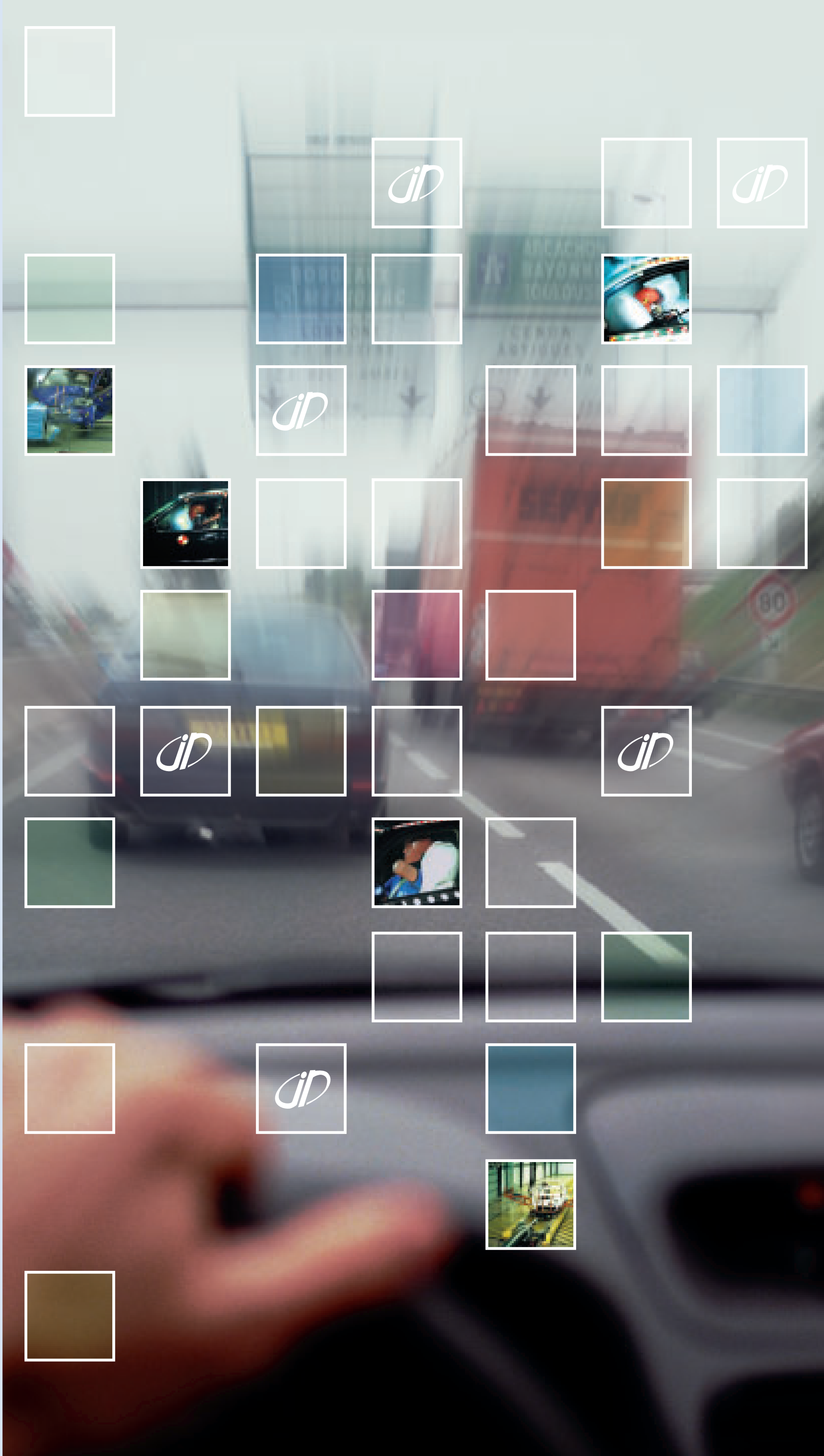
JIN HENG

JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED

錦恆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 2007

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This report, for which the directors of Jinheng Automotive Safety Technology Holdings Limited (the "Company") 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

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Cayman Islands

PRINCIPAL BANKERS
The Bank of East Asia
Bank of Communication

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Cayman Islands

STOCK QUOTE
8293

WEB SITE OF THE COMPANY
www.jinhengairbag.com

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board of Directors ("the Board"), I am pleased to present the audited financial results of Jinheng Automotive Safety Technology Holdings Limited ("the Company") and its subsidiaries ("the Group") for the financial year ended 31 December 2007.

The Group has taken a series of important projects during 2007 that helped built strong cornerstones for the Group's further expansion into the diversified international suppliers' market of automotive safety systems.

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 automotives.

On behalf of the board of Director, I am pleased to announce that the Group made excellent in 2 consecutive years. The turnover amount and the profit attributable to the equity shareholders of the Company increased by 80% and 40% respectively in each year. The turnover of the year increased by 89.2% to HK$666.9 million as compared with the same period of last year, and the profit attributable to the equity shareholders of the Company for this year is approximately HK$66.6 million, which is increased by 46.1%. Such encouraging results were mainly derived from the gradual contribution of the Group's investment in the production of airbag safety system and its components in the past few years, and also the effort in developing the local and overseas markets. During this year, the Group's commenced to supply airbag safety systems to a few new automobile models, and the oversea market business has continuously recorded remarkable growth. The Group also signed over 20 new development agreements for the airbag safety systems of new automobile models and are expected to provide contributions to the Group in the coming future.

In 2007, the Group was continued to expand our product pool. During the first quarter the Group completed the acquisition of Troitec Automotive Electronics Co., Ltd. ("Troitec") and then effectively held 31.5% of its equity interest. Troitec is principally engaged in research and development, manufacture and sale of engine management system used in automobiles. It has already commenced to provide contribution to the Group. Moreover, in December the Group has also completed the acquisition of 20% additional equity interest of YanTai Vast Co., Ltd. ("YanTai Vast"). It is currently engaged in manufacture and sale of liner cylinders and automobile engine spare parts, and it is expected to launch new pistons products in 2008.

Furthermore, the Group has completed a few self-development projects, including the pre-tension seat belts, curtain airbag systems and eight-way electronic control units during the year. It is expected that these new products will be launched in 2008 and thus will expand the Group's automotive safety products markets and capture the business opportunities brought by the increasing awareness of automobile safety from general people.

In order to deal with the heavier research and developments works resulted from the increasing new car orders, the Group is expanding the experiment facilities in Jinzhou and the new slope trial system has been completed at the year end. These will enhance the Group's research and development capacities and increase our competitiveness.

During the year, the Company was rewarded as an outstanding China enterprise by a renowned Hong Kong publication again. Also the Company was being chosen as one of the Hong Kong outstanding enterprises by another renowned Hong Kong publication. These prove that after our efforts in carrying out the business strategies in the past years, the Group has expanded its business scope and its results have been recognised in various aspects.

During the year, the Company placed 40,000,000 shares to a few professional investors by the way of top-up placing. This secured more resources to finance the future development of the business scope of the Group in order to capture the large business opportunities of PRC and overseas markets and confront the challenges emerged by the fact that foreign suppliers enter into PRC's automotive spare parts markets, and maintain its position as the largest automotive safety airbag system manufacturer in the PRC.

CHAIRMAN'S STATEMENT

PROSPECTS AND OUTLOOK

To carry on our development efforts made in the past, we have finished the groundwork for the Group to enter into another period of sustained development. The Group will continue to develop the airbag business, and step up its efforts in the development of the PRC proprietary automobile market. Products of the PRC proprietary automobile market have gradually developed from low and middle end cars to middle and high end sedans, we shall also develop by following this direction closely to raise market share and consolidate our leading position in the market.

Notwithstanding the impact of macro-economic control policies on the development of the automobile industry, the Group firmly believes that with increasing concern about automobile safety on the part of car users, the penetration rate of the Group's products will increase correspondingly. The Group will reinforce the development of overseas markets at the same time. During the period under review, we have visited automobile manufacturers in many developing countries, entered into negotiations with them, and arranged survey tours to the Group's production bases for them to study the business. It is expected that more overseas customers will be brought in as business partners of the Group in the near future.

There will also be major developments in the Group's automobile electronic business. In 2007, the Group has completed consolidation of its business structure and the acquisition of equity stake in Troitec. The product of Troitec's core business, engine management system ("EMS"), has commenced sales in large quantity. Despite the volume of sales is small at present, it has entered into EMS development agreements for more than 20 automobile models, which proved that the demand for domestically developed EMS by the PRC automobile industry is great. Therefore the Group is very optimistic about the prospect of the EMS business, we firmly believe that the EMS business will provide large contributions to the Group in the coming few years.

Besides the EMS business, the Group will also positively develop other advanced automobile safety products and active automobile safety system. The Group has successfully researched and developed a pre-tension safety belt system, which has passed testing and is now at the stage of small quantity production. The research and development of nighttime vision system has also been successful, we are now at the preparation stage for commercial production. It is expected that trial production can be commenced soon, which will bring contribution to the Group.

At the same time of doing the business refinement plan, the Group will continue to introduce more strategic partners to strengthen the Group's business foundations and reinforce the our competitiveness in order to capture the business opportunities brought by the PRC and overseas markets.

Looking into the future, the automobile business will open a new page for the future development of the Group. It is expected that the automobile electronic business will develop rapidly at the end of 2008 or from 2009, bringing immense business opportunity to the Group.

APPRECIATION

On behalf of the Board of Directors, I would like to express my most sincere gratitude towards the continual support from our shareholders and the valuable contributions of our staff. The management team will further continue to fulfill our duties to create more values for our shareholders.

Li Feng
Chairman

Hong Kong, 5 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

For the fiscal year ended 31 December 2007, the Group reported turnover of approximately HK$666.9 million, representing an increase of approximately 89.2% from the fiscal year ended 31 December 2006. During the year, the commercial production of several new models of airbag system have commenced, and our export business has recorded continuous growth. Furthermore, the subsidiary acquired during the year started making positive contributions to the Group. All of these factors lead to the substantial growth of turnover in 2007, and it is expected to maintain such healthy growth in the coming years.

The average gross profit margin of the Group for the year 2007 is approximately 24.6%, which is slightly lower than last year by 3.6%. The decrease was mainly due to the expansion in sales of automotive safety airbag bodies and other automotive spare parts by 2.25 times as compared to the fiscal year 2006. Spare parts normally command a lower profit margin than airbag systems, which resulted in the decrease in gross profit margin in 2007.

The profits from operation for the year were approximately HK$79.2 million, which is HK$21.8 million higher as compared with last year. Such substantial increment was mainly due to the continuous growth in turnover and the effect of production localization.

The selling and distribution expenses for the year ended 31 December 2007 increased by HK$12.1 million to HK$19.7 million as compared to last year. This is mainly because the Group has put more effort in exploring overseas markets in 2007 and the overall turnover of the Group increased significantly by approximately HK$314.4 million.

For the fiscal year 2007, the research and development expenses were approximately HK$14.4 million, while it was only approximately HK$3.9 million in last year. The increment was mainly come from our automotive electronic products, which was in the initial stage and required to invest for developing our new safety and electronic products.

Administrative expenses for the fiscal year 2007 increased by approximately HK$26.3 million to HK$61.9 million as compared with the fiscal year 2006. Such increase was mainly contributed by the newly acquired subsidiary, Troitec, in the first quarter of 2007. Also Jinheng Automotive has enlarged its scale to cope with the substantial growth of automotive airbag business during the year and the coming future and resulted in increase in administrative expenses in 2007.

The finance costs increased by approximately HK$10.1 million to HK$17.9 million. It was mainly contributed by the full year effect of interest expenses incurred for the HK$77 million convertible notes issued in May and July last year, and the increase in short-term loans used to finance our rapid business development in 2007.

For the year ended 31 December 2007, profit attributable to the equity shareholders of the Company were substantially increased by approximately HK$21.0 million to approximately HK$66.6 million as compared with last year. This encouraging performance was the results of our previous investments in new markets and new products.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2007, the Group had bank and cash balances of approximately HK$56.2 million (31 December 2006: approximately HK$65.7 million) and net current assets of approximately HK$109.9 million, which decreased by HK$23.9 million as compared with the last fiscal year. The decrease was mainly due to the increase in investment in fixed assets, and investment in subsidiaries and jointly controlled entity. As a result of the increase in investing activities, total non-current assets of the Group increased by 70.6% to approximately HK$421.5 million in the current year.

As at 31 December 2007, the Group had non-current liabilities of approximately HK$86.3 million for the expansion of the Group's production facilities and as investment reserves. Included in non-current liabilities were convertible notes issued in 2006 with an aggregate principal amount of HK$77.0 million. The convertible notes bear fixed interest at 7% per annum and can be converted into conversion shares at initial conversion price HK$0.90 per share.

The Group also had short-term bank loans of HK$228.6 million which include bank loans with aggregate amount of HK$210.2 million (equivalent to RMB197.6 million) bear fixed interest rates ranging from 5.47% to 8.31% per annum, and discounted bills of HK$18.4 million (equivalent to RMB17.3 million) which are not yet matured at the year end date. The short-term bank loans were primarily used in finance short-term cash flows for our PRC operations.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources, bank facilities and balance of proceeds from the issuance of convertible notes. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

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 2007, 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 2007, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK$15.1 million for a bank loan of HK$10.5 million (equivalent to RMB9.9 million).

In additions, discounted bills with recourse totalling HK$18.4 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 liabilities to total assets, increased to 56.8% in 2007 from 55.2% in 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

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$4.9 million in respect of acquisition of fixed assets as at 31 December 2007.

MATERIAL ACQUISITIONS AND DISPOSALS

On 30 March 2007, pursuant to the approval of the acquisition agreement and the loan agreement dated 17 November 2006, the Group acquired 51.2% equity interest of Honest Bright Group Limited ("Honest Bright") which obtained 61.5% equity interest of Troitec under these agreements. Honest Bright is an investment holding company and its principal assets are its direct interest of 100% equity interest in Properline Investments Limited ("Properline") and Sure Lucky Investments Limited ("Sure Lucky"). Properline and Sure Lucky are investment holding companies and their principal assets are their direct interest of 31.5% and 30% equity interest in Troitec respectively. Troitec is engaged in production and selling of engine management system used in automobiles in PRC. As a result of the acquisition, the Group owns 31.5% effective interest in Troitec.

On 27 December 2007, pursuant to the approval of the sales and purchase agreement dated 24 November 2007, the Group acquired 66.67% equity interest in Tai Tong Investments Limited ("Tai Tong"). As a result of the acquisition, the Group's equity interest in Tai Tong increased from 33.3% to 100% effective on the same date. Tai Tong is an investment holding company and its principal assets are its direct interest of 100% equity interest in Harvest Full International Limited ("Harvest Full"). Harvest Full is an investment holding company and its principal assets are its direct interest of 30% equity interest in YanTai Vast Co., Limited ("YanTai Vast"). YanTai Vast is engaged in production and selling of cylinder liners and spare parts of automobile engines in the PRC. As a result of the transaction, the Group's equity interest in YanTai Vast increased from 30% to 50%.

SIGNIFICANT INVESTMENT

There was no significant investment during the year.

CONTINGENT LIABILITIES

As at 31 December 2007, the directors of the Company were not aware of any material contingent liabilities.

SUBSEQUENT EVENTS

On 18 February 2008, pursuant to the acquisition agreement dated 24 November 2007 and approved in the extraordinary general meeting held on 2 January 2008, the Group acquired 100% equity interest of Winner Investment Limited with the consideration of issuing 10,700,000 shares of the Company to the vendors. Winner Investment Limited is an investment holding company and its principal assets are its direct interest of 25% equity interest in Shanxi Winner Auto-Parts Co., Ltd. ("Shanxi Winner"). Shanxi Winner is engaged in production and sales of inflators and other related spare parts of automotive safety airbag system and other automotive spare parts. As a result of the acquisition, the Group's equity interest in Shanxi Winner increased from 35% to 60%.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

Since almost all transactions of the Group are denominated either in Renminbi, 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 2007, the Group employed approximately 1,655 staff in the PRC and Hong Kong, representing an increase of 679 staff from 31 December 2006. The increase in staff was mainly from the PRC operations. Accordingly, the Group's remuneration to employees, including directors' emoluments, increased by approximately HK$29.9 million to approximately HK$49.3 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, Shenyang, Beijing and Tianjian, the PRC whereby the Group is required to make contributions to the Schemes at the rate ranging from 19% to 22% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

On 29 March 2006, 4,560,000 share options were exercised to subscribe for 4,560,000 ordinary shares in the Company at a consideration of approximately HK$1.7 million. On 15 January 2007, 4,560,000 share options were exercised to subscribe for 4,560,000 ordinary shares in the Company at a consideration of approximately HK$1.7 million. On 16 January 2008, 2,280,000 share option were exercised to subscribe for 2,280,000 ordinary shares, in the Company at a consideration of approximately HK$0.9 million.

On 7 August 2007, 40,000,000 ordinary shares of the Company were issued pursuant to the top-up placing of shares to not less than six investors. On 18 February 2008, 10,700,000 ordinary shares of the Company were issued as the consideration for the acquisition of Winner Investment Limited.

Totally 62,100,000 new shares were issued resulted from these transactions. The total issued share capital of the Company becomes 443,100,000 as of the date of this report.

Furthermore, on 26 May 2006 and 14 July 2006, convertible notes with nominal value of HK$46 million, HK$25 million, HK$3 million and HK$3 million respectively were issued to 4 independent investors. These convertible notes can be convertible into ordinary shares of the Company at an initial conversion price of HK$0.90 per share on or after 26 November 2007 and 14 January 2008 respectively. The share capital of the Company comprises of ordinary shares.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Li Feng, aged 46, 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 whereby 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. Mr. Li was entitled to an annual remuneration of HK$700,008.

Mr. Xing Zhanwu, aged 44, 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 whereby 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. Mr. Xing was entitled to an annual remuneration of HK$660,000.

Mr. Zhao Qingjie, aged 50, 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. Mr. Zhao is the chairman of Wonder Auto Group Limited and Jinzhou Halla Electrical Equipment Company Limited. Mr. Zhao is also the chief executive and a director of China Wonder Limited, a company listed in the Alternative Investment Market (AIM) of the London Stock Exchange in United Kingdom, and is the chief executive officer and chairman of Wonder Auto Technology Inc., a company listed in the OTC Bulletin Board in United States. There is a service agreement between the Company and Mr. Zhao whereby 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. Mr. Zhao was entitled to an annual remuneration of HK$500,004.

Mr. Yang Donglin, aged 42, is the 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. 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 whereby 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. Mr. Yang was entitled to an annual remuneration of HK$228,000 per annum.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Foo Tin Chung, Victor, aged 39, 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 and completed his master degree in business administration in Australia Graduate School of Management. 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 whereby 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. Mr. Foo was entitled to an annual remuneration of HK$715,000. Mr. Foo is currently an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited and RBI Holdings Limited, both are listed on the Stock Exchange.

NON-EXECUTIVE DIRECTORS

Mr. Li Hong, aged 44, 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. There is no service agreement between the Company and Mr. Li. The emoluments payable to Mr. Li is HK$100,008 per annum. The appointment terms of Mr. Li have been revised on 13 August 2007 pursuant to which his appointment has been fixed for a term of one year and he will be eligible for re-election at the Annual General Meeting. Subject to the re-election at the Annual General Meeting, Mr. Li's appointment will be fixed for a further term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company.

Mr. Zeng Qingdong, aged 44, 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 Enterprises (Group) Co, Ltd. ("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. The appointment terms of Mr. Zeng have been revised on 13 August 2007 pursuant to which his appointment has been fixed for a term of one year and he will be eligible for re-election at the Annual General Meeting. Subject to the re-election at the Annual General Meeting, Mr. Zeng's appointment will be fixed for a further term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wai Dune, aged 55, has over 27 years of experience in the finance sector, particularly in the areas of audit and tax. He is a certified public accountant and is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Chan is currently a member of the Chinese People's Political Consultative Conference of 10th Guangzhou Municipal Committee and a member 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 is currently the managing director of CCIF CPA Limited. Mr. Chan currently serves as an independent non-executive director of the Company, Chuang's China Investments Limited, Chuang's Consortium International Limited, Graneagle Holdings Limited, Hualing Holdings Limited, Hunan Nonferrous Metals Corporation Limited, Minmetals Resources Limited and Sam Woo Holdings Limited, all are listed on the Stock Exchange. In the past three years, he has had, at different times, held directorships at EVA Precision Industrial Holdings Limited, IIN International Limited, Zhongda International Holdings Limited, Mexan Limited and Sino Union Petroleum & Chemical International Limited, all are listed on the Stock Exchange. There is no service agreement between the Company and Mr. Chan. The emoluments payable to Mr. Chan is HK$150,000 per annum. The appointment terms of Mr. Chan have been revised on 13 August 2007 pursuant to which his appointment has been fixed for a term of one year and he will be eligible for re-election at the Annual General Meeting. Subject to the re-election at the Annual General Meeting, Mr. Chan's appointment will be fixed for a further term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company

Mr. Huang Shilin, aged 74, 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. The appointment terms of Mr. Huang have been revised on 13 August 2007 pursuant to which his appointment has been fixed for a term of one year and he will be eligible for re-election at the Annual General Meeting. Subject to the re-election at the Annual General Meeting, Mr. Huang's appointment will be fixed for a further term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company.

Mr. Zhu Tong, aged 35, is currently the assistant general manger of 興業証業股份有限公司 (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. The appointment terms of Mr. Zhu have been revised on 13 August 2007 pursuant to which his appointment has been fixed for a term of one year and he will be eligible for re-election at the Annual General Meeting. Subject to the re-election at the Annual General Meeting, Mr. Zhu's appointment will be fixed for a further term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Hao Dianqing, aged 56, 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 Aeronautic Technology with a bachelor's degree in accounting.

Mr. Xing Zhanwen, aged 48, brother of Mr. Xing Zhanwu, is currently the general manager of the Jinheng Sega. 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 43, 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 49, joined the Group in October 1999 and is currently the deputy general manager of Beijing Great Idea. 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 45, 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 34, 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 45, 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 2007.

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 21 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 4 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2007 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 35 to 107.

DIVIDENDS

Pursuant to a resolution passed at a directors' meeting on 5 March 2008, a final dividend of 3.6 HK cents per share totalling HK$15,951,600 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 (2006: HK$Nil).

FIXED ASSETS

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

REPORT OF THE DIRECTORS

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 36 on the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 36 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 2007 are set out in note 31 and 32 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	21.8%	
Five largest customers in aggregate	54.4%	
The largest supplier		18.5%
Five largest suppliers in aggregate		44.5%

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.

REPORT OF THE DIRECTORS

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
Mr. Zhu Tong

Pursuant to the amendment of terms of appointment of non-executive Directors (including independent non-executive Directors) on 13 August 2007, Mr. Li Hong, Mr. Zeng Qingdong, Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong shall retire from their offices by rotation at the forthcoming annual general meeting. Being eligible, each of Mr. Li Hong and Mr. Zeng Qingdong will offer himself for re-election as non-executive Director, and each of Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong will offer himself for re-election as independent non-executive Director.

In accordance with Article 87(1) of the Articles of Association, the following Directors, namely, Messrs. Xing Zhanwu and Zhao Qingjie will retire 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.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, 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	Beneficial owner	2,080,000	0.48%
	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Xing Zhanwu	Beneficial owner	1,600,000	0.37%
	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)*
Foo Tin Chung, Victor	Beneficial owner	640,000	0.15%

Note: As at 31 December 2007, 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 53.15% in the Company:

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

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

Shareholder		Number of shares held in Applaud Group Limited		%
The controlling group		5,269		52.69
Li Feng	2,386		23.86	
Xing Zhanwu	900		9.00	
Xu Jianzhong	750		7.50	
Li Hong	643		6.43	
Yang Donglin	590		5.90	
Zhao Qingjie		1,827		18.27
Gao Xiangdong		1,566		15.66
Zhao Jiyu		417		4.17
Lin Qing		233		2.33
Zhou Yuquan		223		2.23
Cao Feng		139		1.39
Zhang Chengyu		134		1.34
Zhang Chenye		104		1.04
Zhang Meina		88		0.88
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.

REPORT OF THE DIRECTORS

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 2007 was 40,380,000 shares (including options for 22,880,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 5.32% of the issued share capital of the Company as at 31 December 2007.

On 16 January 2008, 2,280,000 share options were exercised to subscribe for 2,280,000 ordinary shares in the Company. The total number of securities available for issue under the share option schemes then becomes 38,100,000 shares (including options for 20,600,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 8.60% of the issued share capital of the Company as at the report date.

As at 31 December 2007, 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 2007 is HK$1.30) 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	1,560,000	520,000	22 November 2004	9 December 2005 to 9 December 2008	1,040,000	HK$0.38	HK$0.788	HK$0.83
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	1,200,000	400,000	22 November 2004	9 December 2005 to 9 December 2008	800,000	HK$0.38	HK$0.788	HK$0.83
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	480,000	160,000	22 November 2004	9 December 2005 to 9 December 2008	320,000	HK$0.38	HK$0.788	HK$0.83
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	648,000	216,000	22 November 2004	9 December 2005 to 9 December 2008	432,000	HK$0.38	HK$0.788	HK$0.83
Mr. Xing Zhanwen (邢占文)	Employee, general manager of Jinheng Sega	528,000	176,000	22 November 2004	9 December 2005 to 9 December 2008	352,000	HK$0.38	HK$0.788	HK$0.83
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	600,000	200,000	22 November 2004	9 December 2005 to 9 December 2008	400,000	HK$0.38	HK$0.788	HK$0.83

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

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

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. Zhu Jiangbin (朱江濱)	Employee, deputy general manager of Beijing Great Idea	528,000	176,000	22 November 2004	9 December 2005 to 9 December 2008	352,000	HK$0.38	HK$0.788	HK$0.83
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	504,000	168,000	22 November 2004	9 December 2005 to 9 December 2008	336,000	HK$0.38	HK$0.788	HK$0.83
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	432,000	144,000	22 November 2004	9 December 2005 to 9 December 2008	288,000	HK$0.38	HK$0.788	HK$0.83
Mr. Chen Lixin (沈立新)	Employee, general manager of Hafei Jinheng	360,000	120,000	22 November 2004	9 December 2005 to 9 December 2008	240,000	HK$0.38	HK$0.788	HK$0.83
		6,840,000	2,280,000			4,560,000			

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.

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:

	2007
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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

(b) Share Option Scheme

On 23 August 2007, the Company granted options to subscribe for a total of 20,600,000 Shares under the Share Option Scheme to five directors and two employees of the Group, with the following details:

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 31 December 2007	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the period	Exercise price per share	Market value per share before the date on which the options were granted	Market value per share on exercise of options
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	–	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	–	HK$1.60	HK$1.58	N/A
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	–	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	–	HK$1.60	HK$1.58	N/A
Mr. Zeng Qingdong (曾慶東)	Non-executive director of the Company	–	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	–	HK$1.60	HK$1.58	N/A
Mr. Li Hong (李宏)	Non-executive director of the Company	–	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	–	HK$1.60	HK$1.58	N/A
Mr. Chan Wan Dune (陳雄瑞) *(Note)*	Independent non-executive director of the Company	–	400,000	23 August 2007	23 August 2007 to 22 August 2012	–	HK$1.60	HK$1.58	N/A
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	–	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	–	HK$1.60	HK$1.58	N/A
Mr. Wong Wah Wai (黃華威) *(Note)*	Employee, senior accountant of the Company	–	200,000	23 August 2007	23 August 2007 to 22 August 2012	–	HK$1.60	HK$1.58	N/A
		–	20,600,000			–			

Note: Mr. Chan and Mr. Wong accepted the offer of the share options from the Company on 3 September 2007.

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

(b) Share Option Scheme *(continued)*

The weighted average value per option granted on 23 August 2007 using binomial lattice pricing model was HK$0.426. 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:

	2007
Risk-free interest rate	**4.03%**
Expected life (in years)	**5 years**
Volatility	**50.0%**
Expected dividend per share	**4.0%**

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 period 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.

REPORT OF THE DIRECTORS

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2007, 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	Number of ordinary shares of the Company held	Number of the underlying shares of the Company held under equity derivatives	Approximately percentage of the total issued shares of the Company before full conversion of all convertible notes	Approximately percentage of the total issued shares of the Company after full conversion of all convertible notes
Applaud Group Limited	Beneficial owner	228,620,000	–	53.15%	44.33%
Value Partners Limited *(Note 1)*	Investment manager	–	51,111,111	11.88%	9.91%
Value Partners Group Limited *(Note 1)*	Interests of controlled corporation	–	51,111,111	11.88%	9.91%
Cheah Capital Management Limited *(Note 1)*	Interests of controlled corporation	–	51,111,111	11.88%	9.91%
Cheah Company Limited *(Note 1)*	Interests of controlled corporation	–	51,111,111	11.88%	9.91%
Hang Seng Bank Trustee International Limited *(Note 1)*	Trustee	–	51,111,111	11.88%	9.91%
Mr. Cheah Cheng Hye *(Note 1)*	Founder of discretionary trust	–	51,111,111	11.88%	9.91%
Ms. To Hau Yin *(Note 1)*	Spouse of Mr Cheah Cheng Hye	–	51,111,111	11.88%	9.91%
Sagemore Assets Limited *(Note 2)*	Beneficial Owner	–	27,777,778	6.46%	5.39%
CDS International Limited *(Note 2)*	Interest of controlled corporation	–	27,777,778	6.46%	5.39%
TNS Services Limited *(Note 2)*	Nominee shareholder of beneficial owner	–	27,777,778	6.46%	5.39%

Note 1: Hang Seng Bank Trustee International Limited, the trustee of the C H Cheah Family Trust, has 100% control of Cheah Company Limited, which has 100% control of Cheah Capital Management Limited, which has 35.65% control of Value Partners Group Limited, which in turn has 100% control of Value Partners Limited. Mr. Cheah Cheng Hye is the founder of C H Cheah Family Trust. Ms. To Hau Yin is the spouse of Mr. Cheah Cheng Hye. They are all deemed to be interested in the interest to be held by Value Partners Limited pursuant to the SFO.

Note 2: CDS International Limited is a director of Sagemore Assets Limited and TNS Services Limited is a nominee shareholder of Sagemore Assets Limited and therefore both of them are deemed to be interested in the underlying shares to be held by Sagemore Assets Limited pursuant to the SFO.

REPORT OF THE DIRECTORS

Short positions in shares

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

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 2007, 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 and "Continuing Connected Transactions" in this report.

ADOPTED CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2007, 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 Hafei Supply Agreement 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 16 June 2006, Jinheng Automotive, Hafei Jinheng and Hafei Motor entered into a tri-parties supply contract (the "Hafei Supply Agreement") for a term ending on 31 December 2008 pursuant to which Hafei Motor indicated that the estimated maximum value of orders to be placed by Hafei Motor (the "Hafei Sales Cap") for the three years ending 31 December 2008 would not exceed HK$41.5 million, HK$53.4 million and HK$70.4 million, respectively.

The Directors expect that the aggregate orders from Hafei Motor for the three financial years ending 31 December 2008 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 Hafei Supply Agreement will constitute non-exempt continuing connected transactions under Rule 20.35 of the GEM Listing Rules.

The Supply Contract under the Jinbei JV Agreement – Continuing Connected Transactions

On 5 September 2003, the Group entered into a joint venture agreement with Shenyang Jinbei Automotive Company Limited ("Jinbei Automotive") and Shenyang Electricity Co. Limited ("Shenyang Electricity"). Pursuant to the Jinbei JV Agreement, Shenyang Jinbei Jinheng Automotive Safety System Co. Limited ("Jinbei Jinheng") was established and owned as to 50% by the Group, 20% by Jinbei Automotive and 30% by Shenyang Electricity and the products to be manufactured by Jinbei Jinheng will be safety airbag systems which are suitable for different models of automobiles of Jinbei Automotive and other independent third parties. Furthermore, pursuant to a subscription agreement dated 26 August 2005, the Group subscribed 5.56% of the increased equity interest of Jinbei Jinheng. The Group's equity interest in Jinbei Jinheng then became 55.56%. Jinbei Automotive and Shenyang Electricity then held 14.81% and 22.22% equity interest of Jinbei Jinheng respectively. Jinbei Automotive is a substantial shareholder holding 14.81%, equity interest in Jinbei Jinheng and therefore a connected person of the Group under the GEM Listing Rules.

On 16 June 2006, Jinheng Automotive, Jinbei Jinheng and Jinbei Automotive entered into a tri-parties supply contract (the "Jinbei Supply Agreement") for a term ending on 31 December 2008 pursuant to which Jinbei Automotive indicated that the estimated maximum value of orders to be placed by Jinbei Automotive (the "Jinbei Sales Cap") for the three years ending 31 December 2008 would not exceed HK$43.0 million, HK$64.0 million and HK$67.0 million, respectively.

The Directors expect that the aggregate orders from Jinbei Automotive for the three financial years ending 31 December 2008 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 Jinbei Supply Agreement will constitute non-exempt continuing connected transactions under Rule 20.35 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

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 Hafei Supply Agreement and Jinbei Supply Agreement for the three financial years ending 31 December 2008.

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 Hafei Supply Agreement and Jinbei Supply Agreement 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 Hafei Supply Agreement and Jinbei Supply Agreement governing the continuing connected transactions; and

(iii) have not exceeded the relevant Hafei Sales Cap and Jinbei Sales Cap.

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, 5 March 2008

CORPORATE GOVERNANCE REPORT

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;

CORPORATE GOVERNANCE REPORT

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 10 meetings during the year 2007. 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;

BOARD MEETING *(continued)*

- 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;
- allotment and issuance of new shares due to the exercise of share options under Pre-IPO Employee Share Option Scheme;
- placing of 40,000,000 shares by top-up placement;
- grant share options under Share Option Scheme; and
- other material acquisitions and increase in equity stakes in associate.

Details of Directors' attendance at Board meetings held in 2007 are set out as follows:

	Attendance
Executive Directors	
Mr. Li Feng	10/10
Mr. Xing Zhanwu	10/10
Mr. Zhao Qingjie	10/10
Mr. Yang Donglin	10/10
Mr. Foo Tin Chung, Victor	10/10
Non-Executive Directors	
Mr. Li Hong	10/10
Mr. Zeng Qingdong	10/10
Independent Non-Executive Directors	
Mr. Chan Wai Dune	10/10
Mr. Huang Shilin	10/10
Mr. Zhu Tong	10/10

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.

CORPORATE GOVERNANCE REPORT

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 June 2007, Mr. Li Feng, Mr. Yang Donglin, Mr. Li Hong and Mr. Zhu Tong 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.

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 10 to 12 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 six 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 2007 are set out as follows:

	Attendance
Mr. Chan Wai Dune	4/4
Mr. Huang Shilin	4/4
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.

Details of attendance of members at meetings of the remuneration committee held in 2007 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.

CORPORATE GOVERNANCE REPORT

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 2007 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.

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$1.5 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.

REPORT OF THE AUDITORS

KPMG

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

We have audited the consolidated financial statements of Jinheng Automotive Safety Technology Holdings Limited (the "Company") set out on pages 35 to 107, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY OF THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

5 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $	2006 $
Turnover	4	**666,947,593**	352,541,854
Cost of sales		**(502,611,085)**	(253,000,149)
Gross profit		**164,336,508**	99,541,705
Other revenue	5	**4,625,779**	3,688,855
Other net income	6	**6,132,233**	1,248,878
Research and development expenses	7	**(14,353,799)**	(3,938,196)
Distribution costs		**(19,691,312)**	(7,616,919)
Administrative expenses		**(61,875,447)**	(35,532,095)
Profit from operations		**79,173,962**	57,392,228
Finance costs	9(a)	**(17,917,455)**	(7,774,742)
Share of profits of jointly controlled entities	22	**4,096,079**	2,728,827
Share of profits of associates	23	**1,172,169**	951,286
Profit before taxation	9	**66,524,755**	53,297,599
Income tax	10(a)	**(7,710,240)**	(5,516,560)
Profit for the year		**58,814,515**	47,781,039
Attributable to:			
Equity shareholders of the Company		**66,630,845**	45,608,257
Minority interests		**(7,816,330)**	2,172,782
Profit for the year		**58,814,515**	47,781,039
Dividends payable to equity shareholders of the Company attributable to the year	14		
Final dividends proposed after the balance sheet date		**15,951,600**	13,494,600
Earnings per share	15		
– Basic		**16.42 HK Cents**	11.86 HK cents
– Diluted		**14.69 HK Cents**	11.27 HK cents

The notes on pages 42 to 107 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007 $	2006 $
Non-current assets			
Fixed assets			
– Property, plant and equipment	17	**165,095,638**	101,440,543
– Interests in leasehold land held for own use under operating leases	17	**21,776,612**	17,119,072
Deposits paid for acquisition of fixed assets		**31,062,280**	37,697,259
Construction in progress	18	**22,151,684**	17,901,153
Intangible assets	19	**109,145,770**	30,916,164
Goodwill	20	**4,760,769**	184,189
Interest in jointly controlled entities	22	**67,433,218**	13,099,491
Interests in associates	23	**–**	28,631,461
Other non-current financial assets	24	**53,191**	50,000
Deferred tax assets	25(b)	**25,667**	24,127
		421,504,829	247,063,459
Current assets			
Inventories	26	**108,251,301**	78,687,811
Trade receivables, prepayments and other receivables	27	**414,057,287**	235,074,584
Loan receivable	28	**20,000,000**	–
Current tax recoverable	25(a)	**1,250,874**	1,182,749
Pledged bank deposits		**8,708,803**	–
Cash and cash equivalents	29	**56,156,196**	65,734,351
		608,424,461	380,679,495
Current liabilities			
Trade and other payables	30	**248,939,515**	152,949,496
Bank loans	31	**228,646,808**	93,927,000
Other loans	32	**20,903,298**	–
		498,489,621	246,876,496
Net current assets		**109,934,840**	133,802,999
Total assets less current liabilities		**531,439,669**	380,866,458

CONSOLIDATED BALANCE SHEET

At 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007 $	2006 $
Non-current liabilities			
Bank loans	31	–	24,000,000
Convertible notes	33	**68,299,757**	71,254,320
Deferred tax liabilities	25(b)	**18,039,341**	4,290,784
		86,339,098	99,545,104
NET ASSETS		**445,100,571**	281,321,354
Capital and reserves			
Share capital	36	**4,301,200**	3,855,600
Reserves		**387,946,329**	247,067,839
Total equity attributable to equity shareholders of the Company	36	**392,247,529**	250,923,439
Minority interests	36	**52,853,042**	30,397,915
TOTAL EQUITY		**445,100,571**	281,321,354

Approved and authorised for issue by the board of directors on 5 March 2008

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 42 to 107 form part of these financial statements.

BALANCE SHEET

At 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007 $	2006 $
Non-current assets			
Investments in subsidiaries	21	**37,265,416**	8,840,874
Interests in associates	23	**–**	9,060,167
		37,265,416	17,901,041
Current assets			
Trade receivables, prepayments and other receivables	27	**185,821,019**	161,274,513
Cash and cash equivalents	29	**6,385,015**	960,043
		192,206,034	162,234,556
Current liabilities			
Trade and other payables	30	**3,503,339**	20,972,508
Net current assets		**188,702,695**	141,262,048
Total assets less current liabilities		**225,968,111**	159,163,089
Non-current liability			
Convertible notes	33	**68,299,757**	71,254,320
NET ASSETS		**157,668,354**	87,908,769
Capital and reserves			
Share capital	36	**4,301,200**	3,855,600
Reserves	36	**153,367,154**	84,053,169
TOTAL EQUITY		**157,668,354**	87,908,769

Approved and authorised for issue by the board of directors on 5 March 2008

Xing Zhanwu	**Foo Tin Chung, Victor**
Director	*Director*

The notes on pages 42 to 107 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

		2007		2006	
	Note	$	$	$	$
Total equity at 1 January			**281,321,354**		209,986,929
Net income recognised directly in equity:					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	36		**22,329,826**		8,271,768
Profit for the year			**58,814,515**		47,781,039
Total recognised income and expense for the year			**81,144,341**		56,052,807
Attributable to:					
– Equity shareholders of the Company		**85,640,355**		53,067,771	
– Minority interests		**(4,496,014)**		2,985,036	
		81,144,341		56,052,807	
Dividends approved during the year	14(b)		**(13,654,200)**		(12,723,480)
Movements in equity arising from capital transactions					
Equity settled share-based transactions	35 & 36	**6,020,000**		2,282,000	
Equity component of convertible notes	33 & 36	**–**		5,076,618	
Capital contribution from minority shareholders	36	**10,425,532**		13,534,000	
Acquisition of additional equity interest in a subsidiary	36	**–**		(7,989,217)	
Acquisition of subsidiaries	36	**16,525,609**		13,368,897	
Shares issued under share option scheme	36	**1,732,800**		1,732,800	
Shares issued under placement, net of issuance costs	36	**61,585,135**		–	
			96,289,076		28,005,098
Total equity at 31 December			**445,100,571**		281,321,354

The notes on pages 42 to 107 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $	2006 $
Operating activities			
Profit before taxation		**66,524,755**	53,297,599
Adjustments for:			
– Depreciation		**16,187,872**	9,384,206
– Amortisation of intangible assets		**16,877,767**	9,379,578
– Amortisation of land lease premium for property held for own use		**689,537**	510,984
– Finance costs		**18,760,135**	8,479,725
– Interest income		**(1,326,799)**	(1,560,482)
– Share of profits of jointly controlled entities		**(4,096,079)**	(2,728,827)
– Share of profits of associates		**(1,172,169)**	(951,286)
– Loss on disposal of fixed assets		**255,590**	721,439
– Impairment losses for bad debts		**3,881,779**	487,063
– Provision for obsolete inventories		**–**	871,540
– Equity settled share-based payment expenses		**6,020,000**	2,282,000
– Negative goodwill		**–**	(600,590)
– Change in fair value of derivative component of convertible notes		**(4,452,515)**	–
– Foreign exchange loss		**18,661,107**	5,879,528
Operating profit before changes in working capital		**136,810,980**	85,452,477
Increase in inventories		**(12,873,876)**	(37,798,213)
Increase in trade receivables, prepayments and other receivables		**(160,958,971)**	(119,849,711)
Increase in trade and other payables		**21,828,098**	109,919,363
Cash (used in)/generated from operations		**(15,193,769)**	37,723,916
PRC income tax paid		**(7,770,603)**	(4,235,063)
Net cash (used in)/generated from operating activities		**(22,964,372)**	33,488,853
Investing activities			
Payment for purchase of property, plant and equipment		**(56,807,721)**	(31,957,172)
Net cash outflow upon acquisition of subsidiaries	37	**(16,701,744)**	(12,526,860)
Loan to minority shareholder of subsidiary		**(20,000,000)**	–
Payment for investment in associates		**–**	(9,060,167)
Payment for acquisition of additional equity interest in a subsidiary		**–**	(9,760,000)
Payment for the construction in progress		**(16,425,518)**	(17,801,032)
Payment for purchase of intangible assets		**(22,751,469)**	(17,560,274)
Decrease/(increase) in deposits for fixed assets		**6,944,890**	(27,112,096)
Proceeds from disposal of fixed assets		**174,758**	96,078
Interest received		**1,326,799**	1,560,482
Net cash used in investing activities		**(124,240,005)**	(124,121,041)

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2007

(Expressed in Hong Kong dollars)

	Note	**2007** **$**	2006 $
Financing activities			
(Increase)/decrease in pledged bank deposits		**(8,708,803)**	4,624
Repayment of bank loans		**(90,515,464)**	(43,880,886)
Bank loan interest paid		**(10,384,346)**	(4,970,195)
Proceeds from new bank loans		**190,022,966**	88,163,725
Proceeds from convertible notes		**–**	77,000,000
Proceeds from other loans		**2,076,767**	–
Capital contribution from minority interests		**10,425,532**	9,034,000
Other borrowing costs paid		**(6,877,837)**	(3,079,566)
Proceeds from shares issued under share option scheme		**1,732,800**	1,732,800
Proceeds from shares issued under placement, net of issuance costs		**61,585,135**	–
Dividend paid		**(13,654,200)**	(12,723,480)
Net cash generated from financing activities		**135,702,550**	111,281,022
Net (decrease)/increase in cash and cash equivalents		**(11,501,827)**	20,648,834
Effect of foreign exchange rate difference		**1,923,672**	708,854
Cash and cash equivalents at 1 January		**65,734,351**	44,376,663
Cash and cash equivalents at 31 December	29	**56,156,196**	65,734,351

The notes on pages 42 to 107 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. BACKGROUND

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 shares of the Company are listed on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. 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 Hong Kong Financial Reporting Standards, 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 Company and its subsidiaries (together referred to as the "Group") is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries and the Group's interest in jointly controlled entities and associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated at their fair value *(see note 2(n))*. The functional currencies of the Company and its subsidiaries in the People's Republic of China (the "PRC") are Hong Kong dollars and Renminbi respectively. For the purposes of presenting the consolidated financial statements, the Group adopted Hong Kong dollars as its presentation currency.

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 the 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.

Judgements 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 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a 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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed by any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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 applicable 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.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(n), (o) or (p) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses *(see note 2(j))*.

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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 an associate or 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 associate's or jointly controlled entity's net assets. The consolidated income statement includes the Group's share of post acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year *(see notes 2(e) and (j))*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Associates and jointly controlled entities *(continued)*

When the Group's share of losses exceeds its interest in the associate or 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 associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or 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 associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associate and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or 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.

In the Company's balance sheet its investments in associates and jointly controlled entities are started at cost less impairment losses *(see note 2(j))*.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment *(see note 2(j))*. In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities

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

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses *(see note 2(j))*.

Other investments in securities are classified as available-for-sales securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(u)(iii). When these investments are derecognised or impaired *(see note 2(j))*, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses *(see note 2(j))*.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, an appropriate proportion of production overheads and borrowing costs *(see note 2(w))*.

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.

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.

(h) Construction in progress

Construction in progress represents buildings under construction and equipment pending installation, and is stated at cost less impairment losses *(see note 2(j))*. 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 PRC.

(i) Intangible assets (other than goodwill)

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 cost of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable *(see note 2(w))*. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses *(see note 2(j))*. Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses *(see note 2(j))*. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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 with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives as follows:

– Acquired technology	5 years
– Patent	10-18 years

Both the period and method of amortisation are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries, associates and jointly controlled entities *(see note 2(j)(ii))* and other current and non-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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities 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 equity securities are not reversed.

– For trade and other current receivables and other 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. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade receivables, prepayments and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debts are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(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, except in the case of goodwill, 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;

– investments in subsidiaries, associates and jointly controlled entities; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets hat have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– 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

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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.

(iii) Interim financial reporting and impairment

Under the GEM Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year *(see notes 2(j)(i) and (ii))*.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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 that 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) Operating lease charges

Where the Group has the use of assets held 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 held under an operating lease is amortised on a straight-line basis over the period of the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) 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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised costs less allowance for impairment of doubtful debts *(see note 2(j))*, 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 allowance for impairment of doubtful debts *(see note 2(j))*.

(n) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. The derivative component embedded in the convertible notes is accounted for as derivative financial instruments.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. The derivative component is initially measured at fair value. Any excess of proceeds over the amount initially recognised as the liability component and derivative component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability, derivative and equity components in proportion to the allocation of proceeds. The potion relating to the derivative component is recognised immediately to profit or loss.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The derivative component is remeasured to fair value at each balance sheet date. The gain or loss on remeasurement to fair value is charged immediately to profit or loss. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amounts of the liability and derivative components at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits and any difference between the amount paid and the carrying amounts of liability and derivative components is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, 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.

(p) Trade and other payables

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

(q) 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.

(r) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement 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 the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(s) Income tax

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.

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.

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 profits 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(s) Income tax *(continued)*

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

– 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.

(t) Provisions and contingent liabilities

(i) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(t)(ii). Contingent liabilities that cannot be reliably fair valued are disclosed in accordance with note 2(t)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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 expenditures 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(u) 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 goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. 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 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 on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(iii) Interest income

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

(v) 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, including goodwill arising on consolidation of foreign operations on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation outside Hong Kong is included in the calculation of the profit or loss on disposal.

(w) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen geographical segment information based on the location of assets (being the geographical location of the Group's production facilities) as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7 "Financial instruments: Disclosures" and the amendment to HKAS 1 "Presentation of financial statements: Capital disclosures", there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32 "Financial instruments: Disclosure and presentation". These disclosures are provided throughout these financial statements, in particular in note 38.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 36(d).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period *(see note 44)*.

4. TURNOVER

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

Turnover represents the sales value of goods to customers net of sales tax and value added tax.

Turnover recognised during the year may be analysed as follows:

	2007 **$**	2006 $
Sales of mechanical airbag systems	**114,782,362**	82,409,345
Sales of electronic airbag systems	**383,135,563**	218,198,005
Sales of automotive safety system components and other automotive components	**169,029,668**	51,934,504
	666,947,593	352,541,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5. OTHER REVENUE

	2007 $	2006 $
Subsidy income	**2,536,412**	1,291,176
Interest income	**1,326,799**	1,560,482
Experiment fee	**245,065**	722,946
Sundry income	**517,503**	114,251
	4,625,779	3,688,855

Subsidy income represents the non-recurring cash subsidies received from the municipal government authorities by the subsidiaries of the Group for general business purpose during the years ended 31 December 2006 and 2007.

6. OTHER NET INCOME

	2007 $	2006 $
Net foreign exchange gain	**1,876,875**	1,369,727
Net unrealised gain on derivative components of convertible notes carried at fair value	**4,452,515**	–
Loss on disposal of fixed assets	**(255,590)**	(721,439)
Negative goodwill	**–**	600,590
Others	**58,433**	–
	6,132,233	1,248,878

7. RESEARCH AND DEVELOPMENT EXPENSES

	2007 $	2006 $
Research and development costs incurred during the year	**37,101,143**	16,929,170
Less: Development costs capitalised during the year *(note 19)*	**(22,747,344)**	(12,990,974)
Amounts charged to consolidated income statement	**14,353,799**	3,938,196

8. STAFF COSTS

	2007 $	2006 $
Salaries, wages and bonuses	**36,985,735**	14,559,933
Equity settled share-based payment expenses	**6,020,000**	2,282,000
Staff welfare	**4,176,237**	1,894,372
Contributions to retirement benefit schemes	**2,078,047**	597,245
	49,260,019	19,333,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9. PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2007	2006
	$	$
Interest expense on bank advances wholly repayable within five years	**9,147,249**	4,586,182
Interest expense on convertible notes	**6,887,952**	3,509,530
Interest expense on other loans	**1,487,837**	–
Discounting charges on discounted bills	**1,237,097**	384,013
	18,760,135	8,479,725
Less: borrowing costs capitalised into properties under development#	**(842,680)**	(704,983)
	17,917,455	7,774,742

\# The borrowing costs have been capitalised at a rate of 6.7% per annum (2006: 6.2% per annum).

(b) Other items:

	2007	2006
	$	$
Depreciation	**16,187,872**	9,384,206
Auditors' remuneration	**1,823,299**	1,328,529
Amortisation of land lease premium	**689,537**	510,984
Impairment losses for bad and doubtful debts *(note 27(b))*	**3,881,779**	487,063
Amortisation of intangible assets *(note 19)*		
– Acquired technology	**2,253,094**	1,043,065
– Development costs	**11,790,559**	8,334,127
– Patents	**2,834,114**	2,386
Royalty expenses	**557,506**	646,485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007 $	2006 $
Current tax		
PRC income tax for the year *(note 25(a))*	**7,702,478**	3,052,314
Deferred tax		
Origination and reversal of temporary differences *(note 25(b))*	**7,762**	2,464,246
Total income tax expense	**7,710,240**	5,516,560

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 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.

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the Group is calculated based on the following rates:

	Note	2007	2006
Jinzhou Jinheng Automotive Safety System Co., Limited ("Jinheng Automotive")	(i)	**13.5%**	13.5%
Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")	(i)	**0%**	15%
Harbin Hafei Jinheng Automotive Safety System Co., Limited ("Hafei Jinheng")		**33%**	33%
Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega")		**33%**	33%
Shenyang Jinheng Jinsida Automotive Electronic Co., Limited ("Jinheng Jinsida")		**15%**	15%
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Limited ("Beijing Great Idea")		**15%**	15%
Tianjian AMT Engine System Co., Ltd. ("Tianjian AMT")		**33%**	N/A
Troitec Automotive Electronics Co., Ltd ("Troitec")		**33%**	N/A
Beijing Sheng Shi Tai Fu Automotive Electronic Co., Ltd. ("Sheng Shi Tai Fu")		**33%**	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(a) Taxation in the consolidated income statement represents: *(continued)*

Note:

(i) These subsidiaries are entitled to a tax concession period in which they are fully exempted from PRC income tax for 2 year starting from their first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years. Jinheng Automotive and Jinbei Jinheng are in the fourth year and first year following their first profit-making year, respectively.

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

	2007 $	2006 $
Profit before tax	**66,524,755**	53,297,599
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**19,053,915**	16,376,803
Tax effect of non-deductible expenses	**6,583,824**	4,085,900
Tax effect of non-taxable revenue	**(3,308,357)**	(1,106,999)
Tax effect of tax concessions	**(16,406,475)**	(9,962,206)
Tax effect of unused tax losses not recognised	**6,975,056**	–
Tax credit	**(5,187,723)**	(3,876,938)
Tax expense	**7,710,240**	5,516,560

Pursuant to the relevant rules and regulations in the PRC, Jinheng Automotive is entitled to a tax credit in relation to the purchase of domestic fixed assets in the PRC. The tax credit represents 40% on amount of fixed assets purchased in the PRC in 2007 (2006: 40% on amount of fixed assets purchased in the PRC from 2004 to 2006).

(c) New tax law of the PRC

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which would become effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law ("the Implementation Rules").

According to the New Tax Law, from 1 January 2008, the standard corporate income tax rates for enterprises in the PRC will be reduced from 33% to 25%. However, an "encouraged hi-tech enterprise" will continue to be entitled to a reduced corporate income tax rate of 15%. The detailed application of the newly introduced preferential tax policies have yet to be made public.

Under the New Tax Law being effective from 1 January 2008 and in accordance with "Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax" (Guo Fa [2007] No.39) promulgated by the State Council on 26 December 2007, an entity established before 16 March 2007 that was entitled to preferential tax treatment prior to the New Tax Law will be subject to a transitional tax rate beginning in period 2008 ("Transitional Tax Rate") before the new corporate income tax rate of 25% applies. For companies currently enjoying a reduced tax rate of 15%, the Transitional Tax Rate is 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 onwards respectively. The tax rate will transit to the standard tax rate of 25% for entities with current tax rate of 24% effective from 1 January 2008.

Any unutilised tax holidays can continue until expiry while tax holidays will be deemed to start from 1 January 2008, even if the company is not yet turning to a profit. Jinheng Automotive and Jinbei Jinheng are currently under tax holidays. Jinheng Jinsida, Beijing Great Idea and Troitec are currently under losses status and are forcibly to commence the tax holidays on 1 January 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(c) New tax law of the PRC *(continued)*

The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable. The deferred tax assets/liabilities of subsidiaries in the PRC are measured using enacted tax rates expected to apply to taxable income, based on the Transitional Tax Rate, in the years in which those temporary differences are expected to be recovered or settled.

In addition, under the New Tax Law, a withholding tax may be applied on the gross amount of dividends received by the Company from its PRC subsidiaries after 1 January 2008. The Implementation Rules provides for the withholding tax rate to be at 10% unless reduced by treaty.

11. DIRECTORS' REMUNERATION

Year ended 31 December 2007

	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	–	127,035	–	827,043
Mr. Xing Zhanwu	–	660,000	–	1,105,719	–	1,765,719
Mr. Zhao Qingjie	–	500,004	–	–	–	500,004
Mr. Yang Donglin	–	228,000	–	–	–	228,000
Mr. Foo Tin Chung, Victor	–	715,000	–	1,047,088	12,000	1,774,088
Non-executive directors						
Mr. Li Hong	–	100,008	–	1,008,000	–	1,108,008
Mr. Zeng Qingdong	–	100,008	–	1,008,000	–	1,108,008
Independent non-executive directors						
Mr. Chan Wai Dune	–	150,000	–	167,333	–	317,333
Mr. Huang Shilin	–	80,004	–	–	–	80,004
Mr. Zhu Tong	–	80,004	–	–	–	80,004
Total	–	3,313,036	–	4,463,175	12,000	7,788,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11. DIRECTORS' REMUNERATION *(continued)*

Year ended 31 December 2006

	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	–	520,456	–	1,220,464
Mr. Xing Zhanwu	–	553,336	–	400,351	–	953,687
Mr. Zhao Qingjie	–	500,004	–	–	–	500,004
Mr. Yang Donglin	–	196,000	–	–	–	196,000
Mr. Foo Tin Chung, Victor	–	652,000	–	160,140	12,000	824,140
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	–	80,004	–	–	–	80,004
Mr. Zhu Tong	–	80,004	–	–	–	80,004
Total	–	3,111,372	–	1,080,947	12,000	4,204,319

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 35.

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

	Number of directors 2007	2006
$Nil to $1,000,000	**6**	9
$1,000,001 to $1,500,000	**4**	1
	10	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments four (2006: four) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other individual is as follows:

	2007	2006
	$	$
Salaries and other emoluments	**185,567**	168,477
Discretionary bonuses	**–**	160,000
Share-based payments	**1,232,768**	216,189
Contribution to retirement benefit scheme	**–**	5,177
	1,418,335	549,843
Number of senior management	**1**	1

The above individual's emoluments are within the band of $1,000,001 to $1,500,000 (2006: $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.

13. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of $14,924,150 (2006: $14,777,431) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year is as follows:

	2007	2006
	$	$
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(14,924,150)**	(14,777,431)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**29,000,000**	22,000,000
Company's profit for the year *(note 36)*	**14,075,850**	7,222,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14. DIVIDENDS

(a) Dividends attributable to the year

	2007	2006
	$	$
Final dividend proposed after the balance sheet date of 3.6 HK cents per share (2006: 3.5 HK cents per share)	**15,951,600**	13,494,600

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

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

	2007	2006
	$	$
Final dividend in respect of the previous financial year, approved and paid during the year of 3.5 HK cents per share (2006: 3.3 HK cents per share)	**13,654,200**	12,723,480

15. 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 of $66,630,845 (2006: $45,608,257) and the weighted average of 405,835,507 (2006: 384,473,096) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares	
	2007	2006
Issued ordinary shares at 1 January	**385,560,000**	381,000,000
Effect of shares issued under placement *(note 36(a))*	**15,890,411**	–
Effect of share options exercised *(note 36(a))*	**4,385,096**	3,473,096
Weighted average number of ordinary shares (basic) at 31 December	**405,835,507**	384,473,096

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15. EARNINGS PER SHARE *(continued)*

(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 $73,518,797 (2006: $49,117,787) and the weighted average number of ordinary shares of 500,546,777 (2006: 435,916,762) ordinary shares, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2007 $	2006 $
Profit attributable to ordinary equity shareholders	**66,630,845**	45,608,257
After tax effect of effective interest on the liability component of convertible notes	**6,887,952**	3,509,530
Profit attributable to ordinary equity shareholders (diluted)	**73,518,797**	49,117,787

(ii) Weighted average number of ordinary shares (diluted)

	Number of shares	
	2007	2006
Weighted average number of ordinary shares at 31 December	**405,835,507**	384,473,096
Effect of conversion of convertible notes	**85,555,556**	46,943,683
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration *(note 35)*	**9,155,714**	4,499,983
Weighted average number of ordinary shares (diluted) at 31 December	**500,546,777**	435,916,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16. SEGMENT REPORTING

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of assets is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

No business segment information is presented as all the Group's turnover and operating result are generated from the production and sales of automotive related products.

Geographical segments by the location of assets and by the location of customers

As the Group's business fundamentally participates in one geographical location classified by the location of assets, i.e. the PRC, no separate geographical segment analysis based on the location of assets is presented.

The Group's geographical segments are also classified according to the location of customers. There are four customer-based geographical segments. The PRC is the major market for the Group's business. Segment revenue from external customers by the location of customers is analysed as follows:

	2007	2006
	$	$
PRC	**603,616,238**	317,115,257
Italy	**47,748,675**	7,628,108
Malaysia	**45,580**	26,652,245
Others	**15,537,100**	1,146,244
	666,947,593	352,541,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. FIXED ASSETS

The Group

	Buildings held for own use	Machinery and equipment	Motor vehicles	Office equipment	Sub-total	Interest in leashold land held for own use under an operating leases	Total
	$	$	$	$	$	$	$
Cost							
As at 1 January 2006	17,891,263	46,938,950	4,343,585	10,933,833	80,107,631	9,115,347	89,222,978
Exchange adjustments	934,289	1,864,923	192,520	438,479	3,430,211	509,792	3,940,003
Additions	6,564,020	14,507,621	649,335	10,140,568	31,861,544	95,628	31,957,172
Acquisition of subsidiary	5,664,993	238,607	381,195	88,493	6,373,288	5,430,734	11,804,022
Fair value adjustments upon acquisition of additional equity interest in a subsidiary	(179,706)	(658,039)	–	–	(837,745)	2,835,294	1,997,549
Transfer from construction in progress *(note 18)*	6,434,855	–	–	–	6,434,855	–	6,434,855
Disposals	–	(453,381)	(794,043)	(402,706)	(1,650,130)	–	(1,650,130)
As at 31 December 2006	37,309,714	62,438,681	4,772,592	21,198,667	125,719,654	17,986,795	143,706,449
As at 1 January 2007	37,309,714	62,438,681	4,772,592	21,198,667	125,719,654	17,986,795	143,706,449
Exchange adjustments	2,381,472	4,200,918	355,226	1,347,983	8,285,599	1,144,327	9,429,926
Additions	437,065	33,283,266	5,455,411	17,631,979	56,807,721	–	56,807,721
Acquisition of a subsidiary	–	5,063,097	1,056,572	2,053,761	8,173,430	–	8,173,430
Transfer from construction in progress *(note 18)*	9,042,886	–	–	–	9,042,886	4,274,730	13,317,616
Disposals	–	–	(378,772)	(496,849)	(875,621)	–	(875,621)
As at 31 December 2007	49,171,137	104,985,962	11,261,029	41,735,541	207,153,669	23,405,852	230,559,521
Accumulated depreciation							
As at 1 January 2006	1,819,401	6,771,441	975,492	5,553,219	15,119,553	339,615	15,459,168
Exchange adjustments	72,776	270,871	42,548	221,770	607,965	17,124	625,089
Charge for the year	1,353,827	4,679,874	509,819	2,840,686	9,384,206	510,984	9,895,190
Written back on disposal	–	(41,724)	(434,537)	(356,352)	(832,613)	–	(832,613)
As at 31 December 2006	3,246,004	11,680,462	1,093,322	8,259,323	24,279,111	867,723	25,146,834
As at 1 January 2007	3,246,004	11,680,462	1,093,322	8,259,323	24,279,111	867,723	25,146,834
Exchange adjustments	269,168	1,021,114	97,969	648,070	2,036,321	71,980	2,108,301
Charge for the year	1,937,590	8,601,506	752,366	4,896,410	16,187,872	689,537	16,877,409
Written back on disposal	–	–	(45,738)	(399,535)	(445,273)	–	(445,273)
As at 31 December 2007	5,452,762	21,303,082	1,897,919	13,404,268	42,058,031	1,629,240	43,687,271
Carrying amount:							
At 31 December 2006	34,063,710	50,758,219	3,679,270	12,939,344	101,440,543	17,119,072	118,559,615
At 31 December 2007	43,718,375	83,682,880	9,363,110	28,331,273	165,095,638	21,776,612	186,872,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17. FIXED ASSETS *(continued)*

The Group

(a) The Group's interests in leasehold land and buildings are held by the subsidiaries in the PRC, which represents the land use rights together with the buildings thereon situated in Beijing, Shenyang and Jinzhou, the PRC. The applications for the property ownership certificates of the leasehold land and building situated in Shenyang and Jinzhou with net book value of $8,789,016 (2006: $5,455,084) and $9,009,861 (2006: $6,000,000) 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 2007 and, the property ownership certificates can be obtained by September 2008.

(b) Leasehold land and buildings with carrying value totalling $15,071,299 (2006: $15,742,242) are mortgaged to banks for certain banking facilities granted to the Group as disclosed in note 31.

(c) At 31 December 2007, leasehold lands with carrying amount of $21,776,612 (2006: $17,119,072) are situated outside Hong Kong with medium-term of leases.

18. CONSTRUCTION IN PROGRESS

The Group

	2007	2006
	$	$
Cost:		
At 1 January	**17,901,153**	5,483,039
Exchange adjustments	**1,142,629**	251,745
Additions	**16,425,518**	17,801,032
Acquisition of subsidiaries	**–**	800,192
Transfer to fixed assets *(note 17)*	**(13,317,616)**	(6,434,855)
At 31 December	**22,151,684**	17,901,153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19. INTANGIBLE ASSETS

The Group

	Acquired technology $	Development costs $	Patents $	Total $
Cost:				
At 1 January 2006	3,810,303	13,856,394	21,327	17,688,024
Exchange adjustments	166,923	913,395	853	1,081,171
Additions	4,569,300	12,990,974	–	17,560,274
Acquisition of subsidiaries	576,923	8,978,480	–	9,555,403
At 31 December 2006	9,123,449	36,739,243	22,180	45,884,872
At 1 January 2007	**9,123,449**	**36,739,243**	**22,180**	**45,884,872**
Exchange adjustments	**568,678**	**3,154,454**	**2,784,091**	**6,507,223**
Additions	–	**22,747,344**	**4,125**	**22,751,469**
Acquisition of subsidiaries	–	**1,960,267**	**65,389,795**	**67,350,062**
At 31 December 2007	**9,692,127**	**64,601,308**	**68,200,191**	**142,493,626**
Accumulated amortisation:				
At 1 January 2006	2,291,272	3,097,605	5,825	5,394,702
Exchange adjustments	70,291	123,904	233	194,428
Charge for the year	1,043,065	8,334,127	2,386	9,379,578
At 31 December 2006	3,404,628	11,555,636	8,444	14,968,708
At 1 January 2007	**3,404,628**	**11,555,636**	**8,444**	**14,968,708**
Exchange adjustments	**265,320**	**1,145,072**	**90,989**	**1,501,381**
Charge for the year	**2,253,094**	**11,790,559**	**2,834,114**	**16,877,767**
At 31 December 2007	**5,923,042**	**24,491,267**	**2,933,547**	**33,347,856**
Carrying amount:				
At 31 December 2006	5,718,821	25,183,607	13,736	30,916,164
At 31 December 2007	**3,769,085**	**40,110,041**	**65,266,644**	**109,145,770**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19. INTANGIBLE ASSETS *(continued)*

Acquired technology comprises the following:

i A non-refundable licence fee was 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.

ii A non-refundable licence fee was paid to KOR Electronic Technical Consultancy Limited ("KETC") in accordance with Licence and Technical Assistance Agreement signed in January 2006, pursuant to which KETC agreed to supply technical services and granted a license to Jinheng Jinsida for use of the know-how for production of electronic control units in the PRC. Acquired technology is amortised over the Directors' estimated useful life of 5 years.

Patents represent the registration fee of technologies developed by Jinheng Automotive and Troitec, which have been registered with relevant government authorities to restrict the assess of such technologies by third parties. The directors consider that the estimated useful life of the patents of Jinheng Automotive and Troitec to be 10 years and 18 years.

During the year, the Group obtained a patent with an estimated fair value of approximately $65 million. The patent relates to the technology used in the production of engine management system for automobile.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20. GOODWILL

The Group

	2007	2006
	$	$
At 1 January	**184,189**	–
Addition on acquisition of additional equity interest in a subsidiary *(note 37(a))*	**4,378,505**	180,577
Exchange adjustments	**198,075**	3,612
At 31 December	**4,760,769**	184,189

Impairment test for cash-generating units containing goodwill

Goodwill acquired has been allocated to the cash generating unit ("CGU") of the respective companies.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	2007	2006
Gross profit margin	**19.3%**	20.3%
Growth rate	**4.0%**	4.0%
Discount rate	**14.0%**	13.0%

Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant the CGU.

The recoverable amounts of the CGU are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21. INVESTMENTS IN SUBSIDIARIES

The Company

	2007 $	2006 $
Unlisted shares, at cost	**37,265,416**	8,840,874

Details of the subsidiaries as at 31 December 2007 are as follows:

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)")	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	$169,500,000	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	100	–	100	Production and sales of automotive safety parts in the PRC
Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")	The PRC, limited liability company	RMB27,000,000	55.56	–	55.56	Production and sales of automotive safety products in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

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 %	Held by the Company %	Held by subsidiary %	Principal activities and place of operation
Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd. ("Jinheng Jinsida")	The PRC, limited liability company	$30,000,000	55	–	55	Production and sales of automotive electronic parts in the PRC
Jinheng Automotive Electronic (Hong Kong) Limited ("Jinheng Electronic HK")	Hong Kong, limited liability company	$100	100	–	100	Investment holding in Hong Kong
Great Idea Group Limited ("Great Idea")	Hong Kong, limited liability company	$1	100	–	100	Investment holding in Hong Kong
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Ltd. ("Beijing Great Idea")	The PRC, limited liability company	$10,000,000	100	–	100	Production and sales of automotive electronic parts in the PRC
Tianjian AMT Engine System Co., Ltd. ("Tianjian AMT")*	The PRC, limited liability company	RMB20,000,000	51	–	51	Production and sales of automotive spare parts in the PRC
Jinheng Engine Limited ("Jinheng Engine")	British Virgin Islands, limited liability company	US$1	100	100	–	Investment holding in Hong Kong
Jay Trumps Investments Limited ("Jay Trumps")	British Virgin Islands, limited liability company	US$100	100	100	–	Investment holding in Hong Kong
Jinheng Automotive Electronic (BVI) Limited ("Jinheng Electronic BVI")	British Virgin Islands, limited liability company	US$1	100	100	–	Investment holding in Hong Kong
Auto Full International Limited ("Auto Full")	Hong Kong, limited liability company	$100	100	–	100	Investment holding in Hong Kong

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of joint venture	Place of incorporation and kind of legal entity	Issued and fully paid Particulars of registered and paid up capital	Proportion of ownership interest Group's effective interest %	Held by the Company %	Held by subsidiary %	Principal activity
Jinheng EMS (BVI) Limited ("Jinheng EMS (BVI)")	British Virgin Islands, limited liability company	US$1	100	–	100	Investment holding in Hong Kong
Smooth Ever Limited ("Smooth Ever")#	British Virgin Islands, limited liability company	US$1	100	100	–	Investment holding in Hong Kong
First Able Group Limited ("First Able")	Hong Kong, limited liability company	$1	100	–	100	Investment holding in Hong Kong
Honest Bright Group Limited ("Honest Bright")#	British Virgin Islands, limited liability company	US$1,000	51.2	–	51.2	Investment holding in Hong Kong
Properline Investments Limited ("Properline")#	Hong Kong, limited liability company	$1	51.2	–	51.2	Investment holding in Hong Kong
Sure Lucky Investments Limited ("Sure Lucky")#	Hong Kong, limited liability company	$1	51.2	–	51.2	Investment holding in Hong Kong
Troitec Automotive Electronics Co., Ltd. ("Troitec")#	The PRC, limited liability company	RMB14,600,000	31.5	–	61.5	Production and sales of automotive components in the PRC
Beijing Sheng Shi Tai Fu Automotive Electronics Co. Ltd. ("Sheng Shi Tai Fu")#	The PRC, limited liability company	RMB1,000,000	31.5	–	61.5	Production and sales of automotive components in the PRC
Tai Tong Investments Limited ("Tai Tong")#	British Virgin Islands, limited liability company	US$3	100	100	–	Investment holding in Hong Kong
Harvest Full International Limited ("Harvest Full")#	Hong Kong, limited liability company	$1	100	–	100	Investment holding in Hong Kong

These subsidiaries are newly acquired by the Group in 2007.

* This subsidiary is newly set up by the Group in 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2007	2006
	$	$
Share of net assets	**48,898,015**	13,099,491
Amount due from jointly controlled entity	**1,855,670**	–
Goodwill	**16,679,533**	–
	67,433,218	13,099,491

On 27 December 2007, pursuant to the approval of the sales and purchase agreement dated 24 November 2007, the Group acquired an additional 66.67% equity interest from existing shareholders of Tai Tong. Tai Tong is an investment holding company and it has direct holding of entire equity interest in Harvest Full. Harvest Full is an investment holding Company and has direct holding of 30% equity interest in YanTai Vast Co., Ltd. ("YanTai Vast"). As a result of the acquisition, the Group's equity interest in YanTai Vast increased from 30% to 50% and YanTai Vast became a jointly controlled entity of the Group effective on the same date.

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 %	Held by the Company %	Held by subsidiary %	Principal activities and place of operation
YanTai Vast Co., Ltd. ("YanTai Vast")	The PRC, limited liability company	RMB40,000,000	50	–	50	Manufacture and sales of cylinder liners and spare parts of automobile engines in the PRC
Shanxi Winner Auto-Parts Limited ("Shanxi Winner") (formerly Shanxi Jinheng Automotive Spare Parts Co., Ltd.)	The PRC, limited liability company	RMB30,400,000	35	–	35	Manufacture and sales of automotive safety parts in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22. INTEREST IN JOINTLY CONTROLLED ENTITIES *(continued)*

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

	2007 $	2006 $
Non-current assets	**70,255,617**	10,276,825
Current assets	**67,214,125**	13,863,536
Non-current liabilities	**(5,415,430)**	(105,000)
Current liabilities	**(83,156,297)**	(10,935,870)
Net assets	**48,898,015**	13,099,491
Income	**26,420,258**	16,842,383
Expenses	**(22,324,179)**	(14,113,556)
Profit for the year	**4,096,079**	2,728,827

(a) Impairment tests CGU of jointly controlled entity containing goodwill

Goodwill is allocated to the CGU of YanTai Vast.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

Key assumptions used for value-in-use calculations:

Gross profit margin	27.1%
Growth rate	4.0%
Discount rate	14.0%

Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant the CGU.

The recoverable amounts of the CGU are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Unlisted shares, at cost	–	–	–	6,224,497
Share of net assets	–	15,402,989	–	–
Amount due from associates	–	2,835,670	–	2,835,670
Goodwill	–	10,392,802	–	–
	–	28,631,461	–	9,060,167

On 27 December 2007, the Group acquired an additional 20% equity interest from the then existing shareholders of YanTai Vast and YanTai Vast became a jointly controlled entity of the Group effective on the same date *(see note 22)*.

Summary financial information on associates

	Assets	Liabilities	Equity	Revenues	Profit
	$	$	$	$	$
2007					
100 per cent	–	–	–	**93,196,983**	**3,907,230**
Group's effective interest	–	–	–	**27,959,095**	**1,172,169**
2006					
100 per cent	180,746,300	(128,470,522)	52,275,778	31,528,463	3,106,783
Group's effective interest	54,227,741	(38,824,752)	15,402,989	9,648,629	951,286

24. OTHER NON-CURRENT FINANCIAL ASSETS

	2007	2006
	$	$
Unlisted equity securities in the PRC available for sale, at cost	**53,191**	50,000

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

The Group

	2007	2006
	$	$
Provision for PRC income tax for the year *(note 10(a))*	**7,702,478**	3,052,314
PRC income tax paid	**(8,953,352)**	(4,235,063)
Current tax recoverable	**(1,250,874)**	(1,182,749)

(b) Deferred tax (assets)/liabilities recognised

The Group

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

	Provisions	Development costs	Patent	Others	Total
	$	$	$	$	$
At 1 January 2006	(108,930)	–	–	512,803	403,873
(Credited)/charged to consolidated income statement *(note 10(a))*	(163,218)	1,643,495	–	983,969	2,464,246
Acquisition of a subsidiary	–	–	–	785,745	785,745
Acquisition of additional equity interest in a subsidiary	–	–	–	539,304	539,304
Exchange adjustments	(7,621)	32,870	–	48,240	73,489
At 31 December 2006	(279,769)	1,676,365	–	2,870,061	4,266,657
At 1 January 2007	**(279,769)**	**1,676,365**	**–**	**2,870,061**	**4,266,657**
(Credited)/charged to consolidated income statement *(note 10(a))*	**(54,975)**	**627,445**	**–**	**(564,708)**	**7,762**
Acquisition of a subsidiary *(note 37(a))*	**–**	**–**	**12,844,423**	**–**	**12,844,423**
Exchange adjustments	**(19,612)**	**127,027**	**546,572**	**240,845**	**894,832**
At 31 December 2007	**(354,356)**	**2,430,837**	**13,390,995**	**2,546,198**	**18,013,674**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(continued)*

(b) Deferred tax (assets)/liabilities recognised *(continued)*

	The Group		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Net deferred tax assets recognised on the balance sheet	**(25,667)**	(24,127)	**–**	–
Net deferred tax liabilities recognised on the balance sheet	**18,039,341**	4,290,784	**–**	–
	18,013,674	4,266,657	**–**	–

26. INVENTORIES

	The Group	
	2007	2006
	$	$
Raw materials	**67,115,085**	49,826,124
Work-in-progress	**11,990,694**	7,631,030
Finished goods	**28,910,789**	21,068,250
Spare parts and consumables	**234,733**	162,407
	108,251,301	78,687,811

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

	The Group	
	2007	2006
	$	$
Carrying amount of inventories sold	**502,611,085**	253,871,689
Write down of inventories	**–**	(871,540)
	502,611,085	253,000,149

The write down of inventories made during the year arose due to a decrease in the estimated net realisable value as a result of obsolescence of certain finished goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Trade receivables	**308,621,424**	175,018,551	–	–
Less: allowance for doubtful debts	**(4,572,141)**	(690,362)	–	–
	304,049,283	174,328,189	–	–
Bills receivable	**70,215,523**	35,906,894	–	–
	374,264,806	210,235,083	–	–
Amounts due from subsidiaries	–	–	**185,364,716**	159,230,835
Prepayments	**9,504,006**	12,924,237	**141,113**	601,185
Other receivables	**30,288,475**	11,915,264	**315,190**	1,442,493
	414,057,287	235,074,584	**185,821,019**	161,274,513

Included in trade receivables are amounts due from related companies of $28,586,571 (2006: $22,628,728) *(see note 40(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

Included in trade receivables, prepayment and other receivables are ageing analysis of trade receivables and bills receivables (net of impairment losses for bad and doubtful debts), with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	$	$
Current	**230,695,703**	205,762,456
1 to 3 months overdue	**102,468,401**	3,856,878
More than 3 months overdue but less than 12 months overdue	**41,100,702**	615,749
	374,264,806	210,235,083

Trade receivables and bills receivables are due within 90 days from the date of billing. Further details on the Group's credit policy are set out in note 38(a).

(b) Impairment of trade receivables and bills receivable

Impairment losses in respect of trade receivables and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivable directly *(see note 2(j)(i))*.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
At 1 January	**690,362**	203,299	**–**	–
Impairment loss recognised *(note 9(b))*	**3,881,779**	487,063	**–**	–
At 31 December	**4,572,141**	690,362	**–**	–

At 31 December 2007, the Group's trade receivables and bills receivable of $4,572,141 (2006: $690,362) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties. Consequently, specific allowances for doubtful debts of $4,572,141 (2006: $690,362) were recognised. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

(c) Trade receivables and bills receivable that are not impaired

The ageing analysis of trade receivables and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Neither past due nor impaired	**230,695,703**	205,762,456	**–**	–
Less than 3 month past due	**102,468,401**	3,856,878	**–**	–
3 to 12 months past due	**41,100,702**	615,749		
	143,569,103	4,472,627	**–**	–
	374,264,806	210,235,083	**–**	–

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

28. LOAN RECEIVABLE

During the year, a loan of $20,000,000 was advanced to a minority shareholder of Honest Bright. The loan receivable carries interest at 2.5% per annum and is recoverable on demand. The loan receivable is secured by the 48.8% equity interests in Honest Bright held by the minority shareholder.

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(Expressed in Hong Kong dollars)

29. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Cash and cash equivalents in the balance sheet and cash flow statement	**56,156,196**	65,734,351	**6,385,015**	960,043

Cash and cash equivalents of $35,649,770 (2006: $17,776,132) 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.

30. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Trade payables	**162,874,636**	108,596,664	**–**	–
Bills payable	**24,795,489**	–	**–**	–
	187,670,125	108,596,664	**–**	–
Other payables	**61,269,390**	44,352,832	**3,503,339**	20,972,508
	248,939,515	152,949,496	**3,503,339**	20,972,508

Included in trade payables is amount due to related parties of $29,354,286 (2006: $25,614,610) *(see note 40(c))*.

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 and bills payable is as follows:

	The Group	
	2007	2006
	$	$
Within 3 months	**153,522,220**	80,938,618
Over 3 months but less than 6 months	**33,934,379**	27,658,046
Over 6 months but less than 12 months	**213,526**	–
	187,670,125	108,596,664

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. BANK LOANS

The bank loans are repayable as follows:

	The Group	
	2007	2006
	$	$
Within 1 year or on demand	**228,646,808**	93,927,000
After 1 year but within 2 years	–	24,000,000
	228,646,808	117,927,000
Representing:		
Secured bank loans	**28,859,574**	27,927,000
Unsecured bank loans	**199,787,234**	90,000,000
	228,646,808	117,927,000

All the bank loans are with PRC commercial banks denominated in RMB. There were no unutilised banking facilities as at 31 December 2007 (2006: $Nil).

At 31 December 2007, terms of bank loans were as summarised follows:

(a) A bank loan of $6,170,213, which carried interest at 8.31% per annum with final maturity on 28 April 2008, was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of $15,071,299.

(b) A bank loan of $4,255,319 (2006: $4,000,000), which carried interest at 7.84% (2006: 7.84%) per annum with final maturity on 30 July 2008, was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of $15,071,299 (2006: $6,836,110).

(c) A bank loan of $2,978,723, which carried interest at 8.28% per annum with final maturity on 21 August 2008, was guaranteed by a third party.

(d) Discounted bills with recourse totalling $18,434,043 (2006: $6,127,000) were secured by the related bills receivable and were repayable within one year.

(e) Certain unsecured bank loans totalling $175,531,915 (2006: $70,000,000) carried interest at rates ranging from 5.47% to 8.02% (2006: from 5.58% to 7.02%) per annum and were repayable within one year.

(f) An unsecured bank loan of $21,276,596 (2006: $20,000,000) carried interest at 5.47% (2006: 5.47%) per annum with final maturity on 19 March 2008.

32. OTHER LOANS

Other loans were obtained from a third party and were unsecured, carried interest at rates ranging from 5.22% to 7.03% and due at various times in 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33. CONVERTIBLE NOTES

On 26 May 2006, the Company issued convertible notes with a nominal value of $46,000,000 to Value Partner Limited, an independent investor. The notes bear interest rate at 7% per annum with a maturity date of 25 May 2011. The convertible notes are, at the option of the holder, convertible on or after 26 November 2007 up to and including 25 May 2011, into ordinary shares of the Company at an initial conversion price of $0.90 per share, subject to adjustment under certain events. Upon full conversion, the notes shall be converted into 51,111,111 ordinary shares of $0.01 each of the Company. Both the Company and holders of the convertible notes could redeem the convertible note at par at any time betewen the third anniversary of the date of issue of the convertible note and the maturity date.

On 14 July 2006, the Company issued convertible notes with a nominal value of $25,000,000, $3,000,000 and $3,000,000 to three independent investors, Sagemore Assets Limited, Blue Water Ventures International Ltd. and Synergy Capital Co., Ltd. respectively. The notes bear interest rate at 7% per annum with a maturity date of 13 July 2011. The convertible notes are, at the option of the holders, convertible on or after 14 January 2008 up to and including 13 July 2011, into ordinary shares of the Company at an initial conversion price of $0.90 per share, subject to adjustment under certain events. Upon full conversion, the notes shall be converted into 34,444,444 ordinary shares of $0.01 each of the Company. Both the Company and holders of the convertible notes could redeem the convertible note at par at any time between the third anniversary of the date of issue of the convertible note and the maturity date.

The convertible notes were split into liability, derivative and equity components of $70,544,443, $1,305,431 and $5,150,126 respectively upon initial recognition by recognising the liability component and derivative components at their fair value and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost while the derivative component is carried at fair value to be remeasured at each balance date. The equity component is recognised in the capital reserve.

The movements of liability component of convertible notes during the year as follows:

	Liability component $	Derivative component $	Total $
At 1 January 2006	–	–	–
Convertible notes issued during the year, net of issuing costs	69,396,811	1,305,431	70,702,242
Interest charged during the year	3,509,530	–	3,509,530
Interest paid during the year	(2,957,452)	–	(2,957,452)
At 31 December 2006	69,948,889	1,305,431	71,254,320
At 1 January 2007	**69,948,889**	**1,305,431**	**71,254,320**
Interest charged during the year	**6,887,952**	**–**	**6,887,952**
Interest paid during the year	**(5,390,000)**	**–**	**(5,390,000)**
Change in fair value	**–**	**(4,452,515)**	**(4,452,515)**
At 31 December 2007	**71,446,841**	**(3,147,084)**	**68,299,757**

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(Expressed in Hong Kong dollars)

34. 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, Shenyang, Tianjian and Beijing, whereby the Group is required to make contributions to the Schemes at the rate of ranging from 19% to 22% 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 these schemes beyond the annual contributions described above.

35. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35. 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:

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			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35. 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: *(continued)*

Share Option Scheme

	Number of instruments	Vesting conditions and exercisable percentage condition	Up to %	Contractual life of options
Options granted to directors				
– on 23 August 2007	16,000,000	23 August 2007 to 22 August 2012	30	5 years
		23 February 2008 to 22 August 2012	60	
		23 August 2008 to 22 August 2012	100	
– on 23 August 2007	400,000	23 August 2007 to 22 August 2012	100	5 years
Options granted to employees				
– on 23 August 2007	4,000,000	23 August 2007 to 22 August 2012	30	5 years
		23 February 2008 to 22 August 2012	60	
		23 August 2008 to 22 August 2012	100	
– on 23 August 2007	200,000	23 August 2007 to 22 August 2012	100	5 years
	20,600,000			
Total share options	32,000,000			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2007		2006	
	Weighted average exercise price $	**Number of options**	Weighted average exercise price $	Number of options
Outstanding at the beginning of the year	**0.38**	**6,840,000**	0.38	11,400,000
Exercised during the year	**0.38**	**(4,560,000)**	0.38	(4,560,000)
Granted during the year	**1.60**	**20,600,000**	–	–
Outstanding at the end of the year		**22,880,000**		6,840,000
Exercisable at the end of the year		**8,880,000**		4,560,000

The weighted average share price at the date of exercise for shares options exercised during the year was $0.83 (2006: $0.77).

The options outstanding at 31 December 2007 had exercise prices ranging from $0.38 to $1.60 (2006: $0.38) and a weighted average remaining contractual life of 4.29 years (2006: 1.9 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(c) Fair value of share options and assumptions *(continued)*

Fair value of share options and assumptions

(i) Pre-IPO Employee Share Option Scheme

	At 22 November 2004 (date of grant)
Fair value at measurement date	$0.788
Share price	$1.18
Exercise price	$0.38
Expected volatility (expressed at weighted average volatility used in the modelling under the binomial lattice model)	50%
Option life (expressed as weighted average life used in the modelling under the binomial lattice model)	4 years
Expected dividends	2.3%
Risk-free interest rate (based on Exchange Fund Notes)	2.1%

(ii) Share Option Scheme

	At 23 August 2007 (date of grant)
Fair value at measurement date	**$0.426**
Share price	**$1.60**
Exercise price	**$1.60**
Expected volatility (expressed at weighted average volatility used in the modelling under the binomial lattice model)	**50%**
Option life (expressed as weighted average life used in the modelling under the binomial lattice model)	**5 years**
Expected dividends	**4.00%**
Risk free interest rate (based on Exchange Fund Notes)	**4.03%**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36. CAPITAL AND RESERVES

The Group

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Merger reserve	Statutory reserve	Capital reserve	Exchange reserve	Other reserve	Retained profits	Sub-total	Minority interests	Total
	$	$	$	$	$	$	$	$	$	$	$
At 1 January 2006	3,810,000	80,168,124	36,341,236	18,924,272	9,545,757	2,357,650	–	48,199,626	199,346,665	10,640,264	209,986,929
Equity settled share-based transactions	–	–	–	–	2,282,000	–	–	–	2,282,000	–	2,282,000
Dividends approved in respect of prior years	–	–	–	–	–	–	–	(12,723,480)	(12,723,480)	–	(12,723,480)
Profit for the year	–	–	–	–	–	–	–	45,608,257	45,608,257	2,172,782	47,781,039
Appropriations to statutory reserves	–	–	–	7,605,333	–	–	–	(7,605,333)	–	–	–
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	–	–	–	–	–	7,459,514	–	–	7,459,514	812,254	8,271,768
Shares issued under share option scheme	45,600	5,279,600	–	–	(3,592,400)	–	–	–	1,732,800	–	1,732,800
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	13,534,000	13,534,000
Equity component of convertible notes	–	–	–	–	5,076,618	–	–	–	5,076,618	–	5,076,618
Acquisition of additional equity interest in a subsidiary	–	–	–	–	–	–	811,005	–	811,005	(8,800,222)	(7,989,217)
Acquisition of subsidiaries	–	–	–	–	–	–	1,330,060	–	1,330,060	12,038,837	13,368,897
At 31 December 2006	3,855,600	85,447,724	36,341,236	26,529,605	13,311,975	9,817,164	2,141,065	73,479,070	250,923,439	30,397,915	281,321,354
At 1 January 2007	3,855,600	85,447,724	36,341,236	26,529,605	13,311,975	9,817,164	2,141,065	73,479,070	250,923,439	30,397,915	281,321,354
Equity settled share-based transactions	–	–	–	–	6,020,000	–	–	–	6,020,000	–	6,020,000
Dividends approved in respect of prior years	–	–	–	–	–	–	–	(13,654,200)	(13,654,200)	–	(13,654,200)
Profit for the year	–	–	–	–	–	–	–	66,630,845	66,630,845	(7,816,330)	58,814,515
Appropriations to statutory reserves	–	–	–	6,207,538	–	–	–	(6,207,538)	–	–	–
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	–	–	–	–	–	19,009,510	–	–	19,009,510	3,320,316	22,329,826
Shares issued under share option scheme	45,600	5,279,600	–	–	(3,592,400)	–	–	–	1,732,800	–	1,732,800
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	10,425,532	10,425,532
Shares issued under placement, net of issuance costs	400,000	61,185,135	–	–	–	–	–	–	61,585,135	–	61,585,135
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	16,525,609	16,525,609
At 31 December 2007	4,301,200	151,912,459	36,341,236	32,737,143	15,739,575	28,826,674	2,141,065	120,248,177	392,247,529	52,853,042	445,100,571

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36. CAPITAL AND RESERVES *(continued)*

The Company

	Share capital $	Share premium $	Capital reserve $	Accumulated losses $	Total $
At 1 January 2006	3,810,000	80,168,124	6,142,000	(5,801,862)	84,318,262
Profit for the year	–	–	–	7,222,569	7,222,569
Dividends approved in respect of prior year	–	–	–	(12,723,480)	(12,723,480)
Equity settled share-based transactions	–	–	2,282,000	–	2,282,000
Share issued under share option scheme	45,600	5,279,600	(3,592,400)	–	1,732,800
Equity component of convertible notes	–	–	5,076,618	–	5,076,618
At 31 December 2006	3,855,600	85,447,724	9,908,218	(11,302,773)	87,908,769
At 1 January 2007	**3,855,600**	**85,447,724**	**9,908,218**	**(11,302,773)**	**87,908,769**
Profit for the year	–	–	–	**14,075,850**	**14,075,850**
Dividends approved in respect of prior year	–	–	–	**(13,654,200)**	**(13,654,200)**
Equity settled share-based transactions	–	–	**6,020,000**	–	**6,020,000**
Share issued under share option scheme	45,600	**5,279,600**	**(3,592,400)**	–	**1,732,800**
Share issued under placement, net of issuance costs	400,000	**61,185,135**	–	–	**61,585,135**
At 31 December 2007	**4,301,200**	**151,912,459**	**12,335,818**	**(10,881,123)**	**157,668,354**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. CAPITAL AND RESERVES *(continued)*

(a) Share capital

(i) Authorised and issued share capital

	2007 Number of shares	2007 $	2006 Number of shares	2006 $
Authorised:				
Ordinary shares of $0.01 each	**10,000,000,000**	**100,000,000**	10,000,000,000	100,000,000
Issued:				
At 1 January	**385,560,000**	**3,855,600**	381,000,000	3,810,000
Shares issued under share option scheme *(note (ii))*	**4,560,000**	**45,600**	4,560,000	45,600
Shares issued under placement *(note (iii))*	**40,000,000**	**400,000**	–	–
At 31 December	**430,120,000**	**4,301,200**	385,560,000	3,855,600

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme

During the year, options were exercised to subscribe for 4,560,000 (2006: 4,560,000) ordinary shares in the Company at a consideration of $1,732,800 (2006: 1,732,800) of which $45,600 (2006: $45,600) was credited to share capital and the balance of $1,687,200 (2006: $1,687,200) was credited to the share premium account. $3,592,400 (2006: $3,592,400) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 2(r)(ii).

(iii) Shares issued under placement

On 1 August 2007, Applaud Group Limited ("Applaud Group"), the ultimate holding company of the Company, placed 40,000,000 existing ordinary shares of $0.01 each of the Company to independent investors at a price of $1.60 per share (the "Placing Shares"). On 7 August 2007, 40,000,000 new ordinary shares of $0.01 each of the Company were allotted and issued to Applaud Group at a subscription price of $1.60 per share. The Placing Shares represent approximately 9.30% of the enlarged issued share capital of the Company.

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(Expressed in Hong Kong dollars)

36. CAPITAL AND RESERVES *(continued)*

(b) Nature and purpose of reserves

(i) *Share premium*

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

(ii) *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.

(iii) *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.

– 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.

– 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 items 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36. CAPITAL AND RESERVES *(continued)*

(b) Nature and purpose of reserves *(continued)*

(iv) Capital reserve

The capital reserve comprises the following:

– 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 2(r)(ii);

– the Group's share of changes in the capital reserve of the jointly controlled entities; and

– the value of the unexercised equity component of convertible notes issued by the Company recognised in accordance with the accounting policy adopted for convertible notes set out in note 2(n).

(v) Other reserve

Other reserve of the Group represents fair value of net identifiable assets of subsidiaries acquired over the carrying amount of net identifiable assets of subsidiaries at date of acquisition.

(c) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $120,248,177 (2006: $73,479,070). After the balance sheet date the directors proposed a final dividend of 3.6 HK cents per ordinary share (2006: 3.5 HK cents per share), amounting to $15,951,600 (2006: $13,494,600). This dividend has not been recognised as a liability at the balance sheet date.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-capital ratio. Net debt is calculated as aggregate of bank loans, convertible notes and other loans less cash and cash equivalents. Capital comprises all components of total equity.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the net debt-to-capital ratio at the below 60%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36. CAPITAL AND RESERVES *(continued)*

(d) Capital management *(continued)*

The net debt-to-capital ratio at 31 December 2007 and 2006 was as follows:

		The group		The company	
		2007	2006	**2007**	2006
	Note	**$**	$	**$**	$
Bank loans	31	**228,646,234**	117,927,000	**–**	–
Other loans	32	**20,903,298**	–	**–**	–
Convertible notes	33	**68,299,757**	71,254,320	**68,299,757**	71,254,320
		317,849,289	189,181,320	**68,299,757**	71,254,320
Less: Cash and cash equivalents	29	**(56,156,196)**	(65,734,351)	**(6,385,015)**	(960,043)
Net debt		**261,693,093**	123,446,969	**61,914,742**	70,294,277
Capital		**445,100,571**	281,321,354	**157,668,354**	87,908,769
Net debt-to-capital ratio		**59%**	44%	**39%**	80%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

37. ACQUISITION OF SUBSIDIARIES

(a) Honest Bright

On 30 March 2007, pursuant to the directors' approval of the sales and purchase agreement dated 17 November 2006, the Group acquired 51.2% equity interest in Honest Bright.

Honest Bright is an investment holding company and has direct holding of the entire equity interests in Properline and Sure Lucky. Properline and Sure Lucky are also investment holding companies with direct holding of 31.5% and 30% equity interests in Troitec respectively. Troitec is engaged in development, production and distribution of engine management system and related components in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37. ACQUISITION OF SUBSIDIARIES *(continued)*

(a) Honest Bright *(continued)*

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts $	Fair value adjustments $	Recognised values on acquisitions $
Fixed assets	8,173,432	–	8,173,432
Deposits for acquisition of fixed assets	309,911	–	309,911
Intangible assets	1,960,266	65,389,796	67,350,062
Inventories	16,689,614	–	16,689,614
Trade and other receivables	20,049,818	–	20,049,818
Cash and cash equivalents	2,920,858	–	2,920,858
Trade and other payables	(71,301,800)	–	(71,301,800)
Other loans	(18,826,531)	–	(18,826,531)
Deferred tax liabilities	–	(12,844,423)	(12,844,423)
Minority interests	–	(20,342,556)	(20,342,556)
Net identifiable liabilities	(40,024,432)	32,202,817	(7,821,615)
Share of net identifiable liabilities attributable to the Group (51.2%)			(4,004,667)
Goodwill on acquisition *(note 20)*			4,378,505
Consideration paid			373,838
Less: cash of subsidiaries acquired			(2,920,858)
Net cash inflow in respect of purchase of subsidiaries			(2,547,020)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) Tai Tong

On 27 December 2007, pursuant to the directors' approval of the sales and purchase agreement dated 24 November 2007, the Group acquired an additional 66.67% equity interest in Tai Tong held by the then major shareholder of Tai Tong. As a result of the acquisition, the Group's equity interest in Tai Tong increased from 33.33% to 100% effective on the same date.

Tai Tong is an investment holding company and it has direct holding of entire equity interest in Harvest Full. Harvest Full is an investment holding company and has direct holding of 30% equity interests in YanTai Vast. YanTai Vast is an existing 30% owned associated company of the Group. It is engaged in production and selling of cylinder lines and spare parts of automobile engines in the PRC. As a result of the acquisition, the Group's equity interest in YanTai Vast increased from 30% to 50% and became a jointly controlled entity of the Group effective on the same date.

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts $	Fair value adjustments $	Recognised values on acquisitions $
Interest in associates	18,320,836	343,916	18,664,752
Other receivables	1,855,693	–	1,855,693
Cash and cash equivalents	115,604	–	115,604
Amount due to a shareholder	(8,507,012)	–	(8,507,012)
Other payables	(24,450)	–	(24,450)
Net identifiable assets	11,760,671	343,916	12,104,587
Less: share of net identifiable assets attributable to the Group's initial interest (33.33%)			(4,034,921)
Net assets acquired			8,069,666
Add: Amount due from Harvest Full			5,671,341
Goodwill			5,623,361
Consideration paid			19,364,368
Less: cash of subsidiaries acquired			(115,604)
Net cash outflow in respect of purchase of subsidiaries			19,248,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, currency risks arises in the normal course of the Group's business.

(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 a 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 10.0% (2006: 23.1%) and 29.6% (2006: 44.7%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables and bills receivables are set out in note 27.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the group and the Company can be required to pay:

The Group	2007						2006					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	$	$	$	$	$	$	$	$	$	$	$	$
Convertible notes	68,299,757	(96,950,000)	(5,390,000)	(5,390,000)	(86,170,000)	-	71,254,320	(102,340,000)	(5,390,000)	(5,390,000)	(91,560,000)	-
Bank loans	228,846,808	(238,428,786)	(238,428,786)	-	-	-	117,927,000	(123,386,193)	(98,964,272)	(24,421,921)	-	-
Other loans	20,903,298	(21,342,962)	(21,342,962)	-	-	-	-	-	-	-	-	-
Trade and other payables	248,939,515	(248,939,515)	(248,939,515)	-	-	-	152,949,496	(152,949,496)	(152,949,496)	-	-	-
	566,989,378	(605,661,263)	(514,101,263)	(5,390,000)	(86,170,000)	-	342,130,816	(378,675,689)	(257,303,768)	(29,811,921)	(91,560,000)	-

The Company	2007						2006					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	$	$	$	$	$	$	$	$	$	$	$	$
Convertible notes	68,299,757	(96,950,000)	(5,390,000)	(5,390,000)	(86,170,000)	-	71,254,320	(102,340,000)	(5,390,000)	(5,390,000)	(91,560,000)	-
Trade and other payables	3,503,339	(3,503,339)	(3,503,339)	-	-	-	20,972,508	(20,972,508)	(20,972,508)	-	-	-
	71,803,096	(100,453,339)	(8,893,339)	(5,390,000)	(86,170,000)	-	92,226,828	(123,312,508)	(26,362,508)	(5,390,000)	(91,560,000)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. FINANCIAL INSTRUMENTS *(continued)*

(c) Currency risk

The Group is exposed to currency risk primarily through sales and purchases 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 Euros, United States dollars and Sterling.

The Group ensures that the net exposure on recognised assets and liabilities arising from sales and purchases that are denominated in a currency other than the functional currency of the operating to which they relate is kept to an acceptable level, by buying or selling foreign currencies at sport rate where necessary to address short-term imbalances.

(i) *Exposure to currency risk*

The following table details the Group's and Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group

	2007			2006		
	United States Dollars	**Euros**	**Sterling**	United States Dollars	Euros	Sterling
Trade and other receivables	**187,649**	**1,403,147**	**–**	116,559	722,160	–
Cash and cash equivalents	**30,428**	**820,179**	**–**	18,596	156	–
Trade and other payables	**(88,223)**	**(87,191)**	**–**	(33,320)	(31,528)	(286,149)
Overall net exposure	**129,854**	**2,136,135**	**–**	101,835	690,788	(286,149)

The Company

	2007		2006	
	United States Dollars	**Euros**	United States Dollars	Euros
Trade and other receivables	**–**	**–**	–	–
Cash and cash equivalents	**15,678**	**141,847**	15,004	–
Trade and other payables	**–**	**–**	–	–
Overall net exposure	**15,678**	**141,847**	15,004	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. FINANCIAL INSTRUMENTS *(continued)*

(c) Currency risk *(continued)*

(iii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The Group

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
United States Dollars	5%	44,994	5%	33,651
	(5)%	(44,994)	(5)%	(33,651)
Euros	5%	1,059,469	5%	294,516
	(5)%	(1,059,469)	(5)%	(294,516)
Sterling	5%	–	5%	(119,617)
	(5)%	–	(5)%	119,617

The Company

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
United States Dollars	5%	6,091	5%	5,814
	(5)%	(6,091)	(5)%	(5,814)
Euros	5%	80,498	–	–
	(5)%	(80,498)	–	–

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. 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	
	2007	2006
	$	$
Contracted for	**4,918,543**	7,132,349
Authorised but not contracted for	**–**	–
	4,918,543	7,132,349

(b) In respect of its interest in jointly controlled entities *(see note 22)*, the Group is committed to incur capital expenditure of $1,776,664 (2006: $709,679). The jointly controlled entities are themselves committed to incur capital expenditure of $3,553,328 (2006: $2,027,653).

(c) At 31 December 2007, the Company had a capital commitment of RMB4,200,000 (2006: RMB7,000,000) (equivalent to $4,468,085 (2006: $7,000,000)) representing capital contribution for setting up a subsidiary in the PRC.

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

Properties

	The Group		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Within 1 year	**1,641,372**	409,344	**221,400**	208,512
After 1 year but within 5 years	**5,110,234**	294,965	**101,475**	121,632
After 5 years	**9,948,292**	949,733	**–**	–
	16,699,898	1,654,042	**322,875**	330,144
Others				
Within 1 year	**8,400**	8,400	**–**	–
After 1 year but within 5 years	**2,800**	11,200	**–**	–
	11,200	19,600	**–**	–

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40. MATERIAL RELATED PARTY TRANSACTIONS

Name of party	**Relationship**
Shanxi Winner	35% owned jointly controlled entity of the Group
Hafei Motor Co., Ltd. ("Hafei Motor")	Minority shareholder (10%) of Hafei Jinheng
Shenyang Jinbei Automotive Company Limited ("Jinbei Automotive")	Minority shareholder (14.81%) of Jinbei Jinheng
Shenyang Brilliance Jinbei Automobile Company Limited ("Brilliance Jinbei")	An associate (49%) of Jinbei Automotive
Li Feng ("Mr Li")	Chairman and director of the Company

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

(a) Recurring

	The Group	
	2007	2006
	$	$
Purchases of raw materials from:		
– Shanxi Winner	**70,019,987**	47,596,710
Sales of airbag systems or other automotive components to:		
– Hafei Motor	**10,633,597**	19,541,371
– Brilliance Jinbei	**60,308,881**	37,513,111
– Shanxi Winner	**173,926**	536,822
Rental expenses paid to:		
– Mr. Li	**774,672**	563,794

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Recurring *(continued)*

In addition, remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11 and certain of highest paid employee as disclosed in note 12, is as follows:

	The Group	
	2007	2006
	$	$
Short-term employee benefits	**4,044,582**	3,912,193
Post-employment benefits	**34,268**	32,706
Equity compensation benefits	**5,871,838**	2,017,766
	9,950,688	5,962,665

Total remuneration is included in "staff costs" *(see note 8)*.

(b) Amounts due from related companies

	The Group	
	2007	2006
	$	$
Hafei Motor	**3,141,773**	7,573,421
Brilliance Jinbei	**25,444,798**	15,055,307
	28,586,571	22,628,728

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 27)*.

(c) Amount due to related parties

	The Group	
	2007	2006
	$	$
Shanxi Winner	**29,354,286**	25,149,070
Mr. Li	**–**	465,540
	29,354,286	25,614,610

The amounts due to Shanxi Winner were trade-related, unsecured, interest free and were expected to be repaid within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Amount due to related parties *(continued)*

The amount due to Mr. Li at 31 December 2006 was non-trade related, unsecured, interest free and was expected to be repaid within one year.

These amounts are included in "Trade and other payables" in the consolidated balance sheet *(see note 30)*.

41. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Acquisition of a subsidiary

Pursuant to an acquisition agreement dated 24 November 2007 entered into with Mr. Xing Zhanwu and Mr. Zhao Qingje (both of them being directors of the Company), the Company undertook to acquire the entire equity interest in Winner Investment Limited ("Winner Investment") by issuing 10,700,000 new ordinary shares of the Company (the "Acquisition"). The Acquisition was completed on 18 February 2008 and the closing price of the Company's ordinary share was $1.10 per share.

Winner investment is an investment holding company and has direct holding of 25% equity interest in Shanxi Winner.

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts $	Fair vale adjustments $	Recognised values on acquisitions $
Share of net assets of associates	12,707,210	1,472,492	14,179,702
Current assets	229,330	-	229,330
Net identifiable assets	12,936,540	1,472,492	14,409,032
Share of net identifiable assets attributable to the Group (100%)			14,409,032
Negative goodwill			2,389,032
Consideration satisfied by 10,700,000 ordinary shares of the Company plus direct costs attributable to the transactions			12,020,000

The valuation for the purpose of purchase accounting is preliminary and is subject to review by experts; thus, the allocation of the purchase price is subject to refinement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

41. NON-ADJUSTING POST BALANCE SHEET EVENTS *(continued)*

(b) On 16 January 2008, options were exercised to subscribe for 2,280,000 ordinary shares in the Company at a consideration of $866,400. The closing price of the shares of the Company at the date of exercise was $1.2.

(c) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 14.

42. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2007, the directors consider the immediate parent and ultimate controlling party of the Group to be Applaud Group Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

43. 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 35 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 their estimated useful lives, after taking into account the estimated residual value. The Group reviews 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) Allowance for impairment of doubtful debts

Allowance for impairment of 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 allowance for impairment of doubtful debts would affect profit or loss in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

43. ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) Fair value of assets acquired and liabilities assumed upon acquisition

In connection with acquisition of subsidiaries, the assets acquired and liabilities assumed are adjusted to their estimated fair values on date of acquisition. The determination of their values of the assets acquired and liabilities assumed involves management's judgement and assumptions. Any change in such judgement and assumptions would affect the fair value of assets acquired and liabilities assumed.

(e) Impairment losses for goodwill

Internal and external sources of information are reviewed by the Group at each balance sheet date to assess whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(f) Capitalisation of development costs

Costs incurred on development projects relating to the design and testing of new or improved airbag systems are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the costs can be measured reliably. It is normally referred to when the Group has signed sales contracts with automakers for the airbag systems under development, costs are identifiable and there is an ability to sell or use the airbag system that will generate probable future economic benefits. The determination of the commercial and technological feasibility of the project and the ability to sell or use the airbag system involves management's judgement and estimation. If there are significant changes from previous estimates, any write-off of capitalised development costs would affect profit or loss in future periods.

44. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

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 year ended 31 December 2007 and which have not been adopted in these financial statements.

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 them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, HKFRS 8, operating segments, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosure in the financial statements.

FIVE YEARS SUMMARY

(Expressed in Hong Kong dollars)

	2003	2004	2005	2006	**2007**
	$	$	$	$	**$**
OPERATING RESULTS					
Turnover	189,731,187	182,285,188	195,668,737	352,541,854	**666,947,593**
Profit from operations	41,910,581	55,664,032	35,535,979	57,392,228	**79,173,962**
Finance costs	(4,337,876)	(3,503,497)	(2,797,426)	(7,774,742)	**(17,917,455)**
Share of (losses)/profits of jointly controlled entities	(159,234)	(694,922)	(269,165)	2,728,827	**4,096,079**
Share of profits of associates	–	–	–	951,286	**1,172,169**
Profit before taxation	37,413,471	51,465,613	32,469,388	53,297,599	**66,524,755**
Income tax	(9,945,979)	(47,684)	(446,043)	(5,516,560)	**(7,710,240)**
Profit for the year	27,467,492	51,417,929	32,023,345	47,781,039	**58,814,515**
Attributable to:					
Equity shareholders of the Company	27,467,492	51,457,162	32,016,170	45,608,257	**66,630,845**
Minority interests	–	(39,233)	7,175	2,172,782	**(7,816,330)**
Profit for the year	27,467,492	51,417,929	32,023,345	47,781,039	**58,814,515**
Earnings per share					
– Basic	9.16 cents	16.88 cents	8.40 cents	11.86 cents	**16.42 cents**
– Diluted	N/A	16.84 cents	8.25 cents	11.27 cents	**14.69 cents**
Assets and liabilities					
Non-current assets	59,581,591	88,446,411	118,521,598	247,063,459	**421,504,829**
Net current assets	15,421,833	134,475,390	118,849,814	133,802,999	**109,934,840**
Total assets less current liabilities	75,003,424	222,921,801	237,371,412	380,866,458	**531,439,669**
Non-current liabilities	(52,830,189)	(41,603,774)	(27,384,483)	(99,545,104)	**(86,339,098)**
NET ASSETS	22,173,235	181,318,027	209,986,929	281,321,354	**445,100,571**
Capital and reserves					
Share capital	–	3,810,000	3,810,000	3,855,600	**4,301,200**
Reserves	20,946,820	176,320,845	195,536,665	247,067,839	**387,946,329**
Total equity attributable to equity shareholders of the Company	20,946,820	180,130,845	199,346,665	250,923,439	**392,247,529**
Minority interests	1,226,415	1,187,182	10,640,264	30,397,915	**52,853,042**
TOTAL EQUITY	22,173,235	181,318,027	209,986,929	281,321,354	**445,100,571**

Note: The Company was incorporated in 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 five years ended 31 December 2007 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 2003 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheets at 31 December 2003, 2004, 2005, 2006 and 2007 are the combination of the balance sheets of the Company and its subsidiaries at 31 December 2003, 2004, 2005, 2006 and 2007. 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.