-current financial assets

	2005	2004
	$	$
Unlisted equity securities in the PRC available for sale, at cost	**48,077**	4,764,151

There is no quoted market price for unlisted equity securities in the PRC held by the Group and accordingly a reasonable estimate of the fair value would not be made without incurring excessive costs.

The Group disposed of one of the unlisted equity securities at cost of RMB5,000,000 (equivalent to $4,807,692) to the issuer during the year ended 31 December 2005.

(Expressed in Hong Kong dollars)

22. Intangible assets

	Acquired technology $	Development costs $	Patent $	Total $
Cost:				
At 1 January 2004	3,378,223	4,065,552	17,307	7,461,082
Additions	371,482	2,770,577	1,558	3,143,617
At 31 December 2004	3,749,705	6,836,129	18,865	10,604,699
At 1 January 2005	**3,749,705**	**6,836,129**	**18,865**	**10,604,699**
Exchange adjustments	**60,598**	**131,463**	**361**	**192,422**
Additions	**—**	**6,888,802**	**2,101**	**6,890,903**
At 31 December 2005	**3,810,303**	**13,856,394**	**21,327**	**17,688,024**
Accumulated amortisation:				
At 1 January 2004	668,330	1,398,043	1,523	2,067,896
Charge for the year *(note 10(b))*	795,399	578,984	2,044	1,376,427
At 31 December 2004	1,463,729	1,977,027	3,567	3,444,323
At 1 January 2005	**1,463,729**	**1,977,027**	**3,567**	**3,444,323**
Exchange adjustments	**16,851**	**38,020**	**69**	**54,940**
Charge for the year *(note 10(b))*	**810,692**	**1,082,558**	**2,189**	**1,895,439**
At 31 December 2005	**2,291,272**	**3,097,605**	**5,825**	**5,394,702**
Carrying amount:				
At 31 December 2004	2,285,976	4,859,102	15,298	7,160,376
At 31 December 2005	**1,519,031**	**10,758,789**	**15,502**	**12,293,322**

Acquired technology represents a non-refundable licence fee paid to Key Safety Systems, Inc. ("KSS") in accordance with the License and Technical Assistance Agreement signed in November 2000, pursuant to which KSS agreed to supply technical services and granted a license to Jinheng Automotive for use of the know-how relating to the processes, methods, techniques, constructions, equipment specifications, materials and product specifications for the production of airbags in the PRC. Acquired technology is amortised over the directors' estimated useful life of 5 years from December 2002, when the commercial production commenced.

Patent represents the registration fee of technologies developed by the Group. The directors consider that the estimated useful life of the patent to be 10 years.

(Expressed in Hong Kong dollars)

23. Income tax in the consolidated balance sheet

(a) Current taxation in the consolidated balance sheet represents:

The Group

	2005	2004
	$	*$*
Provision for PRC income tax for the year	**42,170**	—
PRC income tax paid	**(66,030)**	—
	(23,860)	—
Representing:		
Current tax recoverable	**(48,320)**	—
Current tax payable	**24,460**	—
	(23,860)	—

(b) Deferred tax assets and liabilities recognised

The Group

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Provisions	**Others**	**Total**
	$	*$*	*$*
At 1 January 2004	—	—	—
Charged to consolidated income statement *(note 11(a))*	—	—	—
At 31 December 2004	—	—	—
At 1 January 2005	—	—	—
(Credited)/charged to consolidated income statement *(note 11(a))*	**(108,930)**	**512,803**	**403,873**
At 31 December 2005	**(108,930)**	**512,803**	**403,873**

Others represent temporary differences arising from different expense recognition criteria between accounting and tax basis.

	The Group		**The Company**	
	2005	2004	**2005**	2004
	$	*$*	**$**	*$*
Net deferred tax assets recognised on the balance sheet	**(57,533)**	—	**—**	—
Net deferred tax liabilities recognised on the balance sheet	**461,406**	—	**—**	—
	403,873	—	**—**	—

(Expressed in Hong Kong dollars)

24. Inventories

	The Group	
	2005	2004
	$	$
Raw materials	**27,610,566**	26,325,687
Work-in-progress	**5,450,619**	2,732,073
Finished goods	**7,761,602**	10,097,645
Spare parts and consumables	**305,159**	29,587
	41,127,946	39,184,992

The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2005	2004
	$	$
Carrying amount of inventories sold	**133,133,369**	111,203,538

25. Trade receivables, prepayments and other receivables

	The Group		The Company	
	2005	2004	**2005**	2004
	$	$	**$**	$
Trade receivables	**82,337,134**	30,950,263	**—**	—
Bills receivable	**12,700,913**	20,604,717	**—**	—
	95,038,047	51,554,980	**—**	—
Amounts due from subsidiaries	**—**	—	**74,018,790**	39,125,973
Prepayments	**7,917,102**	3,817,945	**3,033,333**	1,671,252
Other receivables	**7,940,376**	7,277,751	**3,784,582**	4,002,085
	110,895,525	62,650,676	**80,836,705**	44,799,310

Included in trade receivables are amounts due from related companies of $20,476,920 (2004: $7,682,452) *(see note 35(b))*.

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

All of the trade receivables, prepayments and other receivables (including the amounts due from subsidiaries) are expected to be recovered within one year.

25. Trade receivables, prepayments and other receivables *(Continued)*

An ageing analysis of trade receivables and bills receivables (net of impairment losses for bad and doubtful debts) is as follows:

	The Group	
	2005	2004
	$	$
Current	**79,710,439**	32,766,981
1 to 3 months overdue	**14,269,882**	12,085,694
More than 3 months overdue but less than 12 months overdue	**655,844**	6,695,948
More than 1 year overdue but less than 2 years overdue	**401,882**	6,357
	95,038,047	51,554,980

The Group's credit policy is set out in note 33(a).

Included in trade receivables, prepayments and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2005	2004	**2005**	2004
USD	**4,806**	45,000	**—**	—
EUR	**17,500**	115,988	**—**	—

26. Cash and cash equivalents

	The Group		The Company	
	2005	2004	**2005**	2004
	$	$	**$**	$
Cash and cash equivalents in the balance sheet and cash flow statement	**44,376,663**	92,823,795	**4,453,906**	41,116,146

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2005	2004	**2005**	2004
USD	**1,773,748**	—	**270,808**	—
HKD	**—**	29,999,800	**—**	—

Other than disclosed above, cash and cash equivalents of $17,698,545 (2004: $38,737,951) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

27. Trade and other payables

	The Group		The Company	
	2005	2004	**2005**	2004
	$	$	**$**	$
Trade payables	**28,896,906**	20,000,812	**—**	—
Amounts due to subsidiaries	**—**	—	**—**	1,881,479
Other payables	**5,644,875**	5,309,417	**972,449**	2,315,000
	34,541,781	25,310,229	**972,449**	4,196,479

Included in trade payables is an amount due to a related company of $8,285,390 (2004: $9,017,808) *(see note 35(c))*.

The amounts due to subsidiaries are unsecured and non-interest bearing.

All of the trade and other payables (including amounts due to subsidiaries) are expected to be settled within one year.

An ageing analysis of trade payables is as follows:

	The Group	
	2005	2004
	$	$
Within 3 months	**26,758,843**	19,192,393
Over 3 months but less than 6 months	**2,138,063**	808,419
	28,896,906	20,000,812

All the trade and other payables are denominated in the functional currency of the entity to which they relate.

28. Bank loans

The bank loans are repayable as follows:

	The Group	
	2005	2004
	$	$
Within 1 year or on demand	**43,037,023**	34,811,321
After 1 year but within 2 years	**26,923,077**	15,188,679
After 2 years but within 5 years	**—**	26,415,095
	26,923,077	41,603,774
	69,960,100	76,415,095
Representing:		
Secured bank loans	**19,960,100**	26,415,095
Unsecured bank loans	**50,000,000**	50,000,000
	69,960,100	76,415,095

All the bank loans are with PRC commercial banks and are denominated in RMB. There were no unutilised banking facilities as at 31 December 2005 (2004: $Nil).

28. Bank loans *(Continued)*

At 31 December 2005, terms of bank loans were as follows:

(a) A bank loan of $15,480,769 (2004: certain loans totalling $26,415,095), which carried interest at 5.49% (2004: 5.49%) per annum with final maturity on 24 July 2006, was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of $7,448,830 (2004: $7,516,455).

(b) Discounted bills with recourse totalling $4,479,331 (2004: $Nil) were secured by the related bills receivables and were repayable within one year.

(c) Certain unsecured bank loans totalling $23,076,923 (2004: $23,584,906) carried interest at rates ranging from 5.58% to 6.24% (2004: from 5.04% to 5.49%) per annum and were repayable within one year.

(d) An unsecured bank loan of $26,923,077 (2004: $26,415,094) carried interest at 5.58% (2004: 5.58%) per annum with final maturity on 25 July 2007.

29. Employee retirement benefits

(a) Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Jinzhou, Harbin and Beijing, whereby the Group is required to make contributions to the Schemes at a rate ranging from 20% to 24% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

(b) The Group also operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

30. Equity settled share-based transactions

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme as defined in the Prospectus, which were adopted on 22 November 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company to a maximum of 49,500,000 shares. The share option schemes shall be valid and effective for a period of 10 years ending on 22 November 2014 after which no further options will be granted. The exercise price of options may be determined by the board at its absolute discretion but in any event will not be less than the higher of:

(i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day;

(ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

(Expressed in Hong Kong dollars)

30. Equity settled share-based transactions *(Continued)*

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

(i) Pre-IPO Employee Share Option Scheme

	Number of instruments	Vesting conditions and exercisable percentage condition	*Up to* %	Contractual life of options
Options granted to directors				
— on 22 November 2004	5,400,000	First anniversary of the listed date	40	4 years
		Second anniversary of the listed date	80	
		Third anniversary of the listed date	100	
Options granted to employees				
— on 22 November 2004	6,000,000	First anniversary of the listed date	40	4 years
		Second anniversary of the listed date	80	
		Third anniversary of the listed date	100	
	11,400,000			

(ii) Share Option Scheme

As at 31 December 2005, no options were granted under the Share Option Scheme.

(b) Terms of unexpired and unexercised share options at the balance sheet date

Date of granted	Market price at the date of grant	Exercisable period	Exercise price	2005 Number of options	2004 Number of options
22 November 2004	$0.788	9 December 2005 to 9 December 2008	$0.38	**11,400,000**	11,400,000

Out of 11,400,000 options granted, 4,560,000 options were vested as at 31 December 2005 (2004: Nil). No options were exercised during the year ended 31 December 2005.

(Expressed in Hong Kong dollars)

30. Equity settled share-based transactions *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

	2005	2004
Fair value at measurement date	**$0.788**	$0.788
Share price	**$1.18**	$1.18
Exercise price	**$0.38**	$0.38
Expected volatility (expressed at weighted average volatility used in the modelling under the binomial lattice model)	**50%**	50%
Option life (expressed as weighted average life used in the modelling under the binomial lattice model)	**4 years**	4 years
Expected dividends	**2.3%**	2.3%
Risk-free interest rate (based on Exchange Fund Notes)	**2.1%**	2.1%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

31. Share capital

		2005		2004	
	Note	**Number of shares**	**$**	Number of shares	$
Authorised:					
Ordinary shares of $0.01 each	*(a), (d)*	**10,000,000,000**	**100,000,000**	10,000,000,000	100,000,000
Issued:					
At 1 January	*(b)*	**381,000,000**	**3,810,000**	3	—
Subdivision of shares pursuant to the Reorganisation	*(c)*	—	—	27	—
Issuance of new shares		—	—	9,970	100
Capital elimination on consolidation	*(e)*	—	—	(10,000)	(100)
Issuance of shares	*(e)*	—	—	10,000	100
Capitalisation issue	*(f)*	—	—	299,990,000	2,999,900
Shares issued under the placing and public offer	*(g)*	—	—	81,000,000	810,000
As 31 December		**381,000,000**	**3,810,000**	381,000,000	3,810,000

31. Share capital *(Continued)*

(a) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with liability on 26 February 2004 with an authorised share capital of $100,000 divided into 10,000,000 shares of $0.01 each of which one subscriber share then issued was subsequently transferred on 11 March 2004, nil paid, to and held by Applaud Group.

(b) Share capital in the Group's consolidated balance sheet as at 1 January 2004 represents the issued capital of Jinheng (BVI) comprising shares of $0.1 each.

(c) Pursuant to the written resolutions of the shareholders of Jinheng (BVI) passed on 27 January 2004, the issued share capital of $0.1 each of the Company was subdivided into 10 shares of $0.01 each.

(d) Pursuant to the written resolutions of the shareholders of the Company passed on 22 November 2004, the authorised share capital of the Company was increased from $100,000 to $100,000,000 by the creation of additional 9,990,000,000 shares of $0.01 each.

(e) Pursuant to the written resolutions of the shareholders of the Company passed on 22 November 2004, as part of the Reorganisation and as consideration for the acquisition of the entire share capital of Jinheng (BVI), the Company issued 10,000 shares of $0.01 each, credited as fully paid shares at par.

(f) Pursuant to the written resolutions of the shareholders of the Company passed on 22 November 2004, an amount of $2,999,900 standing to the credit of the Company's share premium account was applied in paying up in full at par 299,990,000 shares of $0.01 each for allotment and issue to persons whose names appeared on the register of members of the Company at the close of business on 22 November 2004 in the same portion to their then existing shareholders of the Company.

(g) On 9 December 2004, an aggregate of 81,000,000 shares of $0.01 each were issued and offered for subscription at a price of $1.18 per share upon the listing of the Company's shares on the GEM of the Stock Exchange. The Group raised approximately $80,540,024 (including interest income) net of related expenses from the share offer.

(Expressed in Hong Kong dollars)

32. Reserves

The Group

	Attributable to equity shareholders of the Company									
	Share premium $	Merger reserve $	Statutory surplus reserve $	Statutory public welfare fund $	Capital reserve $	Exchange reserve $	Retained profits $	**Sub-total** $	**Minority interests** $	**Total** $
At 1 January 2004	—	16,341,254	3,070,378	1,535,188	—	—	—	20,946,820	1,226,415	22,173,235
Issue of new shares	19,999,982	—	—	—	—	—	—	19,999,982	—	19,999,982
Arising on Reorganisation	(19,999,982)	19,999,982	—	—	—	—	—	—	—	—
Profit/(loss) for the year (restated)	—	—	—	—	—	—	51,457,162	51,457,162	(39,233)	51,417,929
Appropriations to statutory reserves	—	—	5,679,071	2,839,535	—	—	(8,518,606)	—	—	—
Share premium from issuance of shares	94,770,000	—	—	—	—	—	—	94,770,000	—	94,770,000
Issuing costs	(15,039,976)	—	—	—	—	—	—	(15,039,976)	—	(15,039,976)
Capitalisation issue	438,100	—	—	—	—	—	—	438,100	—	438,100
Equity settled share-based transactions (restated)	—	—	—	—	345,000	—	—	345,000	—	345,000
Share of capital reserve of jointly controlled entities (restated)	—	—	—	—	3,403,757	—	—	3,403,757	—	3,403,757
At 31 December 2004 (as restated)	80,168,124	36,341,236	8,749,449	4,374,723	3,748,757	—	42,938,556	176,320,845	1,187,182	177,508,027
At 1 January 2005										
— as previously reported	**80,168,124**	**36,341,236**	**8,749,449**	**4,374,723**	**—**	**—**	**43,283,556**	**172,917,088**	**1,187,182**	**174,104,270**
— prior period adjustments in respect of:										
— HKFRS 2	**—**	**—**	**—**	**—**	**345,000**	**—**	**(345,000)**	**—**	**—**	**—**
— HKAS 31	**—**	**—**	**—**	**—**	**3,403,757**	**—**	**—**	**3,403,757**	**—**	**3,403,757**
— as restated	**80,168,124**	**36,341,236**	**8,749,449**	**4,374,723**	**3,748,757**	**—**	**42,938,556**	**176,320,845**	**1,187,182**	**177,508,027**
Equity settled share-based transactions	**—**	**—**	**—**	**—**	**5,797,000**	**—**	**—**	**5,797,000**	**—**	**5,797,000**
Dividend approved in respect of prior year	**—**	**—**	**—**	**—**	**—**	**—**	**(20,955,000)**	**(20,955,000)**	**—**	**(20,955,000)**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**32,016,170**	**32,016,170**	**7,175**	**32,023,345**
Appropriations to statutory reserves	**—**	**—**	**3,866,734**	**1,933,366**	**—**	**—**	**(5,800,100)**	**—**	**—**	**—**
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	**—**	**—**	**—**	**—**	**—**	**2,357,650**	**—**	**2,357,650**	**22,830**	**2,380,480**
Capital contribution from minority shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**9,423,077**	**9,423,077**
At 31 December 2005	**80,168,124**	**36,341,236**	**12,616,183**	**6,308,089**	**9,545,757**	**2,357,650**	**48,199,626**	**195,536,665**	**10,640,264**	**206,176,929**

(Expressed in Hong Kong dollars)

32. Reserves *(Continued)*

The Company

	Share premium $	Capital reserve $	Accumulated losses $	Total $
At 1 January 2004	—	—	—	—
Loss for the year (restated)	—	—	(2,604,047)	(2,604,047)
Share premium from issuance of shares	94,770,000	—	—	94,770,000
Issuing costs	(15,039,976)	—	—	(15,039,976)
Capitalisation issue	438,100	—	—	438,100
Equity settled share-based transactions (restated)	—	345,000	—	345,000
At 31 December 2004 (as restated)	80,168,124	345,000	(2,604,047)	77,909,077
At 1 January 2005				
— as previously reported	**80,168,124**	**—**	**(2,259,047)**	**77,909,077**
— prior year adjustment in respect of HKFRS 2	**—**	**345,000**	**(345,000)**	**—**
— as restated	**80,168,124**	**345,000**	**(2,604,047)**	**77,909,077**
Profit for the year	**—**	**—**	**17,757,185**	**17,757,185**
Dividends approved in respect of prior year	**—**	**—**	**(20,955,000)**	**(20,955,000)**
Equity settled share-based transactions	**—**	**5,797,000**	**—**	**5,797,000**
At 31 December 2005	**80,168,124**	**6,142,000**	**(5,801,862)**	**80,508,262**

(a) Share premium

The application of the share premium account is governed by the Company Law of Cayman Islands.

(b) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of shares of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange therefor.

(c) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

(i) Statutory surplus reserve

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(Expressed in Hong Kong dollars)

32. Reserves *(Continued)*

(c) PRC statutory reserves *(Continued)*

(ii) Statutory public welfare fund

The subsidiaries in the PRC are required to transfer 5% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory public welfare fund. This fund can only be utilised on capital item for the collective benefits of the subsidiaries' employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

(d) Distributability of reserves

At 31 December 2005, the aggregate amount of reserves available for distribution to equity shareholders of the company was $48,199,626 (2004 (restated): $42,938,556). After the balance sheet date the directors proposed a final dividend of 3.3 HK cents per ordinary share (2004: 5.5 HK cents per share), amounting to $12,573,000 (2004: $20,955,000). This dividend has not been recognised as a liability at the balance sheet date.

(e) Capital reserve

The capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 3(p)(ii), and the Group's share of changes in the capital reserve of the jointly controlled entities.

33. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. This risks are limited by the Group's financial management policies and practises described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. The Group generally grants credit period of not more than 90 days from date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and credit worthiness, extend the credit period upon customers' request. Debtors with balances that are more than 12 months overdue are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain level of concentrations of credit risk as 19.3% (2004: 18.1%) and 56.1% (2004: 63.1%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

33. Financial instruments *(Continued)*

(b) Interest rate risk

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2005					2004				
	Effective interest rate %	Total $	1 year or less $	1 - 2 years $	2 - 5 years $	Effective interest rate %	Total $	1 year or less $	1 - 2 years $	2 - 5 years $
Repricing dates for assets/ (liabilities) which reprice before maturity										
Cash and cash equivalents	1.43%	44,376,663	44,376,663	–	–	0.61%	92,823,795	92,823,795	–	–
Maturity dates for assets/ (liabilities) which do not reprice before maturity										
Bank loans	5.64%	(69,960,100)	(43,037,023)	(26,923,077)	–	5.38%	(76,415,095)	(34,811,321)	(15,188,679)	(26,415,095)

The Company

	2005					2004				
	Effective interest rate %	Total $	1 year or less $	1 - 2 years $	2 - 5 years $	Effective interest rate %	Total $	1 year or less $	1 - 2 years $	2 - 5 years $
Repricing dates for assets which reprice before maturity										
Cash and cash equivalents	2.63%	4,453,906	4,453,906	–	–	0.70%	41,116,146	41,116,146	–	–

(c) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars. However, given the export sales representing less than 1% of the aggregate turnover, management does not expect significant foreign currency risk arising from sales transactions denominated in United States dollars.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004.

34. Commitments and contingencies

(a) Capital commitments, representing purchase of property, plant and equipment, not provided for in the consolidated financial statements were as follows:

	The Group	
	2005	2004
	$	$
Contracted for	**11,167,890**	387,300
Authorised but not contracted for	**9,265,577**	10,900,000
	20,433,467	11,287,300

(Expressed in Hong Kong dollars)

34. Commitments and contingencies *(Continued)*

(b) Pursuant to a subscription agreement dated 26 August 2005, a wholly owned subsidiary of the Company, Jinheng Hong Kong undertakes to contribute additional capital of RMB5,000,000 (equivalent to $4,807,692) to Jinbei Jinheng, in which the Group had a 50% equity interest. After completion of the capital injection, the Group's equity interest in Jinbei Jinheng would increase from 50% to 55.6%. The capital injection was not completed at 31 December 2005.

(c) In respect of its interest in jointly controlled entities (see note 20), the Group is committed to incur capital expenditure of $3,788,512 (2004: $1,683,962). The jointly controlled entities are themselves committed to incur capital expenditure of $8,445,954 (2004: $4,811,321)

(d) The total minimum lease payments under a non-cancellable operating lease were payable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	$	*$*	**$**	*$*
Properties				
Within 1 year	**107,257**	153,321	**65,590**	112,440
After 1 year but within 5 years	**166,667**	229,114	**—**	65,590
After 5 years	**954,864**	981,141	**—**	—
	1,228,788	1,363,576	**65,590**	178,030
Others				
Within 1 year	**8,400**	8,400	**—**	—
After 1 year but within 5 years	**19,600**	28,000	**—**	—
	28,000	36,400	**—**	—

The Group leases a number of properties and office equipment under operating leases for a period of 2 to 30 years. The leases do not include contingent rentals.

35. Material related party transactions

Name of party	**Relationship**
Jinheng Parts	35% owned jointly controlled entity of the Group
Jinbei Jinheng	50% owned jointly controlled entity of the Group
Taiyuan Aero-Instruments Co., Ltd. ("Taiyuan Aero")	40% owner of Jinheng Parts
Hafei Motor Co., Ltd. ("Hafei Motor")	Minority shareholder (10%) of Hafei Jinheng
Beijing Jin Chuang Li Technology Ltd. ("Beijing Jin Chuang Li")	Minority shareholder (49%) of Jinheng Sega

In addition to the transactions disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year.

(Expressed in Hong Kong dollars)

35. Material related party transactions *(Continued)*

(a) Recurring

	The Group	
	2005	2004
	$	$
Purchases of raw materials from:		
— Jinheng Parts	**41,513,063**	42,488,754
— Taiyuan Aero	**—**	2,364,743
Sales of airbag systems to:		
— Hafei Motor	**25,139,226**	25,584,815
— Jinbei Jinheng	**3,385,846**	5,734,989

The directors of the Company are of the opinion that the purchases of raw materials from and sales of airbag systems to the above related parties were conducted in the normal course of business.

In addition, remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 12 and certain of highest paid employees as disclosed in note 13, is as follows:

	The Group	
	2005	2004
	$	$
Short-term employee benefits	**3,531,360**	1,148,623
Post-employment benefits	**14,880**	18,052
Equity compensation benefits	**5,125,769**	305,053
	8,672,009	1,471,728

Total remuneration is included in "staff costs" *(see note 9)*.

(b) Amounts due from related companies

	The Group	
	2005	2004
	$	$
Jinbei Jinheng	**7,774,353**	3,475,382
Hafei Motor	**12,702,567**	4,207,070
	20,476,920	7,682,452

The amounts due from related companies are trade-related, unsecured, interest free and are expected to be repaid within one year. These amounts are included in "Trade receivables, prepayments and other receivables" in the consolidated balance sheet *(see note 25)*.

(Expressed in Hong Kong dollars)

35. Material related party transactions *(Continued)*

(c) Amount due to a related company

	The Group	
	2005	2004
	$	$
Jinheng Parts	**8,285,390**	9,017,808

The amount due to a related company is trade-related, unsecured, interest free and is expected to be repaid within one year. The amount is included in "Trade and other payables" in the consolidated balance sheet *(see note 27)*.

36. Major non-cash transactions

(a) Pursuant to the investment agreement in connection with the establishment of Jinheng Sega, Beijing Jin Chuang Li (the minority shareholder of Jinheng Sega) injected capital of RMB9,800,000 (equivalent to $9,423,077) to Jinheng Sega, which was partially satisfied by a transfer of the land use right, buildings and equipment totalling RMB6,196,000 (equivalent to $5,957,692), RMB1,020,400 (equivalent to $981,154) and RMB956,800 (equivalent to $920,000) respectively.

(b) In 2004, a customer transferred 10 motors to the Group with an aggregate amount of approximately $875,000, in order to settle an equivalent amount due from this customer (2005: Nil).

(c) Pursuant to the supplementary investment agreement in connection with the establishment of Hafei Jinheng in January 2004, a minority shareholder, Hafei Motor injected capital of RMB1,300,000 (equivalent to $1,250,000) to Hafei Jinheng, which was entirely satisfied by a transfer of the operating rights of production premises for a period of 30 years.

37. Non-adjusting post balance sheet events

(a) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 15.

(b) On 24 January 2006, the Group injected additional capital of RMB5,000,000 (equivalent to $4,807,692) into Jinbei Jinheng pursuant to a subscription agreement dated 26 August 2005 *(see note 34(b))*. As a result, the Group's ownership interest in Jinbei Jinheng increased from 50% to 55.6% effective on the same date.

38. Comparative figures

Certain comparative figures have been adjusted as a result of the changes in accounting policies. Further details are disclosed in note 4.

39. Parent and ultimate holding company

At 31 December 2005, the directors consider the parent and ultimate controlling party of the Group to be Applaud Group Limited, which is incorporated in the British Virgin Islands. The entity does not produce financial statements available for public use.

40. Accounting estimates and judgements

The methods, estimates and judgements the directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. In addition to note 30 which contains information about the assumptions and the risk factors relating to fair value of share options granted, certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group review annually the useful life of an asset and its residual value, if any. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product-by-product basis at each year end date and assess the need for write down of inventories.

(c) Impairment losses for bad and doubtful debts

Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the income statement in future years.

(Expressed in Hong Kong dollars)

41. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 6	Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6	Liabilities arising from participating in a specific market — Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19	Employee benefits — Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments: Recognition and measurement: — Cash flow hedge accounting of forecast intragroup transactions — The fair value option — Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
— HKAS 1	Presentation of financial statements	1 January 2006
— HKAS 27	Consolidated and separate financial statements	1 January 2006
— HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 6 and HK(IFRIC) 5 are not applicable to any of the Group's operations and the adoption of the rest of them is unlikely to have a significant impact on the Group's results of operations and financial position.

FOUR YEARS SUMMARY

(Expressed in Hong Kong dollars)

	2002 $	2003 $	2004 $	**2005** **$**
OPERATING RESULTS				
Turnover	93,161,961	189,731,187	182,285,188	**195,668,737**
Profit from operations	12,202,033	41,910,581	55,664,032	**35,535,979**
Finance costs	(2,253,144)	(4,337,876)	(3,503,497)	**(2,797,426)**
Share of losses of jointly controlled entities	—	(159,234)	(694,922)	**(269,165)**
Profit before taxation	9,948,889	37,413,471	51,465,613	**32,469,388**
Income tax	(2,032,825)	(9,945,979)	(47,684)	**(446,043)**
Profit for the year	7,916,064	27,467,492	51,417,929	**32,023,345**
Attributable to:				
Equity shareholders of the Company	7,916,064	27,467,492	51,457,162	**32,016,170**
Minority interests	—	—	(39,233)	**7,175**
Profit for the year	7,916,064	27,467,492	51,417,929	**32,023,345**
Earnings per share				
— Basic	2.64 cents	9.16 cents	16.88 cents	**8.40 cents**
— Diluted	N/A	N/A	16.84 cents	**8.25 cents**
Assets and liabilities				
Non-current assets	34,301,709	59,581,591	88,446,411	**118,521,598**
Net current assets	3,945,344	15,421,833	134,475,390	**118,849,814**
Total assets less current liabilities	38,247,053	75,003,424	222,921,801	**237,371,412**
Non-current liabilities	—	(52,830,189)	(41,603,774)	**(27,384,483)**
NET ASSETS	38,247,053	22,173,235	181,318,027	**209,986,929**
Capital and reserves				
Share capital	28,301,887	—	3,810,000	**3,810,000**
Reserves	9,945,166	20,946,820	176,320,845	**195,536,665**
Total equity attributable to equity shareholders of the Company	38,247,053	20,946,820	180,130,845	**199,346,665**
Minority interests	—	1,226,415	1,187,182	**10,640,264**
TOTAL EQUITY	38,247,053	22,173,235	181,318,027	**209,986,929**

Notes:

(1) The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 4 on the financial statements. Figures for 2004 and 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions and as disclosed in note 4. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively as disclosed in note 4.

(Expressed in Hong Kong dollars)

(2) The Company was incorporated in the Cayman Islands on 26 February 2004 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. The Company became the holding company of the Group on 22 November 2004 through the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing group and has been accounted for on the basis of merger accounting. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 January 2002, rather than from 22 November 2004. Accordingly, the consolidated results of the Group for the four years ended 31 December 2005 have been prepared as if the Group structure immediately after the Reorganisation had been in existence since 1 January 2002. This financial summary includes the consolidated results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheets at 31 December 2002, 2003, 2004 and 2005 are the combination of the balance sheets of the Company and its subsidiaries at 31 December 2002, 2003, 2004 and 2005. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.