Annual Report 2008

JIN HENG

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 872)

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Li Hong
Mr. Zeng Qingdong

Independent Non-Executive Directors

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

COMPLIANCE OFFICER

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

QUALIFIED ACCOUNTANT

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

Unit 2, Building 38
No. 2 Jing Yuan North Street
Beijing Economic Technological
Development Area
Beijing, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 605
6th Floor
Beautiful Group Tower
77 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Town
Grand Cayman
Cayman Islands

PRINCIPAL BANKERS

The Bank of East Asia
Bank of Communication

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS

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

LEGAL ADVISER

As to Cayman Island Law:
Conyers Dill & Pearman, Cayman
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

STOCK QUOTE

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WEB SITE OF THE COMPANY

www.jinhengholdings.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 2008.

The Group has taken a series of important projects during 2008 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.

In November 2008, with the effort contributed by the management and shareholders for several years, the Company successfully transferred its entire issued share capital from listing on the GEM to the Main Board of the Stock Exchange and we achieved our commitment to shareholders during these years. The transfer enhances the profile and the recognition of the Group and increases the trading liquidity of the Company's shares by attracting potential institutional investors and enlarging the investor profiles. The directors and shareholders of the Company consider that the listing of the Company's shares on the Main Board is beneficial to the future growth and business development of the Company.

Year 2008 was a challenging year for the automobile industry. Apart from the implementation of certain macro-economic control policies, snowstorm and earthquake at the beginning of the year, there was also financial tsunami in the fourth quarter. All these factors slowed down the buyers' demand on new cars and thus there was decline in growth in the PRC automobile market. Although our automotive safety airbag systems still recorded approximately 5.9% increment in the sales volume and approximately 2.1% increment in the turnover amount, change in the mix of our safety airbag system products and delay in sales plan of our newly commenced automobile electronic business mainly resulted in the decrease of overall turnover amount. Hence for the fiscal year ended 31 December 2008 the overall turnover amount of the Group slightly decreased by approximately 2.9% to HK$647.5 million. Notwithstanding, the PRC government has already promulgated certain policies to support internal consumption in order to stimulate the economy of the PRC. These policies include financial subsidy to peasants for buying new cars which increase the competitiveness in the automobile industry. More automobile manufacturers may then configure their products with high value-added accessories to attract customers. Furthermore, given that our automobile electronic products have the price advantages, it may be a cost incentive to the automotive manufactures to try our products and thus reduce our marketing time and related costs for introducing our automobile electronic products to the market. As a result, it is expected that the installation rate of our automotive safety systems and automobile electronic spare parts will increase and the Group can recover with steady growth.

Our newly started automobile electronic business was affected due to the demand of cars in the PRC slowed down in the second half of 2008. Our 51.2%-owned subsidiary Troitec Automotive Electronics Co., Ltd. and its holding company ("Beijing Troitec Group") delayed a few business plans and certain one-off expenses were incurred for introduction of a strategic investor. These resulted in a loss by Beijing Troitec Group of approximately HK$30.3 million. As such loss exceeded the investment cost of the minority shareholders of Beijing Troitec Group, the Group was required to fully absorb the excessive portion. Accordingly, the profit attributable to the equity shareholders of the Company decreased to approximately HK$38.7 million in 2008. Notwithstanding, several delayed business plans of automobile electronic spare parts in 2008 has commenced commercial production in 2009. It is expected that the automobile electronic spare parts business will provide positive contribution to the Group in 2009 onwards.

CHAIRMAN'S STATEMENT

During the year, the Group has continuously put effort to achieve the mid-to-long term strategies of establishing a seamless supply chain and developing automobile electronic spare parts business. In February 2008, the Group completed the acquisition of 25% equity interest of Shanxi Winner Auto-Parts Ltd. ("Shanxi Winner") through acquisition of the entire equity interest of Winner Investments Limited, which held a 25% equity interest in Shanxi Winner. As a result, the Group owned 60% equity interest of Shanxi Winner and it becomes a subsidiary of the Group. Shanxi Winner mainly produces inflators used in the automobile safety airbag systems. It also engages in development of time springs used in the automobile safety airbag systems and wire products of automotives, which have already commenced trial production. Furthermore, the Group completed the acquisition of 52% equity interest in Tianjian Zhuo Yuan Electrical Technology Limited ("Tianjian Zhuo Yuan") in April 2008. Tianjian Zhuo Yuan is engaged in production and sales of automotive spare parts which are new products of the Group and they help the Group explore into new market.

OUTLOOK AND FUTURE PROSPECTS

The directors of the Company believe the implementation of the national policies in the PRC will help the PRC automobile industry recover rapidly and create business opportunities to the Group. We are developing the automobile safety airbag systems for over thirty new car models, and our automobile safety products such as pre-tension seat belts and side airbag systems will commence commercial production in 2009. These products are expected to generate positive contribution to the results of the Group in 2009 and help the Group maintain the leadership position in the PRC automobile safety products market.

Furthermore, after the research and the market development stages in the past 2 years, it is expected that our automobile electronic spare parts business will step into the growth stages in 2009. Our engine management system business has already obtained recognition from the PRC and overseas customers and will commence commercial production in 2009. As we have price advantages and are more familiar with the requirements of the PRC automobile market, it is expected that we can develop new markets for the engine management system business which will be an important segment in contribution to the results of the Group in 2009. The Group has also entered into a joint venture agreement in January 2009 to establish a joint venture in Tianjian, the PRC for manufacturing spare parts of engine management systems. We expect a further reduction of the production costs to enhance our competitiveness.

While developing market and customers, management of the Group continue to enhance the operation management quality. We will strive for improvement of operation efficiency by utilizing our internal resources properly and control the overall production cost and administrative cost in effective ways in order to strengthen our foundations to capture the business opportunities brought by the markets.

The directors of the Company believe our automobile safety products can maintain a steady growth and the engine management system and other automobile electronic spare parts will provide positive contributions to the results in 2009 that the Group will have a good prospect and deliver fruitful returns to investors.

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, 24 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

For the fiscal year ended 31 December 2008, the Group reported turnover of approximately HK$647.5 million, representing a slightly decrease of approximately 2.9% as compared with the fiscal year ended 31 December 2007. During the year, more than ten new models have been launched commercial production, and our new automotive electronic spare parts business has commenced trial production. On the other hand, there was snow disaster, earthquake and the impact of macro-economic control policies slowed down the growth of the PRC automotive industry in the first half of 2008. Moreover, the global economic downturn in the second half of 2008 slowed down the buyer's demand on new cars. Notwithstanding the economic environment has not yet recovered in the rest of the world, PRC government has already promulgated certain policies to help recover the PRC economy which have already been proved effective in the first quarter of 2009. Given that the Group has invested in developing new markets and expanding our products profile such as electronic spare parts and engine management systems, the directors of the Company believe that our business can maintain a healthy growth in line with the recovery of the PRC economy.

The average gross profit ratio of the Group for the year 2008 was slightly decreased by 1.9% to 22.7% as compared with last year. The decrease was mainly due to the change in product mix and slight decrease of overall turnover amount. The average gross profit margin of both mechanical and electronic airbag systems was 22.1% in the fiscal year 2008 which has been improving since the fourth quarter of 2008.

Distribution costs for the year ended 31 December 2008 increased by HK$6.4 million to HK$26.1 million as compared to last year. This is mainly because there were two more subsidiaries joined the Group and the Group has put more effort in exploring new overseas markets in 2008.

For the fiscal year 2008, research and development expenses were approximately HK$13.3 million, representing a decrease of approximately 7.5% in comparison with the fiscal year 2007. The decrease was mainly due to several new safety products development projects such as side airbag systems and pre-tension seat belts which have come to the final stages that less expenses were incurred.

Administrative expenses increased by approximately HK$29.7 million to HK$91.6 million as compared to 2007. The increment was mainly due to a one-off expense of approximately HK$12 million incurred for performing due diligence work and professional service in connection with the issuance of preferred shares of a subsidiary to investors with the consideration of RMB 100 million in May 2008. Also the Group has incurred redundancy costs of approximately HK$2.1 million. Further, there were two more subsidiaries joined the Group in 2008 which contributed more administrative expenses to the Group.

The finance costs in the current year were approximately HK$24.6 million. The increase by HK$6.7 million was mainly attributable to the increase of short-term loans mainly used to finance our preparation of the launch of new products and to cope with the expected increment of demand in 2009.

For the year ended 31 December 2008, profit attributable to the equity shareholders of the Company was approximately HK$38.7 million. This was mainly due to the full absorption of the operation losses of Beijing Troitec Group instead of sharing with the minority shareholders. Beijing Troitec Group, principally engaged in manufacturing automobile electronic products, was still under development stage. Such losses mainly resulted from the delay of business plan. Several delayed models have been launched to the market in early 2009 and Beijing Troitec Group is expected to provide positive contributions to the Group in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2008, the Group had bank and cash balances of approximately HK$56.9 million (31 December 2007: approximately HK$56.2 million) and net current liabilities of approximately HK$89.6 million while it was recorded a net current assets of approximately HK$109.9 million in the last fiscal year. The decrease was mainly due to the reclassification of the approximately HK$68.8 million convertible notes which were previously classified as long-term liabilities, and the addition of approximately HK$92.0 million convertible preferred shares and the related derivatives, representing the fair value of the convertible preferred shares and the embedded derivative components. Such preferred shares were sold to strategic investors at a consideration of RMB100 million by Shiny Bright. Neither the Company nor the holders of the convertible notes and the convertible preferred shares have indicated their intention to redeem the convertible notes and the convertible preferred shares. As a result of the increase in investing activities, total non-current assets of the Group increased by 45.3% indicated their intention to approximately HK$612.5 million in the current year.

As at 31 December 2008, the Group had non-current liabilities of approximately HK$31.7 million, which all represent the deferred tax liabilities.

The Group also had short-term bank loans of HK$305.8 million which included bank loans with an aggregate amount of HK$251.3 million (equivalent to RMB221.1 million) with fixed interest rates ranging from 5.02% to 8.40% per annum, and discounted bills of HK$54.5 million (equivalent to RMB48.0 million) which were not yet matured at the year end date. The short-term bank loans were primarily used to finance short-term cash flows for our PRC operations. Also the Group had 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 of HK$0.90 per share

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. 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 Renminbi, Hong Kong dollars, US dollars or, to a lesser extent, Euro. 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 2008, 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 2008, the Group pledged its leasehold land and buildings with aggregate carrying value of approximately HK$15.4 million for a bank loan of HK$11.1 million (equivalent to RMB9.8 million).

In additions, discounted bills with recourse totalling HK$54.5 million were secured by the related bills receivable and were repayable within one year.

GEARING RATIO

The Group's gearing ratio, which was derived from the total liabilities to total assets, increased to 62.6% in 2008 from 56.8% in 2007.

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$20.3 million in respect of acquisition of fixed assets as at 31 December 2008.

MATERIAL ACQUISITIONS AND DISPOSALS

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 the 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%.

On 16 April 2008, pursuant to the approval of the sale and purchase agreement dated at the same date, the Group acquired 52% equity interest of Tianjian Zhuo Yuan Electrical Technology Limited ("Tianjian Zhuo Yuan"). Tianjian Zhuo Yuan is engaged in the production and sales of automotive electronic products in the PRC.

On 2 June 2008, pursuant to the approval of the sale and purchase agreement dated 22 May 2008, the Group, through Honest Bright Group Limited ("Honest Bright") and its subsidiary (collectively "Honest Bright Group"), both of which are 51.2% owned by the Group, acquired 38.5% equity interest of Troitec Automotive Electronics Co., Ltd. ("Troitec"). Troitec is engaged in the development, production and distribution of automobile used engine management system and related components in the PRC. As a result of the acquisition, Honest Bright Group's equity interest in Troitec increased from 61.5% to 100% and the effective equity interest of the Group in Troitec increased from 31.5% to 51.2%. In June 2008, pursuant to the agreement dated 23 May 2008, the Group also disposed of 3,793,353 convertible preferred shares of Shiny Bright Holdings Limited, a wholly owned subsidiary of Honest Bright, which owned the entire equity interest in Troitec after the acquisition as mentioned above, at a consideration of RMB100 million to certain investors ("Investors"). If the Investors convert the preferred shares to ordinary shares of Shiny Bright, the Investors may then effectively own 32.79% equity interest of Troitec.

On 14 August 2008, pursuant to the approval of the share transfer agreement dated at the same date, the Group disposed of 51% equity interest of Tianjian AMT Engine System Co., Ltd ("Tianjian AMT"). As a result of the disposal, the Group does not hold any equity interest in Tianjian AMT.

SIGNIFICANT INVESTMENT

There was no significant investment during the year.

CONTINGENT LIABILITIES

As at 31 December 2008, the directors of the Company were not aware of any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS

On 16 January 2009, a joint venture agreement was entered into between Troitec, a subsidiary of the Group and a third party, pursuant to which a joint venture will be established in Tianjian, the PRC. Troitec will have an 80% equity interest in the joint venture. The registered capital of the joint venture will be RMB50,000,000 (equivalent to approximately $56,800,000).

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 2008, the Group employed approximately 1,370 staff in the PRC and Hong Kong, representing a decrease of 285 staff from 31 December 2007. The decrease in staff was mainly from the PRC operations. The Group's remuneration to employees, including directors' emoluments, increased by approximately HK$22.6 million to approximately HK$71.9 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, Shanxi, 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.

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 12 November 2008, the Company withdrew the listing of its shares on GEM and listed its entire issued share capital by way of transfer on the Main Board of the Stock Exchange.

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 10 September 2008, 400,000 share option were exercised to subscribe for 400,000 ordinary shares in the Company at a consideration of approximately HK$0.4 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.

A total of 62,500,000 new shares were issued as a result of these transactions. The number of total issued share capital of the Company becomes 443,500,000 shares 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 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 47, 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 renewed service agreement between the Company and Mr. Li commencing from 9 December 2007 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$840,000.

Mr. Xing Zhanwu, aged 45, brother of Mr. Xing Zhanwen, 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 renewed service agreement between the Company and Mr. Xing commencing from 9 December 2007 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$840,000.

Mr. Zhao Qingjie, aged 51, 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 renewed service agreement between the Company and Mr. Zhao commencing from 9 December 2007 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$600,000.

Mr. Yang Donglin, aged 43, 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 renewed service agreement between the Company and Mr. Yang commencing from 9 December 2007 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$258,000 per annum.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Foo Tin Chung, Victor, aged 40, 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 has over ten years' experience in the finance and accounting fields and held management position of listed groups 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 renewed service agreement between the Company and Mr. Foo commencing from 9 December 2007 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$741,000. Mr. Foo is currently an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited, a company listed on the Stock Exchange. During the past 3 years period, Mr. Foo has had held directorship at RBI Holdings Limited, a company listed on the Stock Exchange.

NON-EXECUTIVE DIRECTORS

Mr. Li Hong, aged 46, 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$210,000 per annum. The appointment terms of Mr. Li were fixed for a 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 45, 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 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. Mr. Zeng is also a director of China Wonder Limited, a company listed in the Alternative Investment Market (AIM) of the London Stock Exchange in United Kingdom. There is no service agreement between the Company and Mr. Zeng. The emoluments payable to Mr. Zeng is HK$120,000 per annum. The appointment terms of Mr. Zeng were fixed for a 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 56, has over 28 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, Welling Holding Limited, Minmetals Resources Limited, Chaoyue Group Limited, Heng Xin China Holdings 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 Chuang's China Investments Limited, Chuang's Consortium International Limited, Hunan Nonferrous Metals Corporation Limited, EVA Precision Industrial Holdings 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$240,000 per annum. The appointment terms of Mr. Chan were fixed for a 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 76, 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 were 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 36, 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 were 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 57, is the vice president of the Group. 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 49, brother of Mr. Xing Zhanwu, is currently the general manager of the Shanxi Winner. 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 44, 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 50, 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 46, 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.

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 2008.

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. On 12 November 2008, the Company withdrew the listing of its shares on GEM and listed its entire issued share capital by way of transfer on the Main Board of the Stock Exchange.

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 2008 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 36 to 115.

DIVIDENDS

Pursuant to a resolution passed at a directors' meeting on 24 April 2009, a final dividend of 1.5 HK cents per share totalling HK$6,652,500 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 (2007: 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 37 on the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 37(a) on the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

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 2008 are set out in note 30 and 31 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	16.0%	
Five largest customers in aggregate	44.8%	
The largest supplier		11.3%
Five largest suppliers in aggregate		37.3%

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

In accordance with Article 87(1) of the Articles of Association, the following Directors, namely, Messrs. Li Feng, Yang Donglin, Foo Tin Chung, Victor and Li Hong will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, would offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

On 9 December 2007, all the executive directors entered into a renewed service contract with the Company. Each executive director is committed by the respective service contracts to devote himself exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of his conduct of business affairs, among other commitments. All executive directors are also entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the Group attributable to shareholders of the Company. The percentage shall be determined by the board of directors but in any case the aggregate amount payable for each financial year to all the executive directors of the Company shall not exceed 4% of such profit.

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

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

As at 31 December 2008, 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 the Model Code for Securities Transactions by Directors of Listed Issuers contained in the 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	2,600,000	0.59%
	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Xing Zhanwu	Beneficial owner	8,420,000	1.90%
	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	Beneficial owner	4,280,000	0.97%
	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Foo Tin Chung, Victor	Beneficial owner	800,000	0.18%

Note: As at 31 December 2008, 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 51.55% 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 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

SHARE OPTION SCHEMES

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

The total number of securities available for issue under the share option schemes as at 31 December 2008 was 37,700,000 shares (including options for 37,700,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 8.50% of the issued share capital of the Company as at 31 December 2008.

As at 31 December 2008, 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 2008 is HK$0.39) 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	520,000	–	22 November 2004	9 December 2005 to 9 December 2008	520,000	HK$0.38	HK$0.788	HK$1.20
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	400,000	–	22 November 2004	9 December 2005 to 9 December 2008	400,000	HK$0.38	HK$0.788	HK$1.20
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	160,000	–	22 November 2004	9 December 2005 to 9 December 2008	160,000	HK$0.38	HK$0.788	HK$1.20
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	216,000	–	22 November 2004	9 December 2005 to 9 December 2008	216,000	HK$0.38	HK$0.788	HK$1.20
Mr. Xing Zhanwen (邢占文)	Employee, general manager of Shanxi Winner	176,000	–	22 November 2004	9 December 2005 to 9 December 2008	176,000	HK$0.38	HK$0.788	HK$1.20
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	200,000	–	22 November 2004	9 December 2005 to 9 December 2008	200,000	HK$0.38	HK$0.788	HK$1.20

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, general manager of Beijing Great Idea	176,000	–	22 November 2004	9 December 2005 to 9 December 2008	176,000	HK$0.38	HK$0.788	HK$1.20
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	168,000	–	22 November 2004	9 December 2005 to 9 December 2008	168,000	HK$0.38	HK$0.788	HK$1.20
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	144,000	–	22 November 2004	9 December 2005 to 9 December 2008	144,000	HK$0.38	HK$0.788	HK$1.20
Mr. Chen Lixin (沈立新)	Employee, deputy general manager of Jinheng Automotive	120,000	–	22 November 2004	9 December 2005 to 9 December 2008	120,000	HK$0.38	HK$0.788	HK$1.20
		2,280,000	–			2,280,000			

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:

	2008
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.

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 at the year end	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	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	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	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	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	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, vice president of the Group	4,000,000	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	200,000	23 August 2007	23 August 2007 to 22 August 2012	–	HK$1.60	HK$1.58	N/A
		20,600,000	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:

	2008
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.

On 11 November 2008, the Company offered options to subscribe for a total of 17,100,000 Shares under the Share Option Scheme to 6 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 offered	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 Dong Zhongjiang (董眾江)	Employee, deputy general manager of the Shanxi Winner	–	3,100,000	11 November 2008	11 November 2008 to 10 November 2011	–	HK$0.59	HK$0.5	N/A
Ms Shi Li (石莉)	Employee, accounting manager of the Company	–	1,800,000	11 November 2008	11 November 2008 to 10 November 2011	–	HK$0.59	HK$0.5	N/A
Mr Wong Wah Wai (黃華威)	Employee, senior accountant of the Company	–	4,200,000	11 November 2008	11 November 2008 to 10 November 2011	–	HK$0.59	HK$0.5	N/A
Mr Xing Zhanwen (邢占文)	Employee, general manager of the Shanxi Winner	–	3,000,000	11 November 2008	11 November 2008 to 10 November 2011	–	HK$0.59	HK$0.5	N/A
Ms Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	–	3,000,000	11 November 2008	11 November 2008 to 10 November 2011	–	HK$0.59	HK$0.5	N/A

SHARE OPTION SCHEMES *(continued)*

(b) 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 offered	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 Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	–	2,000,000	11 November 2008	11 November 2008 to 10 November 2011	–	HK$0.59	HK$0.5	N/A
		–	17,100,000			–			

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

The weighted average value per option granted on 11 November 2008 using trinomial model was HK$0.098. 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:

	2008
Risk-free interest rate	**1.09%**
Expected life (in years)	**3 years**
Volatility	**49.70%**
Expected dividend per share	**4.00%**

The trinomial model involves the construction of a trinomial lattice which represents different possible paths that might be followed by the stock price over the life of the options. In developing the trinomial lattice, the life of the option is divided into various time steps. In each time step, there is a binomial stock movement. The fair value of the options would then be calculated by making use of the trinomial lattice.

On 25 August 2008, 400,000 share options were granted for nominal consideration to 160 employees of the Group under the Company's Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 each of the Company. These share options were vested on 25 August 2008, and then be exercisable until 24 August 2009. The exercise price is HK$1.06. All of these 400,000 share options were exercised during the year ended 31 December 2008.

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 2008, 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	–	51.55%	43.21%
Value Partners Limited *(Note 1)*	Investment manager	–	51,111,111	11.52%	9.66%
Value Partners Group Limited *(Note 1)*	Interests of controlled corporation	–	51,111,111	11.52%	9.66%
Cheah Capital Management Limited *(Note 1)*	Interests of controlled corporation	–	51,111,111	11.52%	9.66%
Cheah Company Limited *(Note 1)*	Interests of controlled corporation	–	51,111,111	11.52%	9.66%
Hang Seng Bank Trustee International Limited *(Note 1)*	Trustee	–	51,111,111	11.52%	9.66%
Mr. Cheah Cheng Hye *(Note 1)*	Founder of discretionary trust	–	51,111,111	11.52%	9.66%
Ms. To Hau Yin *(Note 1)*	Spouse of Mr. Cheah Cheng Hye	–	51,111,111	11.52%	9.66%
Sagemore Assets Limited *(Note 2)*	Beneficial Owner	–	27,777,778	6.26%	5.25%
CDS International Limited *(Note 2)*	Interest of controlled corporation	–	27,777,778	6.26%	5.25%
TNS Services Limited *(Note 2)*	Nominee shareholder of beneficial owner	–	27,777,778	6.26%	5.25%

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 2008, 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 2008, the Company has adopted the code set out in the Rules 5.48 to 5.67 of the GEM Listing Rules and Appendix 10 of the 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 Director an annual confirmation for independence pursuant to Rule 5.09 of the GEM Listing Rules and Rule 3.13 of the 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 and on the Main Board on 12 November 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

RELATED PARTY TRANSACTIONS

Related party transactions, inclusive of those constituting the connected transaction or continuing connected transaction, entered into by the Group for the year ended 31 December 2008, are disclosed in note 41 to the financial statements and the section "Continuing Connected Transactions" in the report of the directors below. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 41 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

The Hafei Supply 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 Listing Rules.

On 18 July 2008, 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 2010 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 2010 would not exceed RMB61.95 million, RMB 66.00 million and RMB70.40 million, respectively.

The Directors expect that the aggregate orders from Hafei Motor for the three financial years ending 31 December 2010 will exceed HK$10,000,000 in each of the corresponding year under the Listing Rules. As such, the transactions under the Hafei Supply Agreement will constitute non-exempt continuing connected transactions under the Listing Rules.

The Hafei Second Supply Agreement – Continuing Connected Transactions

On 18 July 2008, Beijing Troitec and Hafei Motor entered into a supply contract (the "Hafei Second Supply Agreement") for a term ending on 31 December 2010 pursuant to which Beijing Troitec will manufacture and sell to Hafei Motor (or its related companies) engine management systems and related spare parts which can be installed in automobiles manufactured by Hafei Motor (or its related companies). Hafei Motor indicated that the estimated maximum value of orders to be placed by Hafei Motor (the "Hafei Second Sales Cap") for the three years ending 31 December 2010 would not exceed RMB67.70 million, RMB149.70 million and RMB171.00 million, respectively. Hafei Motor is a substantial shareholder holding 10% equity interest in Hafei Jinheng and therefore a connected person of the Group under the Listing Rules.

The Directors expect that the aggregate orders from Hafei Motor for the three financial years ending 31 December 2010 will exceed HK$10,000,000 in each of the corresponding year under the Listing Rules. As such, the transactions under the Hafei Second Supply Agreement will constitute non-exempt continuing connected transactions under the Listing Rules.

The Jinbei Supply 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 Listing Rules.

REPORT OF THE DIRECTORS

On 18 July 2008, 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 2010 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 RMB102.00 million, RMB218.30 million and RMB220.00 million, respectively.

The Directors expect that the aggregate orders from Jinbei Automotive for the three financial years ending 31 December 2010 will exceed HK$10,000,000 in each of the corresponding year under the Listing Rules. As such, the transactions under the Jinbei Supply Agreement will constitute non-exempt continuing connected transactions under the Listing Rules.

Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the continuing connected transaction requirements pursuant to the GEM Listing Rules and the Listing Rules in respect of the Hafei Supply Agreement, Hafei Second Supply Agreement and Jinbei Supply Agreement for the three financial years ending 31 December 2010.

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, Hafei Second 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). The Auditors of the Company have:

i. found that the continuing connected transactions have received the approval of the Board of Directors of the Company;

ii. obtained the relevant agreements governing each of the continuing connected transactions from management;

iii. found that the prices charged for each of the transactions selected were in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a price, the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and

iv. found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcement dated 18 July 2008 made by the Company in respect of each of the continuing connected transactions.

AUDITORS

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

By order of the board

Li Feng
Chairman

Hong Kong, 24 April 2009

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.

During the period under review, the Company conducted voluntary reviews of its internal governance against the principles and provisions set out in the code on corporate governance practices as set out in appendix 15 of GEM Listing Rules and appendix 14 of Listing Rules (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 appendix 16 of the Listing Rules, 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.

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 and 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 the Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information disclosable under statutory requirements;
- 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 BOARD *(continued)*

- 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 13 meetings during the year 2008. The Directors are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

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

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

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

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

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

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

- allotment and issuance of new shares due to the exercise of share options under Pre-IPO Employee Share Option Scheme and Share Option Scheme;

BOARD MEETING *(continued)*

- grant share options under Share Option Scheme;
- application for transfer of listing from GEM to Main Board;
- approval of Hafei Supply Agreement, Hafei Second Supply Agreement and Jinbei Supply Agreement of which constitute connected transactions;
- revise remunerations of Directors; and
- other material acquisitions, disposal and increase in equity stakes in subsidiary and capital expenditure.

Details of Directors' attendance at Board meetings held in 2008 are set out as follows:

	Attendance
Executive Directors	
Mr. Li Feng	13/13
Mr. Xing Zhanwu	13/13
Mr. Zhao Qingjie	13/13
Mr. Yang Donglin	13/13
Mr. Foo Tin Chung, Victor	13/13
Non-Executive Directors	
Mr. Li Hong	13/13
Mr. Zeng Qingdong	13/13
Independent Non-Executive Directors	
Mr. Chan Wai Dune	13/13
Mr. Huang Shilin	13/13
Mr. Zhu Tong	13/13

CODE FOR DEALING IN SECURITIES OF THE COMPANY

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT OF DIRECTORS

During their terms of office, the Directors all carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. Meanwhile, they carried out the duties of directors imposed by the Company Law, the articles of association of the Company and the 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 23 May 2008, Mr Xing Zhanwu, Mr Zhao Qingjie, Mr Li Hong, Mr Zeng Qingdong, Mr Huang Shilin, Mr Zhu Tong and Mr Chan Wai Dune 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 and the revised terms of appointment of non-executive Directors (including independent non-executive Directors).

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 independence under Rule 3.13 of the 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 four meetings of the audit committee in compliance with GEM Listing Rules 5.28, 5.29 and 5.33 and the Listing Rules Appendix 14. 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 2008 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.

CORPORATE GOVERNANCE REPORT

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 2008 are set out as follows:

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

NOMINATION COMMITTEE

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

NOMINATION COMMITTEE *(continued)*

Details of attendance of members at meetings of the nomination committee held in 2008 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 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$1.7 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 Listing Rules; and

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS *(continued)*

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 auditor's 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 36 to 115, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

AUDITOR'S RESPONSIBILITY

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

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 2008 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

24 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $	2007 $
Turnover	4	**647,454,790**	666,947,593
Cost of sales		**(500,464,444)**	(502,611,085)
Gross profit		**146,990,346**	164,336,508
Other revenue	5	**17,313,595**	4,625,779
Other net income	6	**28,047,799**	6,132,233
Research and development expenses	7	**(13,277,613)**	(14,353,799)
Distribution costs		**(26,108,047)**	(19,691,312)
Administrative expenses		**(91,586,202)**	(61,875,447)
Profit from operations		**61,379,878**	79,173,962
Finance costs	9(a)	**(24,590,418)**	(17,917,455)
Share of profits of jointly controlled entities	22	**4,307,788**	4,096,079
Share of profits of associates		**–**	1,172,169
Profit before taxation	9	**41,097,248**	66,524,755
Income tax	10(a)	**(8,763,162)**	(7,710,240)
Profit for the year		**32,334,086**	58,814,515
Attributable to:			
Equity shareholders of the Company		**38,744,980**	66,630,845
Minority interests		**(6,410,894)**	(7,816,330)
Profit for the year		**32,334,086**	58,814,515
Dividends payable to equity shareholders of the Company attributable to the year	14		
Final dividends proposed after the balance sheet date		**6,652,500**	15,951,600
Earnings per share	15		
– Basic		**8.77 HK Cents**	16.42 HK Cents
– Diluted		**5.04 HK Cents**	13.80 HK Cents

The notes on pages 43 to 115 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 $	2007 $
Non-current assets			
Fixed assets			
– Property, plant and equipment	17	**245,573,805**	165,095,638
– Interests in leasehold land held for own use under operating leases	17	**38,846,021**	21,776,612
Deposits paid for acquisition of fixed assets		**43,457,855**	31,062,280
Construction in progress	18	**43,304,754**	22,151,684
Intangible assets	19	**179,601,475**	109,145,770
Goodwill	20	**6,153,549**	4,760,769
Interests in jointly controlled entities	22	**55,457,833**	67,433,218
Other non-current financial assets	23	**125,000**	53,191
Deferred tax assets	24(b)	**27,417**	25,667
		612,547,709	421,504,829
Current assets			
Inventories	25	**142,100,762**	108,251,301
Trade receivables, prepayments and other receivables	26	**474,605,369**	414,057,287
Loan receivable	27	**11,000,400**	20,000,000
Current tax recoverable	24(a)	**154,986**	1,250,874
Pledged bank deposits		**16,897,349**	8,708,803
Cash and cash equivalents	28	**56,919,885**	56,156,196
		701,678,751	608,424,461
Current liabilities			
Trade and other payables	29	**316,422,377**	248,939,515
Bank loans	30	**305,782,598**	228,646,808
Other loans	31	**8,227,272**	20,903,298
Convertible notes	32	**68,775,613**	–
Convertible preferred shares	33	**85,982,840**	–
Derivatives	34	**6,056,199**	–
		791,246,899	498,489,621
Net current (liabilities)/assets		**(89,568,148)**	109,934,840
Total assets less current liabilities		**522,979,561**	531,439,669

CONSOLIDATED BALANCE SHEET

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $	2007 $
Non-current liabilities			
Convertible notes	32	–	68,299,757
Deferred tax liabilities	24(b)	**31,667,889**	18,039,341
		31,667,889	86,339,098
NET ASSETS		**491,311,672**	445,100,571
Capital and reserves			
Share capital	37	**4,435,000**	4,301,200
Reserves		**425,402,002**	387,946,329
Total equity attributable to equity shareholders of the Company	37	**429,837,002**	392,247,529
Minority interests	37	**61,474,670**	52,853,042
TOTAL EQUITY		**491,311,672**	445,100,571

Approved and authorised for issue by the board of directors on 24 April 2009

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 43 to 115 form part of these financial statements.

BALANCE SHEET

At 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 $	2007 $
Non-current assets			
Investments in subsidiaries	21	**37,265,416**	37,265,416
Current assets			
Trade receivables, prepayments and other receivables	26	**234,528,700**	185,821,019
Cash and cash equivalents	28	**2,900,986**	6,385,015
		237,429,686	192,206,034
Current liabilities			
Trade and other payables	29	**10,335,323**	3,503,339
Convertible notes	32	**68,775,613**	–
		79,110,936	3,503,339
Net current assets		**158,318,750**	188,702,695
Total assets less current liabilities		**195,584,166**	225,968,111
Non-current liability			
Convertible notes	32	**–**	68,299,757
NET ASSETS		**195,584,166**	157,668,354
Capital and reserves			
Share capital	37	**4,435,000**	4,301,200
Reserves	37	**191,149,166**	153,367,154
TOTAL EQUITY		**195,584,166**	157,668,354

Approved and authorised for issue by the board of directors on 24 April 2009

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 43 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008		2007	
		$	$	$	$
Total equity at 1 January			**445,100,571**		281,321,354
Net income recognised directly in equity:					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			**31,435,887**		22,329,826
Release of exchange reserve upon disposal of a subsidiary			**(694,867)**		–
Profit for the year			**32,334,086**		58,814,515
Total recognised income and expense for the year			**63,075,106**		81,144,341
Attributable to:					
– Equity shareholders of the Company		**64,015,484**		85,640,355	
– Minority interests		**(940,378)**		(4,496,014)	
		63,075,106		81,144,341	
Dividends approved during the year	14(b)		**(15,951,600)**		(13,654,200)
Movements in equity arising from capital transactions					
Equity settled share-based transactions		**3,414,760**		6,020,000	
Capital (withdrawal)/contribution from minority shareholders		**(4,500,000)**		10,425,532	
Acquisition of subsidiaries		**30,395,905**		16,525,609	
Shares issued under share option scheme		**1,272,175**		1,732,800	
Share issued for acquisition of a subsidiary, net of issuance costs		**11,766,000**		–	
Share issued under placement, net of issuance costs		**–**		61,585,135	
Disposal of a subsidiary		**(9,553,380)**		–	
Acquisition of minority interests		**(33,707,865)**		–	
			(912,405)		96,289,076
Total equity at 31 December			**491,311,672**		445,100,571

The notes on pages 43 to 115 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $	2007 $
Operating activities			
Profit before taxation		**41,097,248**	66,524,755
Adjustments for:			
– Depreciation		**26,648,524**	16,187,872
– Amortisation of intangible assets		**18,495,122**	16,877,767
– Amortisation of land lease premium for property held for own use		**1,623,307**	689,537
– Finance costs		**26,989,142**	18,760,135
– Interest income		**(981,226)**	(1,326,799)
– Share of profits of jointly controlled entities		**(4,307,788)**	(4,096,079)
– Share of profits of associates		**–**	(1,172,169)
– Loss on disposal of fixed assets		**550,595**	255,590
– Impairment loss for bad debts		**–**	3,881,779
– Equity settled share-based payment expenses		**3,414,760**	6,020,000
– Negative goodwill		**(2,389,032)**	–
– Gain on disposal of a subsidiary		**(2,342,464)**	–
– Change in fair value of derivative component of convertible notes		**(974,294)**	(4,452,515)
– Change in fair value of convertible preferred shares		**(16,490,564)**	–
– Change in fair value of derivatives		**(5,207,631)**	–
– Foreign exchange loss		**25,964,404**	18,661,107
Operating profit before changes in working capital		**112,090,103**	136,810,980
Increase in inventories		**(20,924,240)**	(12,873,876)
Increase in trade receivables, prepayments and other receivables		**(27,485,869)**	(160,958,971)
Increase in trade and other payables		**21,976,080**	21,828,098
Cash generated from/(used in) operations		**85,656,074**	(15,193,769)
PRC income tax paid		**(1,156,354)**	(7,770,603)
Net cash generated from/(used in) operating activities		**84,499,720**	(22,964,372)
Investing activities			
Payment for purchase of property, plant and equipment		**(70,208,990)**	(56,807,721)
Payment for construction in progress		**(13,224,897)**	(16,425,518)
Payment for purchase of intangible assets		**(67,740,951)**	(22,751,469)
(Increase)/decrease in deposits for fixed assets		**(13,288,777)**	6,944,890
Net cash inflow/(outflow) upon acquisition of subsidiaries	38(a)&38(b)	**219,227**	(16,701,744)
Payment for acquisition of minority interest		**(22,845,000)**	–
Proceeds from disposal of fixed assets		**315,892**	174,758
Net cash outflow from disposal of a subsidiary	38(c)	**(995,929)**	–
Decrease/(increase) in loan to minority shareholder of a subsidiary		**8,999,600**	(20,000,000)
Interest received		**981,226**	1,326,799
Net cash used in investing activities		**(177,788,599)**	(124,240,005)

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $	2007 $
Financing activities			
Increase in pledged bank deposits		**(8,188,546)**	(8,708,803)
Proceeds from new bank loans		**266,712,044**	190,022,966
Repayment of bank loans		**(228,646,808)**	(90,515,464)
Proceeds from other loans		**2,488,636**	2,076,767
Repayment of other loans		**(15,164,662)**	–
Proceeds from issuance of preferred shares		**113,737,234**	–
Proceeds from shares issued under share option scheme		**1,272,175**	1,732,800
Proceeds from shares issued under placement, net of issuance costs		**–**	61,585,135
Bank loan interest paid		**(19,657,108)**	(10,384,346)
Capital contribution from minority interests		**–**	10,425,532
Other borrowing costs paid		**(5,881,884)**	(6,877,837)
Dividend paid		**(15,951,600)**	(13,654,200)
Net cash generated from financing activities		**90,719,481**	135,702,550
Net decrease in cash and cash equivalents		**(2,569,398)**	(11,501,827)
Effect of foreign exchange rate difference		**3,333,087**	1,923,672
Cash and cash equivalents at 1 January		**56,156,196**	65,734,351
Cash and cash equivalents at 31 December	28	**56,919,885**	56,156,196

The notes on pages 43 to 115 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 were listed on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2004. On 12 November 2008, the Company withdrew the listing of its shares on GEM and listed its entire issued share capital by way of transfer on the Main Board of the Stock Exchange.

2. SIGNIFICANT 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 the Main Board of The Stock Exchange of Hong Kong Limited ("the 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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 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(g))*.

At 31 December 2008, the Group's current liabilities exceeded its current assets by $89,568,148. In preparing the financial statements, the directors have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's short-term obligations and capital expenditure requirements. Accordingly, the financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

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 44.

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 applicable 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 reports 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(p), (q) or (r) depending on the nature of the liability.

When the Group acquires any minority interests, no fair value adjustment is made to the identifiable net assets acquired. The excess of the purchase price over the carrying value of minority interests acquired is recognised in equity. Where the Group's interest in a subsidiary is decreased without losing control, any gain or loss on the partial disposal or deemed disposal is recognised in equity.

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

(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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

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 (k))*.

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 the 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 jointly controlled entities are stated at cost less impairment losses *(see note 2(k))*.

(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(k))*. 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 and the investment as a whole is tested for impairment whenever there is objective evidence of impairment *(see note 2(k)(i))*.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Other investments in equity securities

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

Investments in 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(k))*.

Other investments in securities are classified as available-for-sale 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(w)(iii). When these investments are derecognised or impaired *(see note 2(k))*, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

(h) 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(k))*.

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(y))*.

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) 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(k))*. 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.

(j) 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 *(see note 2(y))*, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses *(see note 2(k))*. 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(k))*. 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	5-8 years
–	Patent	10-18 years

Both the period and method of amortisation are reviewed annually.

(k) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries: *see note 2(k)(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

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

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

– For investments in associates and jointly controlled entities recognised using the equity method *(see note 2(d))*, the impairment loss is measured by comparing the recoverable amount (determined in accordance *note 2(k)(ii))* of the investment as a whole with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with *note 2(k)(ii)*.

– 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 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.

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 debt 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

Under the 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(k)(i) and (ii))*.

Impairment losses recognised in an interim period in respect of goodwill 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.

(l) 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.

(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.

(m) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Trade receivables and other receivables

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

(o) 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 *(see note 2(g))*.

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 portion 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.

(p) Convertible preferred shares

Convertible preferred shares that are redeemable on a specific date or at the options of the shareholders and whose dividend payments are discretionary are accounted for as compound financial instruments which contain both a liability component and an equity component. The liability together with the embedded derivative components are accounted for as derivative financial instruments *(see note 2(g))*. Transactions costs that related to the issue of the convertible preferred shares are recognised immediately in profit or loss. Dividends on convertible preferred shares are recognised as distributions within equity.

If the preferred shares are converted, the carrying amounts of the preferred shares at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. If the preferred shares are redeemed, any difference between the amount paid and the carrying amounts of preferred shares is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) 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.

(r) 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.

(s) 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.

(t) 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 a capital reserve within equity. The fair value is measured at grant date using the binomial or trinomial 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).

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) Employee benefits *(continued)*

(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.

(u) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(u) 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.

(v) 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(v)(ii). Contingent liabilities that cannot be reliably fair valued are disclosed in accordance with note 2(v)(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)*

(w) 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.

(iv) Experiment fee income

Experiment fee income is recognised when the related experiment services are rendered.

(x) 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 exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of operations outside Hong Kong 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(y) 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.

(z) 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 or 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(aa) 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.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new interpretations and an amendment to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. However, none of these developments is relevant to the Group's or the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period *(see note 45)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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:

	2008	2007
	$	$
Sales of mechanical airbag systems	**65,185,514**	114,782,362
Sales of electronic airbag systems	**443,184,543**	383,135,563
Sales of automotive safety system components and other automotive components	**139,084,733**	169,029,668
	647,454,790	666,947,593

5. OTHER REVENUE

	2008	2007
	$	$
Experiment fee income	**10,938,444**	245,065
Subsidy income	**4,048,091**	2,536,412
Interest income	**981,226**	1,326,799
Sundry income	**1,345,834**	517,503
	17,313,595	4,625,779

Subsidy income represents certain non-recurring cash subsidies received from the municipal government authorities by subsidiaries of the Group for general business purpose during the years ended 31 December 2007 and 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6. OTHER NET INCOME

	2008 $	2007 $
Net foreign exchange gain	1,375,712	1,876,875
Net unrealised gain on derivative components of convertible notes carried at fair value	974,294	4,452,515
Net unrealised gain on convertible preferred shares carried at fair value	16,490,564	–
Net unrealised gain on derivatives carried at fair value	5,207,631	–
Negative goodwill *(note 38(a))*	2,389,032	–
Gain on disposal of a subsidiary *(note 38(c))*	2,342,464	–
Loss on disposal of fixed assets	(550,595)	(255,590)
Others	(181,303)	58,433
	28,047,799	6,132,233

7. RESEARCH AND DEVELOPMENT EXPENSES

	2008 $	2007 $
Research and development costs incurred during the year	48,259,552	37,101,143
Less: Development costs capitalised during the year	(34,981,939)	(22,747,344)
Amounts charged to consolidated income statement	13,277,613	14,353,799

8. STAFF COSTS

	2008 $	2007 $
Salaries, wages and bonuses	57,705,715	36,985,735
Equity settled share-based payment expenses	3,414,760	6,020,000
Staff welfare	6,502,252	4,176,237
Contributions to retirement benefit schemes	4,243,347	2,078,047
	71,866,074	49,260,019

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:

	2008 $	2007 $
Interest expense on bank advances wholly repayable within five years	**15,945,627**	9,147,249
Interest expense on convertible notes	**6,840,150**	6,887,952
Interest expense on other loans	**491,884**	1,487,837
Discounting charges on discounted bills	**3,711,481**	1,237,097
	26,989,142	18,760,135
Less: borrowing costs capitalised into properties under development#	**(2,398,724)**	(842,680)
	24,590,418	17,917,455

Borrowing costs have been capitalised at a rate of 6.9% per annum (2007: 6.7% per annum).

(b) Other items:

	2008 $	2007 $
Auditors' remuneration	**1,894,727**	1,823,299
Depreciation	**26,648,524**	16,187,872
Amortisation of land lease premium	**1,623,307**	689,537
Impairment losses for bad and doubtful debts *(note 26(b))*	**–**	3,881,779
Amortisation of intangible assets *(note 19)*		
– Acquired technology	**2,707,226**	2,253,094
– Development costs	**11,622,931**	11,790,559
– Patents	**4,164,965**	2,834,114
Royalty expenses	**358,499**	557,506
Operating lease charges in respect of properties	**2,764,826**	1,869,340

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:

	2008	2007
	$	$
Current tax		
PRC income tax for the year *(note 24(a))*	**3,474,096**	7,702,478
Tax refund for the previous year	**(1,221,854)**	–
	2,252,242	7,702,478
Deferred tax		
Origination and reversal of temporary differences *(note 24(b))*	**6,510,920**	7,762
Total income tax expense	**8,763,162**	7,710,240

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.

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)*

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

	Note	**2008**	2007
Jinzhou Jinheng Automotive Safety System Co., Limited ("Jinheng Automotive")	(i)	**12.5%**	13.5%
Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")	(i)	**0%**	0%
Harbin Hafei Jinheng Automotive Safety System Co., Limited ("Hafei Jinheng")		**25%**	33%
Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega")		**25%**	33%
Shenyang Jinheng Jinsida Automotive Electronic Co., Limited ("Jinheng Jinsida")		**25%**	15%
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Limited ("Beijing Great Idea")	(i)	**0%**	15%
Tianjian AMT Engine System Co., Ltd. ("Tianjian AMT")		**25%**	33%
Troitec Automotive Electronics Co., Ltd ("Troitec")		**25%**	33%
Beijing Sheng Shi Tai Fu Automotive Electronic Co., Ltd. ("Sheng Shi Tai Fu")		**25%**	33%
Shanxi Winner Auto-Parts Limited ("Shanxi Winner")	(i)	**9%**	N/A
Tianjian Zhuo Yuan Electrical Technology Limited ("Tianjian Zhuo Yuan")		**25%**	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)*

Notes:

(i) These subsidiaries are entitled to a tax concession period in which they are fully exempted from the PRC income tax for 2 years starting from their first profit-making year after net off accumulated tax losses, followed by a 50% reduction in the PRC income tax for the next 3 years ("tax holidays"). Jinheng Automotive, Jinbei Jinheng, Beijing Great Idea and Shanxi Winner are in the fifth year, second year, first year and third year of their tax holidays, respectively.

(ii) 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 became effective on 1 January 2008. According to the New Tax Law, from 1 January 2008, the standard corporate income tax rate for enterprises in the PRC was reduced from 33% to 25%. Further, the State Council released the Implementation Rules to the Corporate Income Tax Law on 6 December 2007 and the Notice on the Implementation Rules of the Grandfathering Relief under the Corporate Income Tax Law (Guo Fa [2007] No.39) on 26 December 2007 (collectively, the "Implementation Rules").

Under the New Tax Law and the Implementation Rules, an entity established before 16 March 2007 that was entitled to preferential tax treatments prior to the promulgation of the New Tax Law is subject to transitional tax rates commencing in 2008 ("Transitional Tax Rate") before the new corporate income tax rate of 25% applies. The Transitional Tax Rate is 18%, 20%, 22% and 24% in 2008, 2009, 2010 and 2011 respectively. In 2012 and onwards, the entity will be subject to income tax at a rate of 25%.

Any unutilised tax holidays will continue until expiry while tax holidays were deemed to start from 1 January 2008, even if the entity was not yet turning to a profit after net off its accumulated tax losses. Jinheng Automotive, Jinbei Jinheng, Beijing Great Idea and Shanxi Winner are currently under tax holidays. Jinheng Jinsida and Troitec have accumulated tax losses at 31 December 2007 and their tax holidays commenced mandatorily on 1 January 2008.

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

	2008	2007
	$	$
Profit before tax	**41,097,248**	66,524,755
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**10,628,532**	19,053,915
Tax effect of non-deductible expenses	**7,343,900**	6,583,824
Tax effect of non-taxable revenue	**(6,095,953)**	(3,308,357)
Tax effect of tax concessions	**(8,288,378)**	(16,406,475)
Tax effect of unused tax losses not recognised	**3,803,921**	6,975,056
Tax credit *(note i)*	**(1,221,854)**	(5,187,723)
Withholding tax on distributable profits of subsidiaries *(note ii)*	**2,592,994**	–
Actual tax expense	**8,763,162**	7,710,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

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

Notes:

(i) Tax credit

Pursuant to the relevant rules and regulations in the PRC, Jinheng (Hong Kong) Limited is entitled to a tax credit of $1,221,854 in 2008 in relation to the re-investment of accumulated profit of Jinheng Automotive in 2006 and 2007.

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. A tax credit of $5,187,723 represented a 40% of the value of certain fixed assets purchased in the PRC in 2007.

(ii) Withholding tax on distributable profits of subsidiaries

Under the New Tax Law, with effect from 1 January 2008, Hong Kong enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% on dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. During the year ended 31 December 2008, withholding tax of $2,592,994 is recognised.

11. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2008

	Directors' fees $	Salaries, allowances and benefits in kind $	Discretionary bonuses $	Share-based payments $	Contributions to retirement benefit schemes $	Total $
Executive directors						
Mr. Li Feng	–	840,000	–	–	–	840,000
Mr. Xing Zhanwu	–	840,000	–	714,750	–	1,554,750
Mr. Zhao Qingjie	–	600,000	–	–	–	600,000
Mr. Yang Donglin	–	258,000	–	–	–	258,000
Mr. Foo Tin Chung, Victor	–	741,000	–	714,750	12,000	1,467,750
Non-executive directors						
Mr. Li Hong	210,000	–	–	714,750	–	924,750
Mr. Zeng Qingdong	120,000	–	–	714,750	–	834,750
Independent non-executive directors						
Mr. Chan Wai Dune	240,000	–	–	–	–	240,000
Mr. Huang Shilin	80,004	–	–	–	–	80,004
Mr. Zhu Tong	80,004	–	–	–	–	80,004
Total	730,008	3,279,000	–	2,859,000	12,000	6,880,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11. DIRECTORS' REMUNERATION *(continued)*

Details of directors' remuneration are as follows: (continued)

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	510,024	2,803,012	–	4,463,175	12,000	7,788,211

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 36.

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 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, five (2007: four) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other individual in 2007 is as follows:

	2008	2007
	$	$
Salaries and other emoluments	–	185,567
Discretionary bonuses	–	–
Share-based payments	–	1,232,768
Contribution to retirement scheme	–	–
	–	1,418,335
Number of senior management	–	1

The above individual's emoluments in 2007 were within the band of $1,000,001 to $1,500,000.

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 $17,585,523 (2007: $14,924,150) 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:

	2008	2007
	$	$
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(17,585,523)**	(14,924,150)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**55,000,000**	29,000,000
Company's profit for the year *(note 37)*	**37,414,477**	14,075,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14. DIVIDENDS

(a) Dividends attributable to the year

	2008	2007
	$	$
Final dividend proposed after the balance sheet date of 1.5 HK cents per share (2007: 3.6 HK cents per share)	**6,652,500**	15,951,600

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

	2008	2007
	$	$
Final dividend in respect of the previous financial year, approved and paid during the year of 3.6 HK cents per share (2007: 3.5 HK cents per share)	**15,951,600**	13,654,200

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 $38,744,980 (2007: $66,630,845) and the weighted average of 441,726,776 (2007: 405,835,507) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares	
	2008	2007
Issued ordinary shares at 1 January	**430,120,000**	385,560,000
Effect of shares issued under placement *(note 37(a))*	**–**	15,890,411
Effect of shares issued for acquisition of subsidiary *(note 37(a))*	**9,296,721**	–
Effect of share options exercised *(note 37(a))*	**2,310,055**	4,385,096
Weighted average number of ordinary shares (basic)	**441,726,776**	405,835,507

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 $22,254,416 (2007: $69,066,282) and the weighted average number of ordinary shares of 441,793,433 (2007: 500,546,777 ordinary shares), calculated as follows:

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

	2008	2007
	$	$
Profit attributable to ordinary equity shareholders	**38,744,980**	66,630,845
After tax effect of fair value remeasurement of convertible preferred shares	**(16,490,564)**	–
After tax effect of effective interest and fair value remeasurement of convertible notes	–	2,435,437
Profit attributable to ordinary equity shareholders (diluted)	**22,254,416**	69,066,282

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

	Number of shares	
	2008	2007
Weighted average number of ordinary shares	**441,726,776**	405,835,507
Effect of conversion of convertible notes	–	85,555,556
Effect of deemed issue of ordinary shares under the Company's share option schemes for nil consideration *(note 36)*	**66,657**	9,155,714
Weighted average number of ordinary shares (diluted)	**441,793,433**	500,546,777

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 six (2007: 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:

	2008	2007
	$	$
PRC	**603,918,685**	603,616,238
Iran	**16,360,126**	15,537,100
Korea	**10,509,873**	–
Russia	**10,367,645**	–
Italy	**6,017,406**	47,748,675
Others	**281,055**	45,580
	647,454,790	666,947,593

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(Expressed in Hong Kong dollars)

17. FIXED ASSETS

The Group

	Buildings held for own use $	Machinery and equipment $	Motor vehicles $	Office equipment $	Sub-total $	Interest in leasehold land held for own use under an operating leases $	Total $
Cost:							
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
As at 1 January 2008	**49,171,137**	**104,985,962**	**11,261,029**	**41,735,541**	**207,153,669**	**23,405,852**	**230,559,521**
Exchange adjustments	**3,699,550**	**7,672,756**	**788,962**	**2,957,058**	**15,118,326**	**2,347,971**	**17,466,297**
Additions	**1,394,826**	**48,956,517**	**2,695,250**	**17,162,397**	**70,208,990**	**–**	**70,208,990**
Acquisition of subsidiaries	**7,633,402**	**11,381,317**	**492,902**	**4,655,869**	**24,163,490**	**16,482,904**	**40,646,394**
Transfer from construction in progress *(note 18)*	**1,638,407**	**1,729,981**	**–**	**–**	**3,368,388**	**–**	**3,368,388**
Disposal of a subsidiary	**–**	**(416,325)**	**(493,999)**	**(1,370,610)**	**(2,280,934)**	**–**	**(2,280,934)**
Disposals	**–**	**(176,194)**	**(839,706)**	**(484,836)**	**(1,500,736)**	**–**	**(1,500,736)**
As at 31 December 2008	**63,537,322**	**174,134,014**	**13,904,438**	**64,655,419**	**316,231,193**	**42,236,727**	**358,467,920**
Accumulated depreciation:							
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
As at 1 January 2008	**5,452,762**	**21,303,082**	**1,897,919**	**13,404,268**	**42,058,031**	**1,629,240**	**43,687,271**
Exchange adjustments	**371,630**	**1,444,194**	**135,418**	**879,796**	**2,831,038**	**138,159**	**2,969,197**
Charge for the year	**2,822,675**	**14,181,821**	**1,199,055**	**8,444,973**	**26,648,524**	**1,623,307**	**28,271,831**
Disposal of a subsidiary	**–**	**(3,190)**	**(73,250)**	**(169,516)**	**(245,956)**	**–**	**(245,956)**
Written back on disposal	**–**	**(41,908)**	**(398,282)**	**(194,059)**	**(634,249)**	**–**	**(634,249)**
As at 31 December 2008	**8,647,067**	**36,883,999**	**2,760,860**	**22,365,462**	**70,657,388**	**3,390,706**	**74,048,094**
Carrying amount:							
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
At 31 December 2008	**54,890,255**	**137,250,015**	**11,143,578**	**42,289,957**	**245,573,805**	**38,846,021**	**284,419,826**

(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 represent 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 $9,920,506 (2007: $8,789,016) and $9,194,468 (2007: $9,009,861) 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 2008 and, the property ownership certificates can be obtained when the administrative procedures are completed.

(b) Leasehold land and buildings with carrying value totalling $15,372,920 (2007: $15,071,299) are mortgaged to banks for certain banking facilities granted to the Group as disclosed in note 30.

(c) At 31 December 2008, leasehold lands with carrying amount of $38,846,021 (2007: $21,776,612) are situated outside Hong Kong under medium-term leases.

18. CONSTRUCTION IN PROGRESS

The Group

	2008	2007
	$	$
Cost:		
At 1 January	**22,151,684**	17,901,153
Exchange adjustments	**1,935,613**	1,142,629
Additions	**13,224,897**	16,425,518
Acquisition of subsidiaries	**9,360,948**	–
Transfer to fixed assets *(note 17)*	**(3,368,388)**	(13,317,616)
At 31 December	**43,304,754**	22,151,684

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 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
At 1 January 2008	**9,692,127**	**64,601,308**	**68,200,191**	**142,493,626**
Exchange adjustments	**993,009**	**4,404,635**	**4,650,013**	**10,047,657**
Additions	**–**	**67,732,548**	**8,403**	**67,740,951**
Acquisition of subsidiaries	**13,462,158**	**–**	**–**	**13,462,158**
At 31 December 2008	**24,147,294**	**136,738,491**	**72,858,607**	**233,744,392**
Accumulated amortisation:				
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
At 1 January 2008	**5,923,042**	**24,491,267**	**2,933,547**	**33,347,856**
Exchange adjustments	**430,067**	**1,669,858**	**200,014**	**2,299,939**
Charge for the year	**2,707,226**	**11,622,931**	**4,164,965**	**18,495,122**
At 31 December 2008	**9,060,335**	**37,784,056**	**7,298,526**	**54,142,917**
Carrying amount:				
At 31 December 2007	3,769,085	40,110,041	65,266,644	109,145,770
At 31 December 2008	**15,086,959**	**98,954,435**	**65,560,081**	**179,601,475**

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 licence 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 the License and Technical Assistance Agreement signed in January 2006, pursuant to which KETC agreed to supply technical services and granted a licence to Jinheng Jinsida for use of the know-how for the production of electronic control units in the PRC. Acquired technology is amortised over the directors' estimated useful life of 5 years.

(iii) In April 2008, the Group through acquisition of a subsidiary acquired two technologies which are used in the production of throttle and electric valve with an estimated fair value of approximately $13.5 million. Acquired technology is amortised over the directors' estimated useful life of 8 years.

Development costs represent costs incurred to develop tailor-made safety airbag systems and engine management systems.

Patents represent the registration fee of technologies developed by Jinheng Automotive and Troitec, which have been registered with the relevant government authorities to restrict the access 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 respectively.

Amortisation charges for the year of $18,019,805 (2007: $16,120,186), $134,408 (2007: $448,246) and $340,909 (2007: $309,335) are included in "cost of sales", "research and development expenses" and "administrative expenses" respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20. GOODWILL

The Group

	2008 $	2007 $
At 1 January	**4,760,769**	184,189
Acquisition of subsidiaries	**1,044,445**	4,378,505
Exchange adjustments	**348,335**	198,075
At 31 December	**6,153,549**	4,760,769

Impairment tests 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:

	2008	2007
Gross profit margin	**19.0%**	19.3%
Growth rate	**4.0%**	4.0%
Discount rate	**16.7%**	14.0%

Management determined the budgeted gross profit 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

	2008	2007
	$	$
Unlisted shares, at cost	**37,265,416**	37,265,416

Details of the subsidiaries as at 31 December 2008 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 %	Held by the Company %	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 products 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	$25,500,000	64.7	–	64.7	Production and sales of automotive electronic products 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 Zhuo Yuan Electrical Technology Limited ("Tianjian Zhuo Yuan")#	The PRC, limited liability company	RMB1,000,000	52	–	52	Production and sales of automotive electronic 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
Jinheng EMS (BVI) Limited ("Jinheng EMS (BVI)")	British Virgin Islands, limited liability company	US$1	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 company	Place of incorporation and kind of legal entity	Issued and fully paid/ registered capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by subsidiary %	Principal activities and place of operation
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	RMB64,600,000	51.2	–	51.2	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	51.2	–	51.2	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
Shiny Bright Holdings Limited ("Shiny Bright")*	British Virgin Islands, limited liability company	US$77,753	51.2	–	51.2	Investment holding in Hong Kong
Shanxi Winner Auto-Parts Limited ("Shanxi Winner")#	The PRC, limited liability company	RMB30,040,000	60	–	60	Production and sales of automotive components in the PRC
Winner Investment Limited ("Winner Investment")#	Hong Kong, limited liability company	$10,000	100	–	100	Investment holding in Hong Kong

\# These subsidiaries are newly acquired by the Group in 2008.

* This subsidiary is newly established by the Group in 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2008	2007
	$	$
Share of net assets	**37,008,170**	48,898,015
Amount due from jointly controlled entity	**632,889**	1,855,670
Goodwill	**17,816,774**	16,679,533
	55,457,833	67,433,218

On 18 February 2008, the Group acquired the entire equity interest of Winner Investment, which is an investment holding company and has direct holding of a 25% equity interest in Shanxi Winner, previously a jointly controlled entity of the Group. As a result of the acquisition, the Group's equity interest in Shanxi Winner increased from 35% to 60% and Shanxi Winner became a subsidiary of the Group effective on the same date *(see note 38(a))*.

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 has direct holding of the entire equity interest in Harvest Full. Harvest Full is an investment holding company and has direct holding of a 30% equity interest in YanTai Vast Co., Ltd ("YanTai Vast") which was previously an associate of the Group. 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. During the year ended 31 December 2007, the Group's share of profits of YanTai Vast recorded as "share of profits of associates" amounted to $1,172,169.

Details of the Group's interest in the jointly controlled entity as at 31 December 2008 are as follows:

			Proportion of ownership interest			
Name of joint venture	**Place of incorporation and kind of legal entity**	**Particulars of registered and paid up capital**	**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

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

	2008	2007
	$	$
Non-current assets	**56,559,920**	70,255,617
Current assets	**59,523,333**	67,214,125
Non-current liabilities	**(5,331,777)**	(5,415,430)
Current liabilities	**(73,743,306)**	(83,156,297)
Net assets	**37,008,170**	48,898,015
Income	**61,841,935**	26,420,258
Expenses	**(57,534,147)**	(22,324,179)
Profit for the year	**4,307,788**	4,096,079

23. OTHER NON-CURRENT FINANCIAL ASSETS

	2008	2007
	$	$
Unlisted equity securities in the PRC available for sale, at cost	**125,000**	53,191

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)

24. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

The Group

	2008 $	2007 $
Provision for PRC income tax for the year *(note 10(a))*	3,474,096	7,702,478
PRC income tax paid	(3,629,082)	(8,953,352)
Current tax recoverable	(154,986)	(1,250,874)

(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 $	Acquired technology and patent $	Fixed assets $	Tax losses $	Unremitted earnings $	Others $	Total $
At 1 January 2007	(279,769)	1,676,365	–	1,472,672	–	–	1,397,389	4,266,657
(Credited)/charged to consolidated income statement *(note 10(a))*	(54,975)	627,445	–	(1,122,538)	–	–	557,830	7,762
Acquisition of a subsidiary	–	–	12,844,423	–	–	–	–	12,844,423
Exchange adjustments	(19,612)	127,027	546,572	133,440	–	–	107,405	894,832
At 31 December 2007	(354,356)	2,430,837	13,390,995	483,574	–	–	2,062,624	18,013,674
At 1 January 2008	(354,356)	2,430,837	13,390,995	483,574	–	–	2,062,624	18,013,674
(Credited)/charged to consolidated income statement *(note 10(a))*	(69,265)	5,675,956	(299,307)	1,403,734	(3,414,651)	2,592,994	621,459	6,510,920
Acquisition of a subsidiary *(note 38(a) and note 38(b))*	–	–	3,365,539	1,736,429	–	–	593,845	5,695,813
Exchange adjustments	(24,161)	165,739	989,512	121,228	–	–	167,747	1,420,065
At 31 December 2008	(447,782)	8,272,532	17,446,739	3,744,965	(3,414,651)	2,592,994	3,445,675	31,640,472

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)

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

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

	The Group	
	2008	2007
	$	$
Net deferred tax assets recognised on the balance sheet	**(27,417)**	(25,667)
Net deferred tax liabilities recognised on the balance sheet	**31,667,889**	18,039,341
	31,640,472	18,013,674

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(u), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $77,597,762 (2007: $61,955,270) and deductible temporary differences of $1,830,069 (2007: $1,785,279) as it is not probable the future taxable profits against which the losses can be utilised will be available in relevant tax jurisdiction and entity. The tax losses will expire in the coming three to five years.

25. INVENTORIES

	The Group	
	2008	2007
	$	$
Raw materials	**80,332,227**	67,115,085
Work-in-progress	**19,387,620**	11,990,694
Finished goods	**41,773,357**	28,910,789
Spare parts and consumables	**607,558**	234,733
	142,100,762	108,251,301

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

	The Group	
	2008	2007
	$	$
Carrying amount of inventories sold	**500,464,444**	502,611,085

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	$	$	**$**	$
Trade receivables	**305,722,751**	308,621,424	–	–
Less: allowance for doubtful debts	**(4,883,878)**	(4,572,141)	–	–
	300,838,873	304,049,283	–	–
Bills receivable	**109,774,533**	70,215,523	–	–
	410,613,406	374,264,806	–	–
Amounts due from subsidiaries	–	–	**234,009,910**	185,364,716
Prepayments	**29,727,156**	9,504,006	**453,600**	141,113
Other receivables	**34,264,807**	30,288,475	**65,190**	315,190
	474,605,369	414,057,287	**234,528,700**	185,821,019

Included in trade receivables are amounts due from related companies of $42,572,402 (2007: $28,586,571) *(see note 41(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.

(Expressed in Hong Kong dollars)

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

(a) Ageing analysis

Included in trade receivables, prepayments 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	
	2008	2007
	$	$
Current	**305,426,090**	230,695,703
Less than 3 months past due	**80,404,730**	102,468,401
3 to 12 months past due	**24,782,586**	41,100,702
	410,613,406	374,264,806

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 39(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(k)(i))*.

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

	The Group	
	2008	2007
	$	$
At 1 January	**4,572,141**	690,362
Impairment loss recognised *(note 9(b))*	**–**	3,881,779
Exchange adjustments	**311,737**	–
At 31 December	**4,883,878**	4,572,141

At 31 December 2008, the Group's trade receivables and bills receivable of $4,883,878 (2007: $4,572,141) 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 $4,883,878 (2007: $4,572,141) were recognised. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. 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	
	2008	2007
	$	$
Neither past due nor impaired	**305,426,090**	230,695,703
Less than 3 month past due	**80,404,730**	102,468,401
3 to 12 months past due	**24,782,586**	41,100,702
	105,187,316	143,569,103
	410,613,406	374,264,806

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.

27. LOAN RECEIVABLE

During the year, a loan of $11,000,400 (2007: $20,000,000) was advanced to a minority shareholder of Honest Bright. The loan receivable carries interest at 2.5% (2007: 2.5%) per annum and is recoverable on demand. The loan receivable is secured by the 48.8% (2007: 48.8%) equity interests in Honest Bright held by the minority shareholder.

28. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	$	$	**$**	$
Cash and cash equivalents in the balance sheet and cash flow statement	**56,919,885**	56,156,196	**2,900,986**	6,385,015

Cash and cash equivalents of the Group of $54,151,881 (2007: $35,649,770) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	$	$	**$**	$
Trade payables	**171,579,136**	162,874,636	**–**	–
Bills payable	**33,299,822**	24,795,489	**–**	–
	204,878,958	187,670,125	**–**	–
Amount due to the ultimate holding company	**6,087,850**	–	**6,087,850**	–
Other payables	**105,455,569**	61,269,390	**4,247,473**	3,503,339
	316,422,377	248,939,515	**10,335,323**	3,503,339

Included in trade payables is amount due to a related company of $Nil (2007: $29,354,286) *(see note 41(c))*.

Included in other payables is a deferred income of $9,846,591 (2007: $4,962,766) related to a government grant received for subsidising the construction of a production plant of a subsidiary in Beijing, the PRC.

The amount due to the ultimate holding company is unsecured and non-interest bearing.

All of the trade and other payables (including amount due to the ultimate holding company) are expected to be settled within one year.

An ageing analysis of trade payables and bills payable is as follows:

	The Group	
	2008	2007
	$	$
Within 3 months	**154,411,833**	153,522,220
Over 3 months but less than 6 months	**40,851,312**	33,934,379
Over 6 months but less than 12 months	**9,615,813**	213,526
	204,878,958	187,670,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. BANK LOANS

The bank loans are repayable as follows:

	The Group	
	2008	2007
	$	$
Within 1 year or on demand	**305,782,598**	228,646,808
Representing:		
Secured bank loans	**67,146,234**	28,859,574
Unsecured bank loans	**238,636,364**	199,787,234
	305,782,598	228,646,808

All the bank loans are with commercial banks in the PRC and denominated in RMB. There were no unutilised banking facilities as at 31 December 2008 and 2007.

At 31 December 2008, terms of bank loans were as summarised follows:

(a) Bank loans of $6,590,909 (2007: $6,170,213) and $4,545,455 (2007: $4,255,318), which carried interest at 8.40% (2007: 8.31%) and 7.80% (2007: 7.84%) per annum, respectively, were secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of $15,372,920 (2007: $15,071,299).

(b) Bank loans totalling $11,363,636 (2007: $2,978,723) carried interest at rates ranging from 7.99% to 8.32% (2007: at rate of 8.28%) per annum, were guaranteed by a third party.

(c) Bank loans of $1,482,954 (2007: $Nil), which carried interest at rates ranging from 5.91% to 6.12% (2007: Nil) per annum were secured by bills receivables of $1,534,091 (2007: $Nil) and were repayable within one year.

(d) Discounted bills with recourse totalling $54,526,916 (2007: $18,434,043) were secured by the related bills receivable and were repayable within one year.

(e) Certain unsecured bank loans totalling $227,272,728 (2007: $175,531,915) carried interest at rates ranging from 5.02% to 6.95% (2007: from 5.47% to 8.02%) per annum and were repayable within one year.

Further details of the Group's management of liquidity risk are set out in note 39(b).

31. OTHER LOANS

Other loans were obtained from third parties and were unsecured and repayable within one year. Except for loans of $1,647,727 (2007: $20,903,298) carried interest of 6.57% (2007: ranging from 5.22% to 7.03%) per annum, all loans were non-interest bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32. CONVERTIBLE NOTES

On 26 May 2006, the Company issued convertible notes with a nominal value of $46,000,000 to Value Partners Limited, an independent investor. The notes bear interest 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 between 26 May 2009 (the third anniversary of the date of issue of the convertible notes) 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 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 14 July 2009 (the third anniversary of the date of issue of the convertible notes) and the maturity date.

Despite neither the Company nor the holders of the convertible notes intends to redeem the convertible notes, the convertible notes at 31 December 2008 were classified as current liabilities as both of the Company and holders of the convertible notes could redeem the convertible notes during the periods as set out in the preceding paragraphs.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32. CONVERTIBLE NOTES *(continued)*

The movements of convertible notes during the year are as follows:

	Liability component $	Derivative component $	Total $
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
At 1 January 2008	**71,446,841**	**(3,147,084)**	**68,299,757**
Interest charged during the year	**6,840,150**	**–**	**6,840,150**
Interest paid during the year	**(5,390,000)**	**–**	**(5,390,000)**
Change in fair value	**–**	**(974,294)**	**(974,294)**
At 31 December 2008	**72,896,991**	**(4,121,378)**	**68,775,613**

33. CONVERTIBLE PREFERRED SHARES

On 23 May 2008, Honest Bright, a subsidiary of the Group, agreed to sell 3,793,353 Series A-1 Preferred Shares of its subsidiary, Shiny Bright, at a consideration of RMB100,000,000 to certain investors ("the Investors") ("the Transactions"). The preferred shares are, at the option of the holder, convertible into ordinary shares of Shiny Bright at one on one basis, subject to adjustment under certain events. The holders of preferred shares are entitled to receive non-cumulative dividends at the rate equal to the greater of (i) 8% per annum of the relevant purchase price of preferred shares, or (ii) the dividends which would be declared and paid on each ordinary shares of Shiny Bright into which the Series A-1 Preferred Shares may then be converted.

The convertible preferred shares were split into liability with embedded derivative and equity components of $102,473,404 and $Nil respectively upon initial recognition by recognising the liability with embedded derivative component at its fair value and attributing to the equity component the residual amount. The liability with embedded derivative component is classified as financial liability recognised initially at fair value and the fair value is remeasured at each balance sheet date.

The movements of convertible preferred shares during the year are as follows:

	$
At initial recognition	102,473,404
Change in fair value	(16,490,564)
At 31 December 2008	85,982,840

(Expressed in Hong Kong dollars)

34. DERIVATIVES

In connection with the sales of Series A-1 Preferred Shares of Shiny Bright as set out in note 33, the Group also entered into the Tranche 2 Subscription Agreement with the Investors, Shiny Bright granted the Investors, at a consideration of $1.00, an option to subscribe the Series A-2 Preferred Shares at the price per share equal to 130% of the then applicable Series A-1 conversion price. The option is exercisable by the Investors, at its sole discretion, until the later of (i) 12 months after the completion date of the Transactions and (ii) 3 months after the audited accounts of the Shiny Bright and its subsidiaries for the period ended 31 March 2009 have been delivered to the Investors. The aggregate consideration for subscription of Series A-2 Preferred Shares shall not exceed RMB80,000,000.

The option to subscribe the Series A-2 Preferred Shares is accounted for as derivative financial instrument recognised initially at fair value and the fair value is remeasured at each balance sheet date.

The movements of the derivative during the year are as follows:

	$
At initial recognition	11,263,830
Change in fair value	(5,207,631)
At 31 December 2008	6,056,199

35. EMPLOYEE RETIREMENT BENEFITS

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, Shanxi, Beijing, Shenyang and Tianjian, whereby the Group is required to make contributions to the Schemes at rates ranging from 19% to 22% of the eligible employees' salaries.

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.

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36. 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.

(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

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36. 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	30	5 years
		23 February 2008	60	
		23 August 2008	100	
– on 23 August 2007	400,000	23 August 2007	100	5 years
Options granted to employees				
– on 23 August 2007	4,000,000	23 August 2007	30	5 years
		23 February 2008	60	
		23 August 2008	100	
– on 23 August 2007	200,000	23 August 2007	100	5 years
– on 25 August 2008	400,000	25 August 2008	100	1 year
– on 11 November 2008	17,100,000	11 November 2008	20	3 years
		1 July 2009	60	
		1 July 2010	100	
	38,100,000			
Total share options	49,500,000			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

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

	2008		2007	
	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options
Outstanding at the beginning of the year	1.48	22,880,000	0.38	6,840,000
Exercised during the year	0.48	(2,680,000)	0.38	(4,560,000)
Granted during the year	0.60	17,500,000	1.60	20,600,000
Outstanding at the end of the year		37,700,000		22,880,000
Exercisable at the end of the year		24,020,000		8,880,000

The weighted average share price at the date of exercise for shares options exercised during the year was $1.15 (2007: $0.83).

The options outstanding at 31 December 2008 had exercise prices ranging from $0.59 to $1.60 (2007: $0.38 to $1.60) and a weighted average remaining contractual life of 3.29 years (2007: 4.29 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 or trinomial 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.

(Expressed in Hong Kong dollars)

36. 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 as 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 as 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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

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

Fair value of share options and assumptions (continued)

(iii) Share Option Scheme

	At 25 August 2008 (date of grant)
Fair value at measurement date	$0.168
Share price	$0.90
Exercise price	$1.06
Expected volatility (expressed as weighted average volatility used in the modelling under the trinomial lattice model)	72%
Option life (expressed as weighted average life used in the modelling under the trinomial lattice model)	1 year
Expected dividends	4.00%
Risk-free interest rate (based on Exchange Fund Notes)	1.71%

(iv) Share Option Scheme

	At 11 November 2008 (date of grant)
Fair value at measurement date	$0.098
Share price	$0.50
Exercise price	$0.59
Expected volatility (expressed as weighted average volatility used in the modelling under the trinomial lattice model)	50%
Option life (expressed as weighted average life used in the modelling under the trinomial lattice model)	3 years
Expected dividends	4.00%
Risk-free interest rate (based on Exchange Fund Notes)	1.09%

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)

37. CAPITAL AND RESERVES

The Group

	Attributable to equity shareholders of the Company										
	Share capital $	Share premium $	Merger reserve $	Statutory surplus reserve $	Capital reserve $	Exchange reserve $	Other reserve $	Retained profits $	Sub-total $	Minority interests $	Total $
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 year	–	–	–	–	–	–	–	(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 reserve	–	–	–	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
At 1 January 2008	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
Equity settled share-based transactions	–	–	–	–	3,414,760	–	–	–	3,414,760	–	3,414,760
Dividends approved in respect of prior year	–	–	–	–	–	–	–	(15,951,600)	(15,951,600)	–	(15,951,600)
Profit for the year	–	–	–	–	–	–	–	38,744,980	38,744,980	(6,410,894)	32,334,086
Appropriations to statutory reserve	–	–	–	4,111,875	–	–	–	(4,111,875)	–	–	–
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	–	–	–	–	–	25,965,371	–	–	25,965,371	5,470,516	31,435,887
Shares issued under share option scheme	26,800	3,108,754	–	–	(1,863,379)	–	–	–	1,272,175	–	1,272,175
Shares issued for acquisition of subsidiary, net of issuance costs	107,000	11,659,000	–	–	–	–	–	–	11,766,000	–	11,766,000
Capital withdrawal from minority shareholders	–	–	–	–	–	–	–	–	–	(4,500,000)	(4,500,000)
Acquisition of subsidiaries	–	–	–	–	–	–	2,124,219	–	2,124,219	28,271,686	30,395,905
Disposal of a subsidiary	–	–	–	–	–	(694,867)	–	–	(694,867)	(9,553,380)	(10,248,247)
Acquisition of minority interests	–	–	–	–	–	–	(29,051,565)	–	(29,051,565)	(4,656,300)	(33,707,865)
At 31 December 2008	4,435,000	166,680,213	36,341,236	36,849,018	17,290,956	54,097,178	(24,786,281)	138,929,682	429,837,002	61,474,670	491,311,672

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37. CAPITAL AND RESERVES *(continued)*

The Company

	Share capital $	Share premium $	Capital reserve $	(Accumulated losses)/ retained profits $	Total $
At 1 January 2007	3,855,600	85,447,724	9,908,218	(11,302,773)	87,908,769
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
Profit for the year	–	–	–	14,075,850	14,075,850
Dividends approved in respect of prior year	–	–	–	(13,654,200)	(13,654,200)
At 31 December 2007	4,301,200	151,912,459	12,335,818	(10,881,123)	157,668,354
At 1 January 2008	**4,301,200**	**151,912,459**	**12,335,818**	**(10,881,123)**	**157,668,354**
Equity settled share-based transactions	**–**	**–**	**3,414,760**	**–**	**3,414,760**
Shares issued under share option scheme	**26,800**	**3,108,754**	**(1,863,379)**	**–**	**1,272,175**
Shares issued for acquisition of a subsidiary, net of issuance costs	**107,000**	**11,659,000**	**–**	**–**	**11,766,000**
Profit for the year	**–**	**–**	**–**	**37,414,477**	**37,414,477**
Dividends approved in respect of prior year	**–**	**–**	**–**	**(15,951,600)**	**(15,951,600)**
At 31 December 2008	**4,435,000**	**166,680,213**	**13,887,199**	**10,581,754**	**195,584,166**

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37. CAPITAL AND RESERVES *(continued)*

(a) Share capital

(i) Authorised and issued share capital

	2008 Number of shares	2008 $	2007 Number of shares	2007 $
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	**430,120,000**	**4,301,200**	385,560,000	3,855,600
Shares issued under share option schemes *(note (ii))*	**2,680,000**	**26,800**	4,560,000	45,600
Shares issued under placement *(note (iii))*	**–**	**–**	40,000,000	400,000
Shares issued for acquisition of a subsidiary *(note (iv))*	**10,700,000**	107,000	–	–
At 31 December	**443,500,000**	**4,435,000**	430,120,000	4,301,200

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 meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option schemes

During the year, options were exercised to subscribe for 2,680,000 (2007: 4,560,000) ordinary shares in the Company at a consideration of $1,272,175 (2007: $1,732,800) of which $26,800 (2007: $45,600) was credited to share capital and the balance of $1,245,375 (2007: $1,687,200) was credited to the share premium account. $1,863,379 (2007: $3,592,400) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 2(t)(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.

(iv) Shares issued for acquisition of a subsidiary

On 18 February 2008, the Group acquired 100% equity interest of Winner Investment by issuing 10,700,000 new ordinary shares of the Company to the vendors. The closing price of the Company's ordinary share on 18 February 2008 was $1.10 per share (see note 38(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37. 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) *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.

(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(t)(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(o).

(v) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 2(x).

37. CAPITAL AND RESERVES *(continued)*

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

(vi) Other reserve

Other reserve of the Group comprises the following:

- the fair value of existing share of net identifiable assets of a jointly controlled entity or an associate acquired over its carrying amount of net identifiable assets of subsidiaries at date of which control is obtained by the Group;

- the excess of purchase consideration on acquisition of minority interests over the carrying value of share of net assets acquired in accordance with the accounting policy adopted for subsidiaries and minority interests in note 2(c); and

- gain on deemed disposal or partial disposal of subsidiaries where the Group's interest in a subsidiary is increased without losing control in accordance with the accounting policy adopted for subsidiaries and minority interests in note 2(c).

(c) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $138,929,682 (2007: $120,248,177). After the balance sheet date the directors proposed a final dividend of 1.5 HK cents per ordinary share (2007: 3.6 HK cents per ordinary share), amounting to $6,652,500 (2007: $15,951,600). 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-adjusted capital ratio. Net debt is calculated as aggregate of bank loans, convertible notes and other loans less cash and cash equivalents. Adjusted capital comprises all components of equity and convertible preferred shares.

During 2008, the Group's strategy was to maintain the net debt-to-adjusted capital ratio at or below 60% (2007: 60%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37. CAPITAL AND RESERVES *(continued)*

(d) Capital management *(continued)*

The net debt-to-adjusted capital ratio at 31 December 2008 was as follows:

		The Group		The Company	
		2008	2007	**2008**	2007
	Note	**$**	$	**$**	$
Bank loans	30	**305,782,598**	228,646,808	**–**	–
Other loans	31	**8,227,272**	20,903,298	**–**	–
Convertible notes	32	**68,775,613**	68,299,757	**68,775,613**	68,299,757
		382,785,483	317,849,863	**68,775,613**	68,299,757
Less: Cash and cash equivalents	28	**(56,919,885)**	(56,156,196)	**(2,900,986)**	(6,385,015)
Net debt		**325,865,598**	261,693,667	**65,874,627**	61,914,742
Total equity		**469,613,477**	445,100,571	**195,584,166**	157,668,354
Add: Convertible preferred shares		**113,737,234**	–	**–**	–
Adjusted capital		**583,350,711**	445,100,571	**195,584,166**	157,668,453
Net debt-to-adjusted capital ratio		**56%**	59%	**34%**	39%

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

38. ACQUISITION/DISPOSAL OF SUBSIDIARIES

(a) Winner Investment

Pursuant to an acquisition agreement dated 24 November 2007 entered into with Mr. Xing Zhanwu and Mr. Zhao Qingjie (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 share price of the Company's ordinary share was $1.10 per share on that date.

Winner Investment is an investment holding company and has a 25% equity interest in Shanxi Winner. As a result of the Acquisition, the Group's equity interest in Shanxi Winner increased from 35% to 60%.

(Expressed in Hong Kong dollars)

38. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(continued)*

(a) Winner Investment *(continued)*

Details of net assets acquired and liabilities assumed attributable to the Group as at the acquisition date were as follows:

	Pre-acquisition carrying amounts $	Fair value adjustments $	Recognised values on acquisition $
Fixed assets	23,664,583	–	23,664,583
Interest in leasehold land held for own use under operating leases	8,677,278	7,805,626	16,482,904
Deposits paid for acquisition of fixed assets	2,493,446	–	2,493,446
Construction in progress	9,360,948	–	9,360,948
Other non-current financial assets	65,217	–	65,217
Inventories	10,992,143	–	10,992,143
Trade and other receivables	39,389,198	–	39,389,198
Cash and cash equivalents	1,557,290	–	1,557,290
Trade and other payables	(27,711,893)	–	(27,711,893)
Bank loans	(16,304,348)	–	(16,304,348)
Deferred tax liabilities	(565,385)	(1,736,429)	(2,301,814)
Equity interests held by other shareholders (75%)	(38,726,744)	(4,551,898)	(43,278,642)
Net identifiable assets	12,891,733	1,517,299	14,409,032
Share of net identifiable assets attributable to Winner Investment			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 Acquisition			12,020,000
Less: Cash on subsidiary acquired			(1,557,290)
Shares issued for acquisition of subsidiary, net of issue costs			(11,766,000)
Net cash inflow in respect of acquisition of a subsidiary			(1,303,290)

From the date of acquisition to 31 December 2008, Winner Investment and Shanxi Winner contributed net loss totalling $147,928 to the Group.

Had the acquisition occurred on 1 January 2008, turnover and net income of the Group would be increased by $16,123,656 and decreased by $298,158 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(continued)*

(b) Tianjian Zhuo Yuan

Pursuant to a sale and purchase agreement dated 16 April 2008, the Group acquired a 52% equity interest of Tianjian Zhuo Yuan Electrical Technology Limited ("Tianjian Zhuo Yuan") for a consideration of $6,666,667.

Tianjian Zhuo Yuan is engaged in the production and sales of automotive electronic products in the PRC. 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 acquisition $
Fixed assets	498,907	–	498,907
Intangible assets	–	13,462,158	13,462,158
Inventories	1,933,078	–	1,933,078
Trade and other receivables	4,452,006	–	4,452,006
Cash and cash equivalents	5,582,604	–	5,582,604
Trade and other payables	(11,722,788)	–	(11,722,788)
Deferred tax liabilities	(28,460)	(3,365,539)	(3,393,999)
Net identifiable assets	715,347	10,096,619	10,811,966
Share of net identifiable assets attributable to the Group (52%)			5,622,222
Goodwill on acquisition			1,044,445
Consideration paid			6,666,667
Less: Cash on subsidiary acquired			(5,582,604)
Net cash outflow in respect of acquisition of a subsidiary			1,084,063

From the date of acquisition to 31 December 2008, Tianjian Zhuo Yuan contributed net loss totalling $81,630 to the Group.

Had the acquisition occurred on 1 January 2008, turnover and net income of the Group would be increased by $3,183,404 and $519,215 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(continued)*

(c) Tianjian AMT Engine System Co., Ltd ("Tianjian AMT")

On 14 August 2008, the Group disposed of its entire equity interests in Tianjian AMT at a consideration of RMB10,200,000 which comprises cash consideration of RMB6,000,000 and forgiven of a liability due to Tianjian AMT of RMB4,200,000.

The disposal had the following effect on the Group's assets and liabilities:

	$
Net assets disposed of	
Fixed assets	2,034,978
Deposits for acquisition of fixed assets	3,386,648
Prepayments and other receivables	13,097,173
Cash and cash equivalents	995,929
Other payables	(18,037)
	19,496,691
Share of net identifiable assets attributable to the Group (51%)	9,943,312
Release of reserves	(694,867)
Gain on disposal	2,342,464
Consideration for disposal of a subsidiary	11,590,909
Representing:	
Consideration receivable	6,818,182
Forgiven of a liability due to Tianjian AMT	4,772,727
Consideration for disposal of a subsidiary	11,590,909
Analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	
Cash and cash equivalents disposed of	(995,929)

In accordance with the sale and purchase agreement, consideration of RMB6,000,000 (equivalent to $6,818,182) is receivable within one year from date of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(continued)*

(d) Acquisition of subsidiaries during the year ended 31 December 2007

(i) 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 30.0% equity interests in Troitec, respectively. Troitec is engaged in development, production and distribution of engine management system and related components in the PRC.

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

	Pre-acquisition carrying amounts $	Fair value adjustments $	Recognised values on acquisition $
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			4,378,505
Consideration paid			373,838
Less: cash of subsidiaries acquired			(2,920,858)
Net cash inflow in respect of acquisition of a subsidiary			(2,547,020)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. ACQUISITION/DISPOSAL OF SUBSIDIARIES *(continued)*

(d) Acquisition of subsidiaries during the year ended 31 December 2007 *(continued)*

(ii) 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 shareholders 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 acquisition $
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 acquisition of subsidiaries			19,248,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below. The Group's exposure to interest rate risk is not significant as all of the interest-bearing borrowings are fixed rate borrowings.

(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 the 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 10.6% (2007: 10.0%) and 41.8% (2007: 29.6%) 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 to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivable and bills receivables are set out in note 26.

(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.

(Expressed in Hong Kong dollars)

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(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	2008					2007				
	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	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
	$	$	$	$	$	$	$	$	$	$
Trade and other payables	316,422,377	316,422,377	316,422,377	–	–	248,939,515	248,939,515	248,939,515	–	–
Bank loans	305,782,598	314,510,051	314,510,051	–	–	228,846,808	238,428,786	238,428,786	–	–
Other loans	8,227,272	8,279,175	8,279,175	–	–	20,903,298	21,342,962	21,342,962	–	–
Convertible notes	68,775,613	91,560,000	5,390,000	5,390,000	80,780,000	68,299,757	96,950,000	5,390,000	5,390,000	86,170,000
Convertible preferred shares	85,982,840	130,681,818	130,681,818	–	–	–	–	–	–	–
	785,190,700	861,453,421	775,283,421	5,390,000	80,780,000	566,989,378	605,661,263	514,101,263	5,390,000	86,170,000

The Company	2008					2007				
	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	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
	$	$	$	$	$	$	$	$	$	$
Trade and other payables	10,335,323	10,335,323	10,335,323	–	–	3,503,339	3,503,339	3,503,339	–	–
Convertible notes	68,775,613	91,560,000	5,390,000	5,390,000	80,780,000	68,299,757	96,950,000	5,390,000	5,390,000	86,170,000
	79,110,936	101,895,323	15,725,323	5,390,000	80,780,000	71,803,096	100,453,339	8,893,339	5,390,000	86,170,000

(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 and United States dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(c) Currency risk *(continued)*

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 operations to which they relate is kept to an acceptable level, by buying or selling foreign currencies at spot 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. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at balance sheet date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

The Group

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2008		2007	
	United States dollars	**Euros**	United States dollars	Euros
Trade and other receivables	**4,811,703**	**6,839,910**	1,463,662	15,995,876
Cash and cash equivalents	**11,245,712**	**3,313,418**	237,338	9,350,041
Trade and other payables	**(629,569)**	**(26,827)**	(688,139)	(993,977)
Net exposure arising from recognised assets and liabilities	**15,427,846**	**10,126,501**	1,012,861	24,351,940

The Company

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2008		2007	
	United States dollars	**Euros**	United States dollars	Euros
Cash and cash equivalents	**117,959**	**2,732**	121,820	1,609,960
Net exposure arising from recognised assets and liabilities	**117,959**	**2,732**	121,820	1,609,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(c) Currency risk *(continued)*

(i) Exposure to currency risk (continued)

In addition, the Group is exposed to currency risk arising from inter-company receivables denominated in Hong Kong dollars which is not the functional currency of the lender or the borrower. Such inter-company receivables amounted to $500,000 as at 31 December 2008 (2007: $8,500,000).

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity, if any, that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

The Group

	2008		2007	
	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
Hong Kong dollars	**5%**	**18,750**	5%	362,216
	(5)%	**(18,750)**	(5)%	(362,216)
United States dollars	**5%**	**691,197**	5%	44,994
	(5)%	**(691,197)**	(5)%	(44,994)
Euros	**5%**	**430,349**	5%	1,059,469
	(5)%	**(430,349)**	(5)%	(1,059,469)

The Company

	2008		2007	
	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%**	**5,898**	5%	6,091
	(5)%	**(5,898)**	(5)%	(6,091)
Euros	**5%**	**137**	5%	80,498
	(5)%	**(137)**	(5)%	(80,498)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

(c) Currency risk *(continued)*

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is preformed on the same basis for 2007.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

40. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding at 31 December 2008 not provided for in the consolidated financial statements were as follows:

	The Group	
	2008	2007
	$	$
Contracted for property, plant and equipment	**20,265,342**	4,918,543

(b) At 31 December 2008, the Group's share of the capital commitments of its jointly controlled entities amounted to $Nil (2007: $1,766,664).

(c) At 31 December 2008, the Company had a capital commitment of $Nil (2007: $4,468,085) representing capital contribution for setting up a subsidiary in the PRC.

(Expressed in Hong Kong dollars)

40. COMMITMENTS AND CONTINGENCIES *(continued)*

(d) At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

Properties

	The Group		The Company	
	2008	2007	**2008**	2007
	$	$	**$**	$
Within 1 year	**1,592,354**	1,641,372	**101,475**	221,400
After 1 year but within 5 years	**5,006,356**	5,110,234	**–**	101,475
After 5 years	**9,611,434**	9,948,292	**–**	–
	16,210,144	16,699,898	**101,475**	322,875
Others				
Within 1 year	**2,800**	8,400	**–**	–
After 1 year but within 5 years	**–**	2,800	**–**	–
	2,800	11,200	**–**	–

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.

41. MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
Shanxi Winner	35% owned jointly controlled entity of the Group in 2007
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

41. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Recurring

	The Group	
	2008	2007
	$	$
Purchases of raw materials from:		
– Shanxi Winner	**20,637,708**	70,019,987
Sales of airbag systems or other automotive components to:		
– Hafei Motor	**8,748,998**	10,633,597
– Brilliance Jinbei	**53,133,955**	60,308,881
– Shanxi Winner	**–**	173,926
Rental expenses paid to:		
– Mr. Li	**779,091**	774,672

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

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

	The Group	
	2008	2007
	$	$
Short-term employee benefits	**4,598,830**	4,044,582
Post-employment benefits	**38,591**	34,268
Equity compensation benefits	**3,030,432**	5,871,838
	7,667,853	9,950,688

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

(Expressed in Hong Kong dollars)

41. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Amounts due from related companies

	The Group	
	2008	2007
	$	$
Hafei Motor	**5,032,672**	3,141,773
Brilliance Jinbei	**37,539,730**	25,444,798
	42,572,402	28,586,571

The amounts due from related companies are trade-related, unsecured, interest free and are expected to be recovered within one year. These amounts are included in "Trade receivables, prepayments and other receivables" in the consolidated balance sheet *(see note 26)*.

(c) Amount due to a related company

	The Group	
	2008	2007
	$	$
Shanxi Winner	**–**	29,354,286

The amounts due to Shanxi Winner in 2007 were trade-related, unsecured, interest free and were expected to be settled within one year.

The amount is included in "Trade and other payables" in the consolidated balance sheet *(see note 29)*.

42. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) On 16 January 2009, a joint venture agreement was entered into between Troitec, a subsidiary of the Group and a third party, pursuant to which a joint venture will be established in Tianjian, the PRC. Troitec will have an 80% equity interest in the joint venture. The registered capital of the joint venture will be RMB50,000,000 (equivalent to approximately $56,800,000).

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

43. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2008, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

44. 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. Notes 20, 36 and 39 contain information about the assumptions and the risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation and amortisation

Property, plant and equipment and intangible assets except for development costs (see note 44(f)) are depreciated and amortised on a straight-line basis over their estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The useful life is based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation and amortisation expenses for future periods are 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 the 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.

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

In connection with acquisitions of subsidiaries, the assets acquired and liabilities assumed are adjusted to their estimated fair values on date of acquisition. The determination of fair 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 and would change the amount of depreciation or amortisation expenses recognised relating to those identifiable property, plant and equipment and intangible assets.

(e) Impairment losses for property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are assessed at each balance sheet date to identify indications that they may be impaired. If any such indication exists, the recoverable amount of the property, plant and equipment and intangible assets is estimated. The recoverable amount of the property, plant and equipment and intangible assets is based on value-in-use calculations. These calculations are determined based on cash flow projections with reasonable assumptions that represent management's best estimate of the range of economic conditions over the remaining useful life of the assets. Changes in facts and circumstances may result in revisions to whether an indiction of impairment exists and revised estimates of recoverable amounts, which would affect profit of loss in future years.

44. ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(f) Capitalisation and amortisation 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.

The development costs are amortised over the estimated life cycle of the relevant products. The Group reviews annually the estimated life cycle of the relevant products. The estimated life cycle is based on the Group's historical experience with similar products and taking into account anticipated market changes. The amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(g) Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are transactions during the ordinary course of business, for which calculations of the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

45. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008 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 result in a restatement of the Group's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoptions:

	Effective for accounting periods beginning on or after
HKFRS 8, *Operating segments*	1 January 2009
HKAS 1 (revised 2007), *Presentation of financial statements*	1 January 2009

FIVE YEARS SUMMARY

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	2004 $	2005 $	2006 $	2007 $	**2008** **$**
OPERATING RESULTS					
Turnover	182,285,188	195,668,737	352,541,854	666,947,593	**647,454,790**
Profit from operations	55,664,032	35,535,979	57,392,228	79,173,962	**61,379,878**
Finance costs	(3,503,497)	(2,797,426)	(7,774,742)	(17,917,455)	**(24,590,418)**
Share of (losses)/profits of jointly controlled entities	(694,922)	(269,165)	2,728,827	4,096,079	**4,307,788**
Share of profits of associates	–	–	951,286	1,172,169	**–**
Profit before taxation	51,465,613	32,469,388	53,297,599	66,524,755	**41,097,248**
Income tax	(47,684)	(446,043)	(5,516,560)	(7,710,240)	**(8,763,162)**
Profit for the year	51,417,929	32,023,345	47,781,039	58,814,515	**32,334,086**
Attributable to:					
Equity shareholders of the Company	51,457,162	32,016,170	45,608,257	66,630,845	**38,744,980**
Minority interests	(39,233)	7,175	2,172,782	(7,816,330)	**(6,410,894)**
Profit for the year	51,417,929	32,023,345	47,781,039	58,814,515	**32,334,086**
Earnings per share					
– Basic	16.88 cents	8.40 cents	11.86 cents	16.42 cents	**8.77 cents**
– Diluted	16.84 cents	8.25 cents	11.27 cents	13.80 cents	**5.04 cents**
Assets and liabilities					
Non-current assets	88,446,411	118,521,598	247,063,459	421,504,829	**612,547,709**
Net current assets/(liabilities)	134,475,390	118,849,814	133,802,999	109,934,840	**(89,568,148)**
Total assets less current liabilities	222,921,801	237,371,412	380,866,458	531,439,669	**522,979,561**
Non-current liabilities	(41,603,774)	(27,384,483)	(99,545,104)	(86,339,098)	**(31,667,889)**
NET ASSETS	181,318,027	209,986,929	281,321,354	445,100,571	**491,311,672**
Capital and reserves					
Share capital	3,810,000	3,810,000	3,855,600	4,301,200	**4,435,000**
Reserves	176,320,845	195,536,665	247,067,839	387,946,329	**425,402,002**
Total equity attributable to equity shareholders of the Company	180,130,845	199,346,665	250,923,439	392,247,529	**429,837,002**
Minority interests	1,187,182	10,640,264	30,397,915	52,853,042	**61,474,670**
TOTAL EQUITY	181,318,027	209,986,929	281,321,354	445,100,571	**491,311,672**

Note: The Company was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") completed on 22 November 2004, the Company became the holding company of the Group. Details of the Reorganisation are set out in the prospectus dated 30 November 2004 issued by the Company.

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 year ended 31 December 2004 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 2004 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheets at 31 December 2004 is the combination of the balance sheets of the Company and its subsidiaries at 31 December 2004. 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.