



**JINHENG AUTOMOTIVE SAFETY
TECHNOLOGY HOLDINGS LIMITED**
錦恆汽車安全技術控股有限公司

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



*Safety
On
Road*



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Li Hong
 Mr. Zeng Qingdong

Independent Non-Executive Directors

Mr. Hui Hung Kwan
 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. Hui Hung Kwan
 Mr. Huang Shilin
 Mr. Zhu Tong

NOMINATION COMMITTEE

Mr. Xing Zhanwu
 Mr. Hui Hung Kwan
 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,
 Grand Cayman KY1-1107
 Cayman Island

PRINCIPAL BANKERS

The Bank of East Asia
 Bank of Communication
 Bank of China

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

Li, Tang, Chen & Co.
 10th Floor, Sun Hung Kai Centre,
 30 Harbour Road,
 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 2009.

The Group has taken a series of important projects during 2009 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.

For the fiscal year ended 31 December 2009, the Group recognized turnover amount of approximately HK\$974.7 million, representing an increase of approximately HK\$327.3 million. The increment was mainly due to the launch of several new models of automotive safety systems during the year and commenced commercial production of several engine management systems models in the second quarter of the year, in which was benefit from the recovery of the PRC automobile industry and the overall economic environment. Given that the Group has put more effort in the research and development of new products and new technologies such as roll-over airbag system and other automobile electronic spare parts, the profit attributable to the shareholders of the Company decreased by approximately HK\$17.5 million to approximately HK\$21.2 million.

As a result of our previous commitment in developing the new products, the Group has also launched the commercial production of automobile safety seat belts and side airbag safety systems during the year under review. It is expected that these new products will provide continuous contribution to the Group. The Group will continuously strengthen the depth and width of our product pool, which may not only strengthen the Group's leading position in the PRC automotive safety market, but also provide a solid foundation to the Group for developing the local and oversea markets.

Our developing automotive electronic business, which mainly included the engine management system and the related spare parts, has made a great progress in the business development and has provided positive contribution to the Group during the year. Furthermore, several delayed projects have commenced commercial production, while a few projects have also resumed the development processes. The Group has also established Tianjian Troitec Automotive Electronics Co., Ltd., a joint venture company in Tianjian in which is principally engaged in the manufacture of the spare parts for the engine management system, and it has commenced production during the year. Such establishment is mainly for reducing the overall production cost and maintaining a stable quality of our products, and as a result it may enhance our competitive advantages and allow the Group to capture the business opportunities brought by the growing automobile demands in PRC.

Moreover, in the past few years the Group has continuously changed the corporate and operation structure in order to control the operation costs for maintaining our competitiveness, and our efforts have provided returns to the Group during the year. Given that our turnover has a 50% increment, our distribution costs can maintain at a similar level as the fiscal year ended 31 December 2008. Furthermore, as a result of the operation restructuring and the resulted decrease of fixed costs, the administrative costs of the Group have decreased by approximately 18.8%.

CHAIRMAN'S STATEMENT

OUTLOOK AND FUTURE PROSPECTS

In view of the rapid growth of the PRC automobile market and the recovery of the worldwide economy, the Group will continue to put more effort in developing the new products and new markets. Currently a few new airbag systems and active safety systems are under the development phases, and it is expected that these new products will become another business growing points of the Group in the coming future. The strengthened product base may also enable the Group to enter the international automotive spare parts supply platform and maintain the leading position in the PRC market.

Despite of the development of new products, currently there are also over 40 different models of automobile safety airbag systems and safety seat belts under development phases. Our engine management system has also obtained the recognition from the market and will commence commercial production for a few new models in the coming years. The launch of these new products will provide positive contribution to the Group and thus it is expected the operating results of the Group can maintain a steady growth in the coming future.

As a long term strategy of the Group, the management will put more effort in the enhancement of operation efficiency and utilization of internal resources in order to control the overall costs and maintain operation quality at the same time. The Group will seek different opportunities to expand the current seamless supply chain and enlarge the production capacities and thus can cope with the growing demand in our products in the coming future.

As the Group will launch several new products and the implementation of cost control policies will provide contribution to the Group in the coming future, the directors of the Company believe that the Group will have a good prospect and can 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, 16 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

For the fiscal year ended 31 December 2009, the Group recorded turnover of approximately HK\$974.7 million, representing an increase of approximately HK\$327.3 million in compared with the same period of last year. The increment was mainly due to the launch of several new automotive airbag systems during the year. Furthermore, our engine management system business has commenced commercial production for a few models, and the new side airbag systems and safety seat belts have also launched production during the year under review. As the PRC automotive industry has recovered from the financial tsunami in 2008 and our investment in developing new products have commenced to provide contribution to the Group, it is expected that our business can maintain a healthy growth in the coming future.

The average gross profit margin of the Group was 20.0% during the year under review, while it was 22.7% in 2008. The decrease was mainly due to the change in product mix and the launch of a few new models with relatively lower gross profit margin, which is designed for economic automobiles. The average gross profit margin of both mechanical and electronic airbag systems was 21.2%, which is slightly decreased by 0.9% as compared with the same period of 2008.

The other revenue of the Group during 2009 was recorded as approximately HK\$19.7 million, which is increased by approximately 13.7% in compared with 2008. The increment was mainly due to the increase of testing services provided to customers.

During the year under review, the Group recorded an other net loss of approximately HK\$9.6 million, while it was a net gain of approximately HK\$28.0 million in the same period of last year. The difference was change in fair value of the convertible notes, convertible preferred shares and the derivatives.

For the fiscal year ended 31 December 2009, the research and development expenses of the Group were approximately HK\$40.3 million, while it was approximately HK\$13.3 million in 2008. During the year 2009, the Group has put more effort in the development of new products such as roll-over airbag system and other automobile used active safety systems. This is the Group policy to strengthen the width and depth of product pool in order to capture the business opportunities provided by the growing demand of automobile safety in PRC.

Distribution costs were slightly increased by approximately 1.9% to HK\$26.6 million as compared to 2008, while the overall turnover amount was increased by approximately 50.5%. This was the return of our cost control policies implemented in the past few years, and it is expected that such result can be maintained in the coming years.

For the fiscal year ended 31 December 2009, the administrative expenses decreased by HK\$17.3 million to HK\$74.3 million in comparison with the fiscal year 2008. The decrease was mainly due to completion of the corporate restructuring executed in the past years and the result of the implementation of cost control programs.

The finance costs during the current year were approximately HK\$25.7 million. The increment was mainly resulted from the additional long term bank loans mainly used for financing our development of new businesses.

For the year ended 31 December 2009, profit attributable to the equity shareholders of the Company was approximately HK\$21.2 million. This was mainly due to the additional investment in development the new products during the year under review, and it is expected that these new businesses may provide positive contributions in the coming future.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2009, the Group had bank and cash balances of approximately HK\$40.0 million (31 December 2008: approximately HK\$56.9 million) and net current assets of approximately HK\$0.6 million while it was recorded a net current liabilities of approximately HK\$89.6 million in the last fiscal year. The improvement was mainly due to the restructuring of the financial resources of the Group. As a result of the expansion in production capacities, the total non-current assets of the Group increased by approximately HK\$2.8 million to approximately HK\$615.4 million in the current year.

As at 31 December 2009, the Group had non-current liabilities of approximately HK\$97.8 million, which represent the deferred tax liabilities and certain bank loans which are repayable after 1 year but within 5 years.

The Group also had short-term bank loans of HK\$324.9 million which included bank loans with an aggregate amount of HK\$220.2 million with fixed interest rates ranging from 2.14% to 6.90% per annum, and discounted bills of HK\$104.7 million (equivalent to RMB92.2 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 operations. There are also bank loans of \$67,054,545 carried interest at rates ranging from 3.50% to 5.40% were repayable after 1 year but within 5 years. Also the Group had convertible notes issued in 2006 with an outstanding principal amount of HK\$48.0 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 2009, 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 2009, the Group pledged its leasehold land and buildings with aggregate carrying value of approximately HK\$43.1 million for a bank loan of HK\$24.9 million (equivalent to RMB22.0 million).

In addition, discounted bills with recourse totalling HK\$104.7 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 67.1% in 2009 from 62.6% in 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS

Except for those set out in the “Subsequent Events” in this report, the Group had an authorized but not contracted for capital expenditure commitments of approximately HK\$9.9 million in respect of acquisition of fixed assets as at 31 December 2009.

MATERIAL ACQUISITIONS AND DISPOSALS

On 11 November 2009, pursuant to the approval of the share transfer agreement dated on 10 November 2009, the Group disposed of 52% equity interest of Tianjian Zhuo Yuan Electrical Technology Limited (“Tianjian Zhuo Yuan”). As a result of the disposal, the Group does not hold any equity interest in Tianjian Zhuo Yuan.

SIGNIFICANT INVESTMENT

There was no other significant investment during the year.

CONTINGENT LIABILITIES

As at 31 December 2009, the Company has issued guarantees to banks in respect of banking facilities granted to 2 wholly-owned subsidiaries of the Company. The maximum liability of the Company at the reporting date is the facility drawn down by the subsidiaries of \$35,000,000 (2008: \$Nil). As at the reporting date, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees.

SUBSEQUENT EVENTS

As at 8 March 2010, the Company has repaid HK\$12,500,000 to a holder of the convertible note for the redemption of the convertible note at the same nominal value. On 12 March 2010, the Company has issued 13,888,888 shares to the same convertible note holder as a result of the exercise of the conversion right of convertible note with nominal value HK\$12,500,000. After the completion of the above redemption and conversion, the Company still has outstanding convertible notes with nominal value at \$23,000,000.

FOREIGN EXCHANGE EXPOSURE

Since almost all transactions of the Group are denominated either in Renminbi, Hong Kong dollars, US dollars, or to a lesser extent, Euro 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 2009, the Group employed approximately 1,450 staff in the PRC and Hong Kong, representing an increase of 80 staff from 31 December 2008. The increase in staff was mainly from the PRC operations. The Group’s remuneration to employees, including directors’ emoluments, decreased by approximately HK\$7.8 million to approximately HK\$64.1 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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.

On 12 March 2010, the Company has issued 13,888,888 shares to a convertible note holder as a result of the exercise of the conversion right of convertible note with nominal value HK\$12,500,000.

A total of 76,388,888 new shares were issued as a result of these transactions. The number of total issued share capital of the Company becomes 457,388,888 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. As at the date of this report, convertible notes with nominal value of HK\$23 million were still outstanding. 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 48, 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 46, 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 52, 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 NASDAQ 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 44, 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 41, 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 fifteen 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 47, 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 46, 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. Hui Hung Kwan, aged 38, has over 10 years of experience in the finance and accounting fields. Mr. Hui holds a bachelor's degree in business administration (hons) with a major in accounting in the Chinese University of Hong Kong. Mr. Hui is a member of the Hong Kong Institute of Certified Public Accountants and is a fellow member of the Association of Chartered Certified Accountants. Mr. Hui is the Chief Financial Officer of C&G Industrial Holdings Limited, a company listed on the main board of Singapore Exchange Securities Trading Limited, and he also worked in an audit firm in Hong Kong. There is no service agreement between the Company and Mr. Hui. The emoluments payable to Mr. Hui is HK\$120,000 per annum. The appointment term of Mr. Hui was fixed for a term of one year and he will be eligible for re-election at the next annual general meeting. Subject to the re-election at the annual general meeting, Mr. Hui's appointment will be fixed for a further term of three years and be subject to normal retirement and re-election by shareholders of the Company pursuant to the Articles and Association of the Company.

Mr. Huang Shilin, aged 77, 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 doctoral 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 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 37, 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 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 58, 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 50, 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 leader and later as the vice plant manager before joining the Group in 1998.

Mr. Zhang Qiming, aged 45, 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 51, 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 47, 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 2009.

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 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 2009 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 34 to 113.

DIVIDENDS

Pursuant to a resolution passed at a directors’ meeting on 16 April 2010, a final dividend of 1.5 HK cents per share totalling HK\$6,860,833 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 (2008: 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 38 on the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 38(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 2009 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 | 12.5% | |
| Five largest customers in aggregate | 45.4% | |
| The largest supplier | | 11.8% |
| Five largest suppliers in aggregate | | 33.3% |

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 (resigned on 31 July 2009)
Mr. Hui Hung Kwan (appointed on 31 July 2009)
Mr. Huang Shilin
Mr. Zhu Tong

In accordance with Articles 86(3) and 87(1) of the Articles of Association, the following Directors, namely, Messrs. Xing Zhanwu, Zeng Qingdong, Hui Hung Kwan and Zhu Tong 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 than statutory compensation.

REPORT OF THE DIRECTORS

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

As at 31 December 2009, 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 | 2,400,000 | 0.54% |
| | 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 | Interest of a controlled corporation (Note) | (Note) | (Note) |
| Foo Tin Chung, Victor | Beneficial owner | 800,000 | 0.18% |

Note: As at 31 December 2009, 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 51.66% 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 | 50.87 |
| Li Feng | 2,386 | 23.03 | |
| Xing Zhanwu | 900 | 8.69 | |
| Xu Jianzhong | 750 | 7.24 | |
| Li Hong | 643 | 6.21 | |
| Yang Donglin | 590 | 5.70 | |
| Zhao Qingjie | | 1,827 | 17.64 |
| Gao Xiangdong | | 1,566 | 15.12 |
| Zhao Jiyu | | 417 | 4.03 |
| Hao Dianqing | | 359 | 3.46 |
| Lin Qing | | 233 | 2.25 |
| Zhou Yuquan | | 223 | 2.15 |
| Cao Feng | | 139 | 1.34 |
| Zhang Chengyu | | 134 | 1.29 |
| Zhang Chenye | | 104 | 1.00 |
| Zhang Meina | | 88 | 0.85 |
| Total | | 10,359 | 100 |

Note: In January 2010, the shareholding structure of Applaud Group has been restructured. Wonder Auto Technology, Inc. ("Wonder Auto") (a company listed in NASDAQ in United States) has acquired 4,015 shares of Applaud Group through 2 wholly-owned subsidiaries Wonder Auto Limited and Yearcity Limited from certain shareholders of Applaud Group. Mr. Zhao Qingjie, a director of the Company, is one of the shareholders and directors of Wonder Auto. As a result of the said restructuring, the shareholding structure of Applaud Group is as below as at the date of this report:

| Shareholder | | Number of shares held in Applaud Group Limited | % |
|-----------------------|-------|---|-------|
| The controlling group | | 5,896 | 56.33 |
| Li Feng | 2,978 | 28.45 | |
| Li Hong | 852 | 8.14 | |
| Xu Jianzhong | 750 | 7.17 | |
| Xing Zhanwu | 726 | 6.94 | |
| Yang Donglin | 590 | 5.63 | |
| Wonder Auto Limited | | 2,188 | 20.90 |
| Yearcity Limited | | 1,827 | 17.46 |
| Zhao Jiyu | | 417 | 3.98 |
| Cao Feng | | 139 | 1.33 |
| Total | | 10,467 | 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES

The Company has a share option scheme which was adopted on 19 June 2009 ("2009 Share Option Scheme"). A summary of principal terms of the 2009 Share Option Scheme was disclosed in the circular of the Company issued on 29 April 2009. The Company also has a share option scheme which was adopted on 22 November 2004 ("Share Option Scheme"). Given that the provisions of the Share Option Scheme do not comply with the requirements of Chapter 17 of the Listing Rules, its operation was terminated with effect from the adoption of the 2009 Share Option Scheme. After its termination, no further options would be offered under the Share Option Scheme but outstanding options granted pursuant to the Share Option Scheme which entitle the holders thereof to subscribe for a total of 37,300,000 shares of the Company will remain valid and exercisable in accordance with their terms of issue.

The total number of securities available for issue under the 2009 Share Option Scheme and Share Option Scheme as at 31 December 2009 was 81,650,000 shares (including options for 37,300,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 18.4% of the issued share capital of the Company as at 31 December 2009.

As at 31 December 2009, 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 2009 is HK\$1.20) 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) 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 year | No. of options forfeited during the year | 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 (傅天志) | 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 Wai Dune (陳維瑞) (Note) | Independent non-executive director of the Company (resigned) | 400,000 | - | 23 August 2007 | 23 August 2007 to 22 August 2012 | - | (400,000) | 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 | 20,200,000 | | | - | (400,000) | | | |

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES (continued)

(a) Share Option Scheme (continued)

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

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:

| | 2009 |
|-----------------------------|---------|
| 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 year | 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 | 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 | 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 | 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 | 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 | 3,000,000 | 11 November 2008 | 11 November 2008 to 10 November 2011 | - | HK\$0.59 | HK\$0.5 | N/A |

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES (continued)

(a) 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 year | 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 | 2,000,000 | 11 November 2008 | 11 November 2008 to 10 November 2011 | - | HK\$0.59 | HK\$0.5 | N/A |
| | | 17,100,000 | 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:

| | 2009 |
|-----------------------------|---------|
| 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.

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 2009, 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 | 229,130,000 | – | 51.66% | 46.12% |
| Value Partners Limited (Note 1) | Investment manager | – | 25,555,555 | 5.76% | 5.14% |
| Value Partners Group Limited (Note 1) | Interests of controlled corporation | – | 25,555,555 | 5.76% | 5.14% |
| Cheah Capital Management Limited (Note 1) | Interests of controlled corporation | – | 25,555,555 | 5.76% | 5.14% |
| Cheah Company Limited (Note 1) | Interests of controlled corporation | – | 25,555,555 | 5.76% | 5.14% |
| Hang Seng Bank Trustee International Limited (Note 1) | Trustee | – | 25,555,555 | 5.76% | 5.14% |
| Mr. Cheah Cheng Hye (Note 1) | Founder of discretionary trust | – | 25,555,555 | 5.76% | 5.14% |
| Ms. To Hau Yin (Note 1) | Spouse of Mr. Cheah Cheng Hye | – | 25,555,555 | 5.76% | 5.14% |
| Sagemore Assets Limited (Note 2) | Beneficial Owner | – | 27,777,778 | 6.26% | 5.59% |
| CDS International Limited (Note 2) | Interest of controlled corporation | – | 27,777,778 | 6.26% | 5.59% |
| TNS Services Limited (Note 2) | Nominee shareholder of beneficial owner | – | 27,777,778 | 6.26% | 5.59% |

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 34.79% 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

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY (continued)

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 2009, 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 2009, the Company has adopted the code set out in the 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 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 2009, are disclosed in note 42 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 42 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, RMB66.00 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. 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. 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

CONTINUING CONNECTED TRANSACTIONS *(continued)*

The Jinbei Supply Agreement – Continuing Connected Transactions *(continued)*

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. As such, the transactions under the Jinbei Supply Agreement will constitute non-exempt continuing connected transactions under the Listing Rules.

The Troitec Supply Agreement – Continuing Connected Transactions

On 14 July 2009, Beijing Troitec and Taiyuan Aero-Instruments Co., Ltd. (“Taiyuan Aero”) entered into a supply contract (the “Troitec Supply Agreement”) for a term ending on 31 December 2011 pursuant to which Beijing Troitec will manufacture and sell components and spare parts to Taiyuan Aero (or its related companies) (“Taiyuan Aero Group”). Taiyuan Aero indicated that the estimated maximum value of orders to be placed by Taiyuan Aero (the “Troitec Annual Cap”) for the three years ending 31 December 2011 would not exceed RMB70.0 million, RMB150.0 million and RMB250.0 million respectively. Taiyuan Aero is a substantial shareholder holding 40% equity interest in Shanxi Winner and therefore a connected person of the Group under the Listing Rules.

The Directors expect that the aggregate orders from Taiyuan Aero Group for the three financial years ending 31 December 2011 will exceed HK\$10,000,000 in each of the corresponding year. As such, the transactions under the Troitec Supply Agreement will constitute non-exempt continuing connected transactions under the Listing Rules.

The Taiyuan Sub-contracting and Supply Agreement – Continuing Connected Transactions

On 14 July 2009, Taiyuan Aero and Hafei Jinheng entered into a sub-contracting and supply contract (the “Taiyuan Sub-contracting and Supply Agreement”) for a term ending on 31 December 2011 pursuant to which Taiyuan Aero Group will process and sell the components acquired from Beijing Troitec and necessary spare parts to Hafei Jinheng. The Directors estimate that the total amount of products to be processed and acquired from Taiyuan Aero Group (the “Taiyuan Annual Cap”) for the three years ending 31 December 2011 will not exceed RMB74.0 million, RMB158.0 million and RMB263.0 million respectively. Taiyuan Aero is a substantial shareholder holding 40% equity interest in Shanxi Winner and therefore a connected person of the Group under the Listing Rules.

The Directors expect that the aggregate orders to Taiyuan Aero Group for the three financial years ending 31 December 2011 will exceed HK\$10,000,000 in each of the corresponding year. As such, the transactions under the Taiyuan Sub-contracting and Supply Agreement will constitute non-exempt continuing connected transactions under the Listing Rules.

The Sega Supply Agreement – Continuing Connected Transactions

On 14 July 2009, Beijing Sega and Hafei Motor (or its related companies) entered into a supply contract (the “Sega Supply Agreement”) for a term ending on 31 December 2011 pursuant to which Beijing Sega will manufacture and sell steeling wheels and other automobile spare parts to Hafei Motor (or its related companies). Hafei Motor indicated that the estimated maximum value of orders to be placed by Hafei Motor (the “Sega Annual Cap”) for the three years ending 31 December 2011 would not exceed RMB2.0 million, RMB3.0 million and RMB3.0 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 2011 will not exceed HK\$10,000,000 in each of the corresponding year and the applicable percentage ratios in connection with Sega Annual Cap is more than 2.5% but less than 25% under the Listing Rules. As such, the transactions under the Sega Supply Agreement will constitute continuing connected transactions under the Listing Rules subject to the reporting and announcement requirements only under Chapter 14A.34 of the Listing Rules.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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 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, and the Troitec Supply Agreement and Taiyuan Sub-contracting and Supply Agreement for the three financial years ending 31 December 2011.

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, Jinbei Supply Agreement, Troitec Supply Agreement, Taiyuan Sub-contracting and Supply Agreement and Segal 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 announcements dated 18 July 2008 and 14 July 2009 made by the Company in respect of each of the continuing connected transactions.

AUDITORS

On 30 November 2009, Li, Tang, Chen & Co. was appointed by the Board to fill the casual vacancy created by KPMG.

Apart from the foregoing, there were no other changes in auditors of the Company in any of the proceeding three years.

Li, Tang, Chen & Co. retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Li, Tang, Chen & Co. 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, 16 April 2010

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 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 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 interim and annual reports of the Company, other price sensitive announcements published according to 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;

CORPORATE GOVERNANCE REPORT

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. Hui Hung Kwan. 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 6 meetings during the year 2009. 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;

CORPORATE GOVERNANCE REPORT

BOARD MEETING *(continued)*

- appointment and resignation of members of the Board;
- appointment and resignation of auditors of the Company;
- approval of Troitec Supply Agreement, Taiyuan Sub-contracting and Supply Agreement and Sega Supply Agreement of which constitute connected transactions; and
- other material disposal and formation of subsidiary and capital expenditure.

Details of Directors' attendance at Board meetings held in 2009 are set out as follows:

| | Attendance |
|---|-------------------|
| Executive Directors | |
| Mr. Li Feng | 6/6 |
| Mr. Xing Zhanwu | 6/6 |
| Mr. Zhao Qingjie | 6/6 |
| Mr. Yang Donglin | 6/6 |
| Mr. Foo Tin Chung, Victor | 6/6 |
| Non-Executive Directors | |
| Mr. Li Hong | 6/6 |
| Mr. Zeng Qingdong | 6/6 |
| Independent Non-Executive Directors | |
| Mr. Chan Wai Dune (resigned on 31 July 2009) | 3/6 |
| Mr. Hui Hung Kwan (appointed on 31 July 2009) | 3/6 |
| Mr. Huang Shilin | 6/6 |
| Mr. Zhu Tong | 6/6 |

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.

CORPORATE GOVERNANCE REPORT

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 19 June 2009, Mr. Li Feng, Mr. Yang Donglin, Mr. Foo Tin Chung, Victor and Mr. Li Hong were re-elected and re-appointed and subject to rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

None of the independent non-executive Directors holds any other offices in the Company or any of its subsidiaries. Within the meaning of the laws and regulations issued by relevant securities regulatory authorities, none of them is interested in any shares of the Company. The Company has received from each of the independent non-executive Directors a written confirmation of his independence under Rule 3.13 of the Listing Rules.

Names and biography of the Directors are set out on pages 9 to 11 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. Hui Hung Kwan, Mr. Huang Shilin and Mr. Zhu Tong, with Mr. Hui Hung Kwan as the chairman. During the year, the Company convened two meetings of the audit committee. 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. 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 2009 are set out as follows:

| | Attendance |
|---|------------|
| Mr. Chan Wai Dune (resigned on 31 July 2009) | 0/0 |
| Mr. Hui Hung Kwan (appointed on 31 July 2009) | 2/2 |
| Mr. Huang Shilin | 2/2 |
| Mr. Zhu Tong | 2/2 |

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 2009 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. Hui Hung Kwan, with Mr. Hui Hung Kwan 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.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(continued)*

Details of attendance of members at meetings of the nomination committee held in 2009 are set out as follows:

| | Attendance |
|---|------------|
| Mr. Chan Wai Dune (resigned on 31 July 2009) | 0/0 |
| Mr. Hui Hung Kwan (appointed on 31 July 2009) | 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, 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\$0.8 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 interim and annual results and reports to all shareholders;
- publication of announcements on the 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.

INDEPENDENT AUDITOR'S REPORT

 李湯陳會計師事務所
LI, TANG, CHEN & CO.
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

**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 set out on pages 34 to 113, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, 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 FOR 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 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 the 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 and to report our opinion 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 2009 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.

Li, Tang, Chen & Co.
Certified Public Accountants (Practising)
10/F Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

16 April 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 \$ | 2008 \$ |
|--|-------|--------------------|--------------------|
| Turnover | 4 | 974,737,866 | 647,454,790 |
| Cost of sales | | (779,598,887) | (500,464,444) |
| Gross profit | | 195,138,979 | 146,990,346 |
| Other revenue | 5 | 19,684,963 | 17,313,595 |
| Other net (loss)/income | 6 | (9,634,241) | 28,047,799 |
| Research and development expenses | 7 | (40,277,842) | (13,277,613) |
| Distribution costs | | (26,594,204) | (26,108,047) |
| Administrative expenses | | (74,335,821) | (91,586,202) |
| Profit from operations | | 63,981,834 | 61,379,878 |
| Finance costs | 9(a) | (25,741,674) | (24,590,418) |
| Share of (losses)/profits of jointly controlled entities | 22 | (788,911) | 4,307,788 |
| Profit before taxation | 9 | 37,451,249 | 41,097,248 |
| Income tax | 10(a) | (8,249,830) | (8,763,162) |
| Profit for the year | | 29,201,419 | 32,334,086 |
| Attributable to: | | | |
| Equity shareholders of the Company | 13 | 21,227,178 | 38,744,980 |
| Minority interests | | 7,974,241 | (6,410,894) |
| Profit for the year | | 29,201,419 | 32,334,086 |
| Earnings per share | 15 | | |
| – Basic | | 4.79 HK Cents | 8.77 HK Cents |
| – Diluted | | 4.77 HK Cents | 5.04 HK Cents |

The notes on pages 42 to 113 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| | 2009 \$ | 2008 \$ |
|---|-------------------|------------|
| Profit for the year | 29,201,419 | 32,334,086 |
| Other comprehensive income for the year: | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | – | 31,435,887 |
| Release of exchange reserve upon closure/disposal of a subsidiary | 71,478 | (694,867) |
| Total comprehensive income for the year | 29,272,897 | 63,075,106 |
| Attributable to: | | |
| Equity shareholders of the Company | 21,298,656 | 64,015,484 |
| Minority interests | 7,974,241 | (940,378) |
| Total comprehensive income for the year | 29,272,897 | 63,075,106 |

The notes on pages 42 to 113 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

(Expressed in Hong Kong dollars)

| | Note | 2009 \$ | 2008 \$ |
|--|-------|--------------------|---------------------|
| Non-current assets | | | |
| Fixed assets | | | |
| – Property, plant and equipment | 17 | 272,408,818 | 245,573,805 |
| – Interests in leasehold land held for own use under operating leases | 17 | 44,596,662 | 38,846,021 |
| Deposits paid for acquisition of fixed assets | | 39,256,762 | 43,457,855 |
| Construction in progress | 18 | 39,099,757 | 43,304,754 |
| Intangible assets | 19 | 160,111,681 | 179,601,475 |
| Goodwill | 20 | 5,085,367 | 6,153,549 |
| Interests in jointly controlled entities | 22 | 54,668,922 | 55,457,833 |
| Other non-current financial assets | 23 | 125,000 | 125,000 |
| Deferred tax assets | 24(b) | 27,417 | 27,417 |
| | | 615,380,386 | 612,547,709 |
| Current assets | | | |
| Inventories | 25 | 179,948,688 | 142,100,762 |
| Trade receivables, prepayments and other receivables | 26 | 694,435,415 | 474,605,369 |
| Loan receivable | 27 | 11,000,400 | 11,000,400 |
| Current tax recoverable | 24(a) | 2,544,478 | 154,986 |
| Pledged bank deposits | | 33,713,067 | 16,897,349 |
| Cash and cash equivalents | 28 | 39,982,603 | 56,919,885 |
| | | 961,624,651 | 701,678,751 |
| Current liabilities | | | |
| Trade and other payables | 29 | 501,972,594 | 316,422,377 |
| Bank loans | 30 | 324,897,186 | 305,782,598 |
| Other loans | 31 | 2,761,363 | 8,227,272 |
| Convertible notes | 32 | 45,578,375 | 68,775,613 |
| Convertible preferred shares | 33 | 85,851,891 | 85,982,840 |
| Derivatives | 34 | – | 6,056,199 |
| | | 961,061,409 | 791,246,899 |
| Net current assets/(liabilities) | | 563,242 | (89,568,148) |
| Total assets less current liabilities | | 615,943,628 | 522,979,561 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 \$ | 2008 \$ |
|--|-------|--------------------|--------------------|
| Non-current liabilities | | | |
| Bank loans | 30 | 67,054,545 | – |
| Deferred tax liabilities | 24(b) | 30,791,121 | 31,667,889 |
| | | 97,845,666 | 31,667,889 |
| NET ASSETS | | | |
| | | 518,097,962 | 491,311,672 |
| Capital and reserves | | | |
| Share capital | 38 | 4,435,000 | 4,435,000 |
| Reserves | | 441,085,790 | 425,402,002 |
| Total equity attributable to equity shareholders of the Company | 38 | 445,520,790 | 429,837,002 |
| Minority interests | 38 | 72,577,172 | 61,474,670 |
| TOTAL EQUITY | | 518,097,962 | 491,311,672 |

Approved and authorised for issue by the board of directors on 16 April 2010

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 42 to 113 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

(Expressed in Hong Kong dollars)

| | Note | 2009 \$ | 2008 \$ |
|--|------|--------------------|--------------------|
| Non-current assets | | | |
| Investments in subsidiaries | 21 | 37,265,416 | 37,265,416 |
| Current assets | | | |
| Trade receivables, prepayments and other receivables | 26 | 205,559,292 | 234,528,700 |
| Cash and cash equivalents | 28 | 13,899,677 | 2,900,986 |
| | | 219,458,969 | 237,429,686 |
| Current liabilities | | | |
| Trade and other payables | 29 | 18,628,464 | 10,335,323 |
| Convertible notes | 32 | 45,578,375 | 68,775,613 |
| | | 64,206,839 | 79,110,936 |
| Net current assets | | 155,252,130 | 158,318,750 |
| NET ASSETS | | 192,517,546 | 195,584,166 |
| Capital and reserves | | | |
| Share capital | 38 | 4,435,000 | 4,435,000 |
| Reserves | 38 | 188,082,546 | 191,149,166 |
| TOTAL EQUITY | | 192,517,546 | 195,584,166 |

Approved and authorised for issue by the board of directors on 16 April 2010

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 42 to 113 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| Note | Attributable to equity shareholders of the Company | | | | | | | | | | Total |
|--|--|---------------|----------------|---------------------------|-----------------|------------------|---------------|------------------|--------------|--------------------|--------------|
| | Share capital | Share premium | Merger reserve | Statutory surplus reserve | Capital reserve | Exchange reserve | Other reserve | Retained profits | Sub-total | Minority interests | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| 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 |
| Total comprehensive income | - | - | - | - | - | 25,270,504 | - | 38,744,980 | 64,015,484 | (940,378) | 63,075,106 |
| Equity settled share-based transactions | 37 | - | - | - | 3,414,760 | - | - | - | 3,414,760 | - | 3,414,760 |
| Dividends approved in respect of prior year | 14(b) | - | - | - | - | - | - | (15,951,600) | (15,951,600) | - | (15,951,600) |
| Appropriations to statutory reserve | - | - | - | 4,111,875 | - | - | - | (4,111,875) | - | - | - |
| 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 | - | - | - | - | - | - | - | - | - | (9,553,380) | (9,553,380) |
| 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 |
| At 1 January 2009 | 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 |
| Total comprehensive income | - | - | - | - | - | 71,478 | - | 21,227,178 | 21,298,656 | 7,974,241 | 29,272,897 |
| Equity settled share-based transactions | 37 | - | - | - | 1,037,632 | - | - | - | 1,037,632 | - | 1,037,632 |
| Dividends approved in respect of prior year | 14(b) | - | - | - | - | - | - | (6,652,500) | (6,652,500) | - | (6,652,500) |
| Appropriations to statutory reserve | - | - | - | 5,809,435 | - | - | - | (5,809,435) | - | - | - |
| Capital contribution from a minority shareholder | - | - | - | - | - | - | - | - | - | 8,522,727 | 8,522,727 |
| Released on early redemption of convertible notes | 38 | - | - | - | (1,918,127) | - | - | 1,918,127 | - | - | - |
| Disposal of a subsidiary | - | - | - | - | - | - | - | - | - | (5,479,228) | (5,479,228) |
| Closure of a subsidiary | - | - | - | - | - | - | - | - | - | 84,762 | 84,762 |
| At 31 December 2009 | 4,435,000 | 166,680,213 | 36,341,236 | 42,658,453 | 16,410,461 | 54,168,656 | (24,786,281) | 149,613,052 | 445,520,790 | 72,577,172 | 518,097,962 |

The notes on pages 42 to 113 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| Note | 2009 \$ | 2008 \$ |
|---|---------------------|----------------------|
| Operating activities | | |
| Profit before taxation | 37,451,249 | 41,097,248 |
| Adjustments for: | | |
| – Depreciation | 35,219,855 | 26,648,524 |
| – Amortisation of intangible assets | 32,495,138 | 18,495,122 |
| – Amortisation of land lease premium for property held for own use | 1,928,575 | 1,623,307 |
| – Finance costs | 25,741,674 | 26,989,142 |
| – Interest income | (272,746) | (981,226) |
| – Share of losses/(profits) of jointly controlled entities | 788,911 | (4,307,788) |
| – Loss on disposal of fixed assets | 376,958 | 550,595 |
| – Equity settled share-based payment expenses | 1,037,632 | 3,414,760 |
| – Negative goodwill | – | (2,389,032) |
| – Loss/(gain) on disposal of a subsidiary | 185,831 | (2,342,464) |
| – Loss on closure of a subsidiary | 25,350 | – |
| – Change in fair value of derivative component of convertible notes | 3,427,887 | (974,294) |
| – Change in fair value of convertible preferred shares | 10,921,994 | (16,490,564) |
| – Change in fair value of derivatives | (6,056,199) | (5,207,631) |
| – Loss on early redemption of convertible notes | 917,091 | – |
| – Foreign exchange (gain)/loss | (109,417) | 25,964,404 |
| Operating profit before changes in working capital | 144,079,783 | 112,090,103 |
| Increase in inventories | (39,291,095) | (20,924,240) |
| Increase in trade receivables, prepayments and other receivables | (219,279,020) | (27,485,869) |
| Increase in trade and other payables | 190,371,594 | 21,976,080 |
| Cash generated from operations | 75,881,262 | 85,656,074 |
| PRC income tax paid | (6,872,472) | (1,156,354) |
| Withholding tax paid | (1,861,143) | – |
| Net cash generated from operating activities | 67,147,647 | 84,499,720 |
| Investing activities | | |
| Payment for purchase of property, plant and equipment | (45,843,470) | (70,208,990) |
| Payment for construction in progress | (12,797,079) | (13,224,897) |
| Payment for purchase of intangible assets | (23,747,136) | (67,740,951) |
| Payment for purchase of land use right | (7,679,216) | – |
| Decrease/(increase) in deposits paid for acquisition of fixed assets | 4,201,093 | (13,288,777) |
| Net cash inflow upon acquisition of subsidiaries | 39(c) – | 219,227 |
| Payment for acquisition of minority interest | – | (22,845,000) |
| Proceeds from disposal of fixed assets | 100,468 | 315,892 |
| Net cash outflow from disposal of subsidiaries | 39(b) (122,652) | (995,929) |
| Decrease in loan to minority shareholder of a subsidiary | – | 8,999,600 |
| Interest received | 272,746 | 981,226 |
| Net cash used in investing activities | (85,615,246) | (177,788,599) |

**CONSOLIDATED CASH FLOW STATEMENT**For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 \$ | 2008 \$ |
|---|------|---------------------|--------------------|
| Financing activities | | | |
| Increase in pledged bank deposits | | (16,815,718) | (8,188,546) |
| Proceeds from new bank loans | | 391,951,731 | 266,712,044 |
| Repayment of bank loans | | (305,782,598) | (228,646,808) |
| Proceeds from other loans | | – | 2,488,636 |
| Repayment of other loans | | (5,465,909) | (15,164,662) |
| Proceeds from issuance of preferred shares | | – | 113,737,234 |
| Proceeds from shares issued under share option scheme | | – | 1,272,175 |
| Redemption of convertible notes | | (29,000,000) | – |
| Repayment of purchase price of preferred shares | | (11,052,943) | – |
| Bank loan interest paid | | (19,329,226) | (19,657,108) |
| Capital contribution from a minority shareholder | | 8,522,727 | – |
| Other borrowing costs paid | | (4,954,664) | (5,881,884) |
| Dividend paid | | (6,652,500) | (15,951,600) |
| Net cash generated from financing activities | | 1,420,900 | 90,719,481 |
| Net decrease in cash and cash equivalents | | (17,046,699) | (2,569,398) |
| Effect of foreign exchange rate difference | | 109,417 | 3,333,087 |
| Cash and cash equivalents at 1 January | | 56,919,885 | 56,156,196 |
| Cash and cash equivalents at 31 December | 28 | 39,982,603 | 56,919,885 |

The notes on pages 42 to 113 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 2009 comprise the Company and its subsidiaries and the Group's interest in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated at their fair value (*see note 2(g)*).

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 46.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT 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 Group, 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 statement of financial position 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 and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income 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 statement of financial position 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 statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(k)).

(d) Jointly controlled entities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Jointly controlled entities (continued)

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of jointly controlled entity's net assets. The consolidated income statement includes the Group's share of post acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year (see notes 2(e) and (k)), whereas the Group's share of the post-acquisition post-tax items of the jointly controlled entity's other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

Unrealised profits and losses resulting from transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interest in 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 statement of financial position, 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 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 jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in 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 a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, 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. SIGNIFICANT 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 statement of financial position at cost less impairment losses (see note 2(k)).

Other investments in securities are classified as available-for-sale securities. At each reporting date the fair value is remeasured, with any resultant gain or loss being recognised directly in other comprehensive income and accumulated separately 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 reporting 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 statement of financial position 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.
- Machinery and equipment 3-10 years
- Motor vehicles 10 years
- Office equipment 5 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT 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 statement of financial position 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 |
| – Patents | 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 reporting 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. SIGNIFICANT 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 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 unlisted 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting 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. SIGNIFICANT 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT 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 reporting 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. SIGNIFICANT 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 statement of financial position 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT 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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly 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 reporting 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 reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting 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. SIGNIFICANT 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. SIGNIFICANT 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 statement of financial position 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 reporting 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. Items of statement of financial position, 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 reporting date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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 profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. CHANGES IN ACCOUNTING POLICIES

During the year, the Group adopted the following significant standards and amendments to standards:

- (a) HKAS 1 "Presentation of Financial Statements" ("HKAS 1")(Revised 2007) aims to improve users' ability to analyse and compare information given in financial statements. The adoption of the revised standard had no effect on the results reported in the financial statements. It did, however, result in certain presentational changes in the Group's financial statements, including:
 - the presentation of all items of income and expenditure in two financial statements, the "Consolidated income statement" and the "Consolidated statement of comprehensive income"; and
 - the adoption of revised title "Statement of financial position" for the "Balance sheet".
- (b) An amendment to HKFRS 7 "Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments". The most significant additional disclosures required by this amendment in the consolidated financial statements include tables of fair value measurements disclosing the source of inputs using a three level fair value hierarchy, and reconciliations of the movements between opening and closing balances of Level 3 financial instruments, being those measured at fair value using a valuation technique with significant unobservable inputs. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.
- (c) HKFRS 8, which replaces HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14.

During the year, in addition to the above, the Group adopted a number of standards, interpretations and amendments thereto which had an insignificant effect on the financial statements of the Company and the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 46).

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:

| | 2009 \$ | 2008 \$ |
|---|--------------------|--------------------|
| Sales of mechanical airbag systems | 8,976,126 | 65,185,514 |
| Sales of electronic airbag systems | 721,910,639 | 443,184,543 |
| Sales of automotive safety system components and other automotive components | 243,851,101 | 139,084,733 |
| | 974,737,866 | 647,454,790 |

5. OTHER REVENUE

| | 2009 \$ | 2008 \$ |
|-----------------------|-------------------|-------------------|
| Experiment fee income | 16,909,624 | 10,938,444 |
| Subsidy income | – | 4,048,091 |
| Interest income | 272,746 | 981,226 |
| Sundry income | 2,502,593 | 1,345,834 |
| | 19,684,963 | 17,313,595 |

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

6. OTHER NET (LOSS)/INCOME

| | 2009 \$ | 2008 \$ |
|---|--------------------|-------------------|
| Net foreign exchange gain | 538,628 | 1,375,712 |
| Net fair value change on derivative components of convertible notes | (3,427,887) | 974,294 |
| Loss on early redemption of convertible notes | (917,091) | – |
| Net fair value change on convertible preferred shares | (10,921,994) | 16,490,564 |
| Net fair value change on derivatives | 6,056,199 | 5,207,631 |
| Negative goodwill (note 39(c)(i)) | – | 2,389,032 |
| (Loss)/gain on disposal of a subsidiary (note 39(b)(i)) | (185,831) | 2,342,464 |
| Loss on closure of a subsidiary (note 39(b)(ii)) | (25,350) | – |
| Loss on disposal of fixed assets | (376,958) | (550,595) |
| Others | (373,957) | (181,303) |
| | (9,634,241) | 28,047,799 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7. RESEARCH AND DEVELOPMENT EXPENSES

| | 2009 \$ | 2008 \$ |
|---|-------------------|-------------------|
| Research and development costs incurred | 64,024,978 | 48,259,552 |
| Less: development costs capitalised during the year | (23,747,136) | (34,981,939) |
| | 40,277,842 | 13,277,613 |

8. STAFF COSTS

| | 2009 \$ | 2008 \$ |
|---|-------------------|-------------------|
| Salaries, wages and bonuses | 51,493,316 | 57,705,715 |
| Equity settled share-based payment expenses | 1,037,632 | 3,414,760 |
| Staff welfare | 7,813,568 | 6,502,252 |
| Contributions to retirement benefit schemes | 3,735,060 | 4,243,347 |
| | 64,079,576 | 71,866,074 |

9. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

| | 2009 \$ | 2008 \$ |
|--|-------------------|-------------------|
| Interest expense on bank advances wholly repayable within five years | 15,785,086 | 15,945,627 |
| Interest expense on convertible notes | 6,366,990 | 6,840,150 |
| Interest expense on other loans | 45,458 | 491,884 |
| Discounting charges on discounted bills | 3,544,140 | 3,711,481 |
| | 25,741,674 | 26,989,142 |
| Less: borrowing costs capitalised into properties under development [#] | – | (2,398,724) |
| | 25,741,674 | 24,590,418 |

[#] Borrowing costs have been capitalised at a rate of 6.9% per annum in 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9. PROFIT BEFORE TAXATION (continued)

(b) Other items:

| | 2009 | 2008 |
|--|------------|------------|
| | \$ | \$ |
| Auditors' remuneration | 801,764 | 1,894,727 |
| Depreciation | 35,219,855 | 26,648,524 |
| Amortisation of land lease premium | 1,928,575 | 1,623,307 |
| Amortisation of intangible assets (note 19) | | |
| – Acquired technology | 2,981,210 | 2,707,226 |
| – Development costs | 25,348,754 | 11,622,931 |
| – Patents | 4,165,174 | 4,164,965 |
| Royalty expenses | 450,730 | 358,499 |
| Operating lease charges in respect of properties | 2,146,333 | 2,764,826 |

10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

| | 2009 | 2008 |
|---|-----------|-------------|
| | \$ | \$ |
| Current tax | | |
| PRC income tax for the year (note 24(a)) | 4,482,981 | 3,474,096 |
| PRC tax refund for the previous year | – | (1,221,854) |
| | 4,482,981 | 2,252,242 |
| Deferred tax | | |
| Origination and reversal of temporary differences (note 24(b)) | 3,766,849 | 6,510,920 |
| Income tax | 8,249,830 | 8,763,162 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

(a) **Income tax 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 | 2009 | 2008 |
|--|------|------|-------|
| Jinzhou Jinheng Automotive Safety System Co., Limited ("Jinheng Automotive") | (ii) | 15% | 12.5% |
| Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng") | (i) | 10% | 0% |
| Harbin Hafei Jinheng Automotive Safety System Co., Limited ("Hafei Jinheng") | | 25% | 25% |
| Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega") | | 25% | 25% |
| Shenyang Jinheng Jinsida Automotive Electronic Co., Limited ("Jinheng Jinsida") | (ii) | 0% | 0% |
| Beijing Jinheng Great Idea Automotive Electronic Systems Co., Limited ("Beijing Great Idea") | (i) | 0% | 0% |
| Tianjian AMT Engine System Co., Ltd. ("Tianjian AMT") | | N/A | 25% |
| Troitec Automotive Electronics Co., Ltd ("Troitec") | (ii) | 0% | 0% |
| Beijing Sheng Shi Tai Fu Automotive Electronic Co., Ltd. ("Sheng Shi Tai Fu") | | 25% | 25% |
| Shanxi Winner Auto-Parts Limited ("Shanxi Winner") | (i) | 10% | 9% |
| Tianjian Zhuo Yuan Electrical Technology Limited ("Tianjian Zhuo Yuan") | | 25% | 25% |
| Tianjian Troitec Automotive Electronic Co., Ltd ("Tianjian Troitec") | | 25% | N/A |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

(a) Income tax 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"). Jinbei Jinheng, Beijing Great Idea and Shanxi Winner are in the third year, second year and fourth 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%.

Jinheng Automotive is an "encouraged hi-tech enterprise" and entitles to reduce the tax rate to 15% from 2009 to 2011.

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. 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.

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.

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

| | 2009 \$ | 2008 \$ |
|--|--------------|-------------|
| Profit before tax | 37,451,249 | 41,097,248 |
| Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned | 10,565,618 | 10,628,532 |
| Underprovision of tax in prior years | 289,349 | – |
| Tax effect of non-deductible expenses | 9,703,109 | 7,343,900 |
| Tax effect of non-taxable revenue | (760,229) | (6,095,953) |
| Tax effect of tax concessions | (11,877,641) | (8,288,378) |
| Tax effect of unrecognised temporary differences and tax losses | 118,478 | 3,803,921 |
| Tax credit (note i) | – | (1,221,854) |
| Withholding tax on distributable profits of subsidiaries (note ii) | 2,315,816 | 2,592,994 |
| Tax effect of utilisation of unrecognised tax losses in previous years | (2,431,092) | – |
| Others | 326,422 | – |
| Income tax | 8,249,830 | 8,763,162 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

(b) Reconciliation between income tax 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.
- (ii) Withholding tax on distributable profits of subsidiaries
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 2009, withholding tax of \$2,315,816 (2008: \$2,592,994) is recognised.

11. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2009

| | 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 | - | 26,500 | - | 866,500 |
| Mr. Zhao Qingjie | - | 600,000 | - | - | - | 600,000 |
| Mr. Yang Donglin | - | 258,000 | - | - | - | 258,000 |
| Mr. Foo Tin Chung, Victor | - | 741,000 | - | 26,500 | 12,000 | 779,500 |
| Non-executive directors | | | | | | |
| Mr. Li Hong | 210,000 | - | - | 26,500 | - | 236,500 |
| Mr. Zeng Qingdong | 120,000 | - | - | 26,500 | - | 146,500 |
| Independent non-executive directors | | | | | | |
| Mr. Chan Wai Dune | 140,000 | - | - | - | - | 140,000 |
| Mr. Huang Shilin | 80,004 | - | - | - | - | 80,004 |
| Mr. Zhu Tong | 80,004 | - | - | - | - | 80,004 |
| Mr. Hui Hung Kwan | 50,000 | - | - | - | - | 50,000 |
| Total | 680,008 | 3,279,000 | - | 106,000 | 12,000 | 4,077,008 |

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 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 |

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 37.

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, four (2008: five) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other individual in 2009 is as follows:

| | 2009 | 2008 |
|-----------------------------------|----------------|------|
| | \$ | \$ |
| Salaries and other emoluments | 335,000 | – |
| Discretionary bonuses | – | – |
| Share-based payments | 228,822 | – |
| Contribution to retirement scheme | 9,975 | – |
| | 573,797 | – |
| Number of senior management | – | – |

The above individual's emoluments in 2009 were within the band of \$500,001 to \$1,000,000.

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

13. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of \$17,451,752 (2008: \$17,585,523) 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:

| | 2009 | 2008 |
|---|------------------|--------------|
| | \$ | \$ |
| Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements | (17,451,752) | (17,585,523) |
| Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year | 20,000,000 | 55,000,000 |
| Company's profit for the year (note 38) | 2,548,248 | 37,414,477 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14. DIVIDENDS

(a) Dividends attributable to the year

| | 2009 | 2008 |
|--|------------------|-----------|
| | \$ | \$ |
| Final dividend proposed after the reporting date of 1.5 HK cents per share (2008: 1.5 HK cents per share) | 6,860,833 | 6,652,500 |

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

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

| | 2009 | 2008 |
|--|------------------|------------|
| | \$ | \$ |
| Final dividend in respect of the previous financial year, approved and paid during the year of 1.5 HK cents per share (2008: 3.6 HK cents per share) | 6,652,500 | 15,951,600 |

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 \$21,227,178 (2008: \$38,744,980) and the weighted average of 443,500,000 (2008: 441,726,776) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

| | Number of shares | |
|--|--------------------|-------------|
| | 2009 | 2008 |
| Issued ordinary shares at 1 January | 443,500,000 | 430,120,000 |
| Effect of shares issued for acquisition of subsidiary (note 38(a)) | – | 9,296,721 |
| Effect of share options exercised (note 38(a)) | – | 2,310,055 |
| Weighted average number of ordinary shares (basic) | 443,500,000 | 441,726,776 |

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 \$21,227,178 (2008: \$22,254,416) and the weighted average number of ordinary shares of 444,767,870 (2008: 441,793,433 ordinary shares), calculated as follows:

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

| | 2009 | 2008 |
|---|------------|--------------|
| | \$ | \$ |
| Profit attributable to ordinary equity shareholders | 21,227,178 | 38,744,980 |
| After tax effect of fair value remeasurement of convertible preferred shares | – | (16,490,564) |
| Profit attributable to ordinary equity shareholders (diluted) | 21,227,178 | 22,254,416 |

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

| | Number of shares | |
|--|------------------|-------------|
| | 2009 | 2008 |
| Weighted average number of ordinary shares | 443,500,000 | 441,726,776 |
| Effect of deemed issue of ordinary shares under the Company's share option schemes for nil consideration (note 37) | 1,267,870 | 66,657 |
| Weighted average number of ordinary shares (diluted) | 444,767,870 | 441,793,433 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16. SEGMENT INFORMATION

The Group is engaged in the principal business of production and sales of automotive related products. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment.

Information about products is set out in note 4 on these financial statements.

Information about geographical areas

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

The Group's geographical segments are also classified according to the location of customers. There are four (2008: six) 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:

| | 2009 \$ | 2008 \$ |
|--------|--------------------|--------------------|
| PRC | 948,878,233 | 603,918,685 |
| Iran | 12,049,050 | 16,360,126 |
| Korea | 12,350,472 | 10,509,873 |
| Russia | – | 10,367,645 |
| Italy | – | 6,017,406 |
| Others | 1,460,111 | 281,055 |
| | 974,737,866 | 647,454,790 |

Information about major customers

For the year ended 31 December 2009, revenue generated from one (2008: one) customer of the Group amounting to \$104,128,985 (2008: \$103,529,855) has individually accounted for over 10% of the Group's total revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 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 |
| As at 1 January 2009 | 63,537,322 | 174,134,014 | 13,904,438 | 64,655,419 | 316,231,193 | 42,236,727 | 358,467,920 |
| Additions | 191,086 | 37,646,723 | 1,135,445 | 6,870,216 | 45,843,470 | 7,679,216 | 53,522,686 |
| Transfer from construction in progress (note 18) | 17,002,076 | – | – | – | 17,002,076 | – | 17,002,076 |
| Disposal of a subsidiary | – | (149,600) | (302,136) | (420,119) | (871,855) | – | (871,855) |
| Disposals | – | (86,393) | (264,520) | (22,977) | (373,890) | – | (373,890) |
| As at 31 December 2009 | 80,730,484 | 211,544,744 | 14,473,227 | 71,082,539 | 377,830,994 | 49,915,943 | 427,746,937 |
| Accumulated depreciation: | | | | | | | |
| 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 |
| As at 1 January 2009 | 8,647,067 | 36,883,999 | 2,760,860 | 22,365,462 | 70,657,388 | 3,390,706 | 74,048,094 |
| Charge for the year | 3,392,104 | 20,899,698 | 1,246,466 | 9,681,587 | 35,219,855 | 1,928,575 | 37,148,430 |
| Disposal of a subsidiary | – | (49,922) | (181,453) | (119,617) | (350,992) | – | (350,992) |
| Written back on disposal | – | (19,412) | (69,460) | (15,203) | (104,075) | – | (104,075) |
| As at 31 December 2009 | 12,039,171 | 57,714,363 | 3,756,413 | 31,912,229 | 105,422,176 | 5,319,281 | 110,741,457 |
| Carrying amount: | | | | | | | |
| 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 |
| At 31 December 2009 | 68,691,313 | 153,830,381 | 10,716,814 | 39,170,310 | 272,408,818 | 44,596,662 | 317,005,480 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17. FIXED ASSETS (continued)

The Group

- (a) The Group's interests in leasehold land and buildings are held by the subsidiaries in the PRC, which represent the land use rights together with the buildings thereon situated in Beijing, Shanxi, Shenyang and Jinzhou, the PRC. The applications for the property ownership certificates of the leasehold land and building situated in Jinzhou and Shenyang with net book value of \$8,746,731 (2008: \$9,194,468) and \$Nil (2008: \$9,920,506) 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 reporting 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 2009 and, the property ownership certificates can be obtained when the administrative procedures are completed.
- (b) Leasehold land and buildings with carrying value totalling \$43,082,771 (2008: \$15,372,920) are mortgaged to banks for certain banking facilities granted to the Group as disclosed in note 30.
- (c) At 31 December 2009, leasehold lands with carrying amount of \$44,596,662 (2008: \$38,846,021) are situated outside Hong Kong under medium-term leases.

18. CONSTRUCTION IN PROGRESS

The Group

| | 2009 \$ | 2008 \$ |
|------------------------------------|--------------|-------------|
| Cost: | | |
| At 1 January | 43,304,754 | 22,151,684 |
| Exchange adjustments | – | 1,935,613 |
| Additions | 12,797,079 | 13,224,897 |
| Acquisition of subsidiaries | – | 9,360,948 |
| Transfer to fixed assets (note 17) | (17,002,076) | (3,368,388) |
| At 31 December | 39,099,757 | 43,304,754 |

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 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 |
| At 1 January 2009 | 24,147,294 | 136,738,491 | 72,858,607 | 233,744,392 |
| Additions | – | 23,747,136 | – | 23,747,136 |
| Disposal of a subsidiary | (13,768,117) | – | – | (13,768,117) |
| At 31 December 2009 | 10,379,177 | 160,485,627 | 72,858,607 | 243,723,411 |
| Accumulated amortisation: | | | | |
| 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 |
| At 1 January 2009 | 9,060,335 | 37,784,056 | 7,298,526 | 54,142,917 |
| Charge for the year | 2,981,210 | 25,348,754 | 4,165,174 | 32,495,138 |
| Disposal of a subsidiary | (3,026,325) | – | – | (3,026,325) |
| At 31 December 2009 | 9,015,220 | 63,132,810 | 11,463,700 | 83,611,730 |
| Carrying amount: | | | | |
| At 31 December 2008 | 15,086,959 | 98,954,435 | 65,560,081 | 179,601,475 |
| At 31 December 2009 | 1,363,957 | 97,352,817 | 61,394,907 | 160,111,681 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19. INTANGIBLE ASSETS (continued)

Acquired technology comprises the following:

- (i) A non-refundable licence fee was paid to 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.
- (ii) 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. In November 2009, such subsidiary was disposed.

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 \$18,758,718 (2008: \$18,019,805), \$13,318,662 (2008: \$134,408) and \$413,758 (2008: \$340,909) 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

| | 2009 | 2008 |
|-----------------------------|-------------|-----------|
| | \$ | \$ |
| At 1 January | 6,153,549 | 4,760,769 |
| Acquisition of subsidiaries | – | 1,044,445 |
| Disposal of a subsidiary | (1,068,182) | – |
| Exchange adjustments | – | 348,335 |
| At 31 December | 5,085,367 | 6,153,549 |

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 based on value-in-use calculations which is determined by the discounted cash flow method. The data from the Group’s detailed planning is used to project cash flows of the subsidiaries (cash-generating units) to which the goodwill related for 1 to 3 years ending 31 December 2010 to 2012. For the years following the detailed planning period, the assumed growth rates with range from 4% to 10% are used which comply with general expectations for the relevant CGU. The present value of cash flows is calculated by discount rates ranging from 12.8% to 19.2%. The gross profit margin is determined with range from 17% to 22%.

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

| | 2009 \$ | 2008 \$ |
|--------------------------|------------|------------|
| Unlisted shares, at cost | 37,265,416 | 37,265,416 |

Details of the subsidiaries as at 31 December 2009 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 | | | Principal activities and place of operation |
|--|---|---|----------------------------------|-----------------------|----------------------|---|
| | | | Group's effective interest % | Held by the Company % | Held by subsidiary % | |
| 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 | \$185,000,000 | 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 | | | Principal activities and place of operation |
|--|---|---|----------------------------------|-----------------------|----------------------|---|
| | | | Group's effective interest % | Held by the Company % | Held by subsidiary % | |
| 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 |
| 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 | – | Trading of automotive spare parts in the PRC |
| 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 | | | Principal activities and place of operation |
|---|---|---|----------------------------------|-----------------------|----------------------|--|
| | | | Group's effective interest % | Held by the Company % | Held by subsidiary % | |
| 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 |
| Tianjian Troitec Automotive Electronics Co., Ltd. ("Tianjian Troitec")* | The PRC, limited liability company | RMB50,000,000 | 41.0 | – | 41.0 | 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 |

* This subsidiary is newly established by the Group in 2009. Pursuant to the agreement, the minority shareholder of Tianjian Troitec has granted a 5 years option in which the Group is entitled to purchase the remaining 20% equity interests within 5 years at cost (RMB10,000,000) plus interest of 10% p.a., which will be accrued annually on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | The Group | |
|---|-------------------|-------------------|
| | 2009 \$ | 2008 \$ |
| Share of net assets | 36,219,259 | 37,008,170 |
| Amount due from jointly controlled entity | 632,889 | 632,889 |
| Goodwill | 17,816,774 | 17,816,774 |
| | 54,668,922 | 55,457,833 |

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 39(c)(i)).

Details of the Group's interest in the jointly controlled entity as at 31 December 2009 are as follows:

| Name of jointly controlled entity | Place of incorporation and kind of legal entity | Particulars of registered and paid up capital | Proportion of ownership interest | | | Principal activities and place of operation |
|---------------------------------------|---|---|----------------------------------|-----------------------|----------------------|---|
| | | | Group's effective interest % | Held by the Company % | Held by subsidiary % | |
| 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 |

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

| | 2009 \$ | 2008 \$ |
|----------------------------|-------------------|-------------------|
| Non-current assets | 51,638,788 | 56,559,920 |
| Current assets | 68,461,372 | 59,523,333 |
| Non-current liabilities | (4,982,301) | (5,331,777) |
| Current liabilities | (78,898,600) | (73,743,306) |
| Net assets | 36,219,259 | 37,008,170 |
| Income | 56,832,920 | 61,841,935 |
| Expenses | (57,621,831) | (57,534,147) |
| (Loss)/profit for the year | (788,911) | 4,307,788 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23. OTHER NON-CURRENT FINANCIAL ASSETS

| | 2009 | 2008 |
|---|---------|---------|
| | \$ | \$ |
| Unlisted equity securities in the PRC available-for-sale, at cost | 125,000 | 125,000 |

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

24. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) **Current tax recoverable in the consolidated statement of financial position represents:**

The Group

| | 2009 | 2008 |
|---|-------------|-------------|
| | \$ | \$ |
| Provision for PRC income tax for the year (<i>note 10(a)</i>) | 4,482,981 | 3,474,096 |
| PRC income tax paid | (7,027,459) | (3,629,082) |
| Current tax recoverable | (2,544,478) | (154,986) |

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

The Group

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

| | Provisions | Development costs | Acquired technology and patents | Fixed assets | Tax losses | Unremitted earnings | Others | Total |
|--|-------------|-------------------|---------------------------------|--------------|-------------|---------------------|-----------|-------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| At 1 January 2008 | (354,356) | 2,430,837 | 13,390,995 | 483,574 | – | – | 2,062,624 | 18,013,674 |
| Charged/(credited) 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 39(c)) | – | – | 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 |
| At 1 January 2009 | (447,782) | 8,272,532 | 17,446,739 | 3,744,965 | (3,414,651) | 2,592,994 | 3,445,675 | 31,640,472 |
| Charged/(credited) to consolidated income statement (note 10(a)) | (732,514) | 7,913,644 | (457,274) | (82,387) | (4,942,229) | 2,315,816 | (248,207) | 3,766,849 |
| Withholding tax paid | – | – | – | – | – | (1,861,143) | – | (1,861,143) |
| Disposal/closure of subsidiaries (note 39(b)) | – | – | (2,685,447) | – | – | – | (97,027) | (2,782,474) |
| At 31 December 2009 | (1,180,296) | 16,186,176 | 14,304,018 | 3,662,578 | (8,356,880) | 3,047,667 | 3,100,441 | 30,763,704 |

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

| | The Group | |
|--|------------|------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Net deferred tax assets recognised on the statement of financial position | (27,417) | (27,417) |
| Net deferred tax liabilities recognised on the statement of financial position | 30,791,121 | 31,667,889 |
| | 30,763,704 | 31,640,472 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

(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 \$48,800,362 (2008: \$77,597,762) and deductible temporary differences of \$2,889,937 (2008: \$1,830,069) 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.

There were no unrecognised deferred taxation for the Company as at 31 December 2009 and 31 December 2008.

25. INVENTORIES

| | The Group | |
|-----------------------------|--------------------|--------------------|
| | 2009 \$ | 2008 \$ |
| Raw materials | 91,515,858 | 80,332,227 |
| Work-in-progress | 16,829,899 | 19,387,620 |
| Finished goods | 70,458,425 | 41,773,357 |
| Spare parts and consumables | 1,144,506 | 607,558 |
| | 179,948,688 | 142,100,762 |

The amount of inventories recognised as an expense amounted to \$778,868,233 (2008: \$500,464,444).

26. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

| | The Group | | The Company | |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Trade receivables | 485,629,618 | 305,722,751 | – | – |
| Less: allowance for doubtful debts | (4,883,878) | (4,883,878) | – | – |
| | 480,745,740 | 300,838,873 | – | – |
| Bills receivable | 145,607,853 | 109,774,533 | – | – |
| | 626,353,593 | 410,613,406 | – | – |
| Amounts due from subsidiaries | – | – | 205,072,898 | 234,009,910 |
| Prepayments | 53,076,558 | 29,727,156 | 420,466 | 453,600 |
| Other receivables | 15,005,264 | 34,264,807 | 65,928 | 65,190 |
| | 694,435,415 | 474,605,369 | 205,559,292 | 234,528,700 |

Included in trade receivables are the amounts due from related companies of \$113,894,027 (2008: \$42,572,402) (see note 42(b)).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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 reporting date:

| | The Group | |
|---------------------------------------|--------------------|--------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Within 3 months | 433,999,266 | 118,866,097 |
| Over 3 months but less than 6 months | 184,096,939 | 266,964,723 |
| Over 6 months but less than 12 months | 8,257,388 | 24,782,586 |
| | 626,353,593 | 410,613,406 |

Due to the change in presentation on ageing category of trade and bills receivables, 2008 comparative information has been reclassified in order to conform with the current year's presentation.

Trade receivables and bills receivables are due within 90 to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 40(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 | |
|----------------------|------------------|------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| At 1 January | 4,883,878 | 4,572,141 |
| Exchange adjustments | – | 311,737 |
| At 31 December | 4,883,878 | 4,883,878 |

At 31 December 2009, the Group's trade receivables and bills receivable of \$4,883,878 (2008: \$4,883,878) 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 (2008: \$4,883,878) were recognised. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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 | |
|-------------------------------|-------------|-------------|
| | 2009 \$ | 2008 \$ |
| Neither past due nor impaired | 579,607,119 | 305,426,090 |
| Less than 3 month past due | 38,489,086 | 80,404,730 |
| 3 to 12 months past due | 8,257,388 | 24,782,586 |
| | 46,746,474 | 105,187,316 |
| | 626,353,593 | 410,613,406 |

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 (2008: \$11,000,400) was advanced to a minority shareholder of Honest Bright. The loan receivable carries interest at 2.5% (2008: 2.5%) per annum and is recoverable on demand. The loan receivable is secured by the 48.8% (2008: 48.8%) equity interests in Honest Bright held by this minority shareholder.

28. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|--|------------|------------|-------------|------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Cash and cash equivalents in the statement of financial position and cash flow statement | 39,982,603 | 56,919,885 | 13,899,677 | 2,900,986 |

Cash and cash equivalents of the Group of \$15,522,189 (2008: \$54,151,881) 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 | |
|--|-------------|-------------|-------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Trade payables | 284,163,359 | 171,579,136 | – | – |
| Bills payable | 109,846,176 | 33,299,822 | – | – |
| | 394,009,535 | 204,878,958 | – | – |
| Amounts due to subsidiaries | – | – | 16,434,350 | – |
| Amount due to the ultimate holding company | – | 6,087,850 | – | 6,087,850 |
| Other payables | 107,963,059 | 105,455,569 | 2,194,114 | 4,247,473 |
| | 501,972,594 | 316,422,377 | 18,628,464 | 10,335,323 |

Included in trade and other payables are amounts due to related companies of \$25,634,379 (2008: \$10,000,000)(see note 42(c))

Included in other payables are deferred income of \$9,960,227 (2008: \$9,846,591) and \$2,670,455 (2008: \$Nil) related to government grant received for subsidising the construction of production plants of subsidiaries in Beijing and Shanxi respectively, the PRC.

The amounts due to subsidiaries and the ultimate holding company was unsecured and non-interest bearing.

All of the trade and other payables (including amount due to subsidiaries and 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 | |
|---------------------------------------|-------------|-------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Within 3 months | 339,690,385 | 154,411,833 |
| Over 3 months but less than 6 months | 47,710,099 | 40,851,312 |
| Over 6 months but less than 12 months | 3,668,498 | 9,615,813 |
| Over 1 year | 2,940,553 | – |
| | 394,009,535 | 204,878,958 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30. BANK LOANS

The bank loans are repayable as follows:

| | Group | |
|--|--------------------|--------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Current | | |
| Short term bank loans: | | |
| – secured (notes (a) and (b)) | 129,679,004 | 67,146,234 |
| – unsecured (notes (d) and (e)) | 191,818,182 | 238,636,364 |
| Current portion of long-term bank loans: | | |
| – unsecured (note (f)) | 3,400,000 | – |
| | 324,897,186 | 305,782,598 |
| Non-current | | |
| Long-term bank loans: | | |
| – unsecured (note (f)) | 67,054,545 | – |
| | 67,054,545 | – |
| | 391,951,731 | 305,782,598 |

At 31 December 2009, terms of bank loans were summarised as follows:

- (a) Short-term secured bank loans of \$24,943,182 (2008: \$11,136,364) which carry interest at rates ranging from 4.86% to 6.90% (2008: 7.80% to 8.40%) per annum are secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of \$43,082,771 (2008: \$15,372,920).
- (b) Included in short-term secured bank loans are discounted bills with recourse totaling \$104,735,822 (2008: \$54,526,916) are secured by the related bills receivables.
- (c) At 31 December 2008, certain bank loans of \$1,482,954, which carried interest at rates ranging from 5.91% to 6.12% per annum were secured by bills receivables of \$1,534,091.
- (d) Short-term unsecured bank loans of \$3,409,091 (2008: \$11,363,636) which carry interest at 6.36% (2008: from 7.99% to 8.32%) per annum are guaranteed by a third party. Other unsecured bank loan of \$11,363,636 (2008: \$Nil) carries interest at 5.31% (2008: Nil) per annum is guaranteed by a minority shareholder of a subsidiary.
- (e) Other unsecured bank loans totaling \$177,045,455 (2008: \$227,272,728) carry interest at rates ranging from 2.14% to 4.86% (2008: from 5.02% to 6.95%) per annum.
- (f) Long-term unsecured bank loans of \$70,454,545 (2008: \$Nil) carry interest at rate ranging from 3.50% to 5.40% (2008: Nil) per annum.
- (g) All of the bank loans are repayable as follows:

| | Group | |
|--|--------------------|--------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Within one year | 324,897,186 | 305,782,598 |
| In the second year | 49,354,545 | – |
| In the third to fifth years, inclusive | 17,700,000 | – |
| | 391,951,731 | 305,782,598 |

Further details of the Group's management of liquidity risk are set out in note 40(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31. OTHER LOANS

Other loans were obtained from third parties and are unsecured and repayable within one year. Except for loans of \$261,364 (2008: \$1,647,727) carry interest of 5.31% (2008: 6.57%) per annum, all other loans are non-interest bearing.

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 7 October 2009, the holders of the convertible notes have redeemed the convertible notes with a nominal value of \$23,000,000.

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. On 30 September 2009, the holders of the convertible notes have redeemed the convertible notes with a nominal value of \$6,000,000.

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 reporting 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 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 |
| At 1 January 2009 | 72,896,991 | (4,121,378) | 68,775,613 |
| Interest charged during the year | 6,366,990 | – | 6,366,990 |
| Interest paid during the year | (4,909,206) | – | (4,909,206) |
| Derecognition on redemption | (28,082,909) | – | (28,082,909) |
| Change in fair value | – | 3,427,887 | 3,427,887 |
| At 31 December 2009 | 46,271,866 | (693,491) | 45,578,375 |

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”). During the year, RMB10,000,000 has been paid to the holders of the preferred shares to reduce the original purchase price to RMB90,000,000 with no change in any term of the preferred shares. 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 share of Shiny Bright into which the Series A-1 Preferred Shares may then be converted. The holders of the preferred shares may under certain events elect to cause Shiny Bright to redeem the preferred shares at the purchase price plus a specified return.

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 of 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 reporting date.

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

| | 2009 \$ | 2008 \$ |
|-----------------------------|---------------------|--------------|
| At 1 January | 85,982,840 | – |
| At initial recognition | – | 102,473,404 |
| Repayment of purchase price | (11,052,943) | – |
| Change in fair value | 10,921,994 | (16,490,564) |
| At 31 December | 85,851,891 | 85,982,840 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 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. Such option for subscribing the Series A-2 Preferred Shares of Shiny Bright was expired during the year.

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

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

| | 2009 \$ | 2008 \$ |
|------------------------|-------------|-------------|
| At 1 January | 6,056,199 | – |
| At initial recognition | – | 11,263,830 |
| Change in fair value | (6,056,199) | (5,207,631) |
| At 31 December | – | 6,056,199 |

35. CONTINGENT LIABILITIES

As at 31 December 2009, the Company has issued guarantees to banks in respect of banking facilities granted to 2 wholly-owned subsidiaries of the Company. The maximum liability of the Company at the reporting date is the facility drawn down by the subsidiaries of \$35,000,000 (2008: \$Nil). As at the reporting date, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The details of the bank loans are set out in note 30 on the financial statements.

The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was \$Nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36. 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.

37. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme, which was adopted by the Company on 22 November 2004 (“Share Option Scheme”). Given that the provisions of the Share Option Scheme do not comply with the requirements of Chapter 17 of the Listing Rules, its operation was terminated with effect from the adoption of the 2009 Share Option Scheme. After its termination, no further options would be offered under the Share Option Scheme but outstanding options granted pursuant to the Share Option Scheme which entitle the holders thereof to subscribe for a total of 37,300,000 shares of the Company will remain valid and exercisable in accordance with their terms of issue.

The 2009 Share Option Scheme was adopted by the shareholders of the Company in the 2008 annual general meeting held on 19 June 2009 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 44,350,000 shares. This share option scheme shall be valid and effective for a period of 10 years ending on 19 June 2019 after which no further options will be granted. The exercise price of options may be determined by the board at its absolute discretion but in any event will not be less than the higher of:

- (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day;
- (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37. 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:

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 | |
| 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 11 November 2008 | 17,100,000 | 11 November 2008 | 20 | 3 years |
| | | 1 July 2009 | 60 | |
| | | 1 July 2010 | 100 | |
| Total share options | 37,300,000 | | | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37. EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

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

| | 2009 | | 2008 | |
|--|---------------------------------------|-------------------|---------------------------------------|-------------------|
| | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ | Number of options |
| Outstanding at the beginning of the year | 1.14 | 37,700,000 | 1.48 | 22,880,000 |
| Exercised during the year | – | – | 0.48 | (2,680,000) |
| Forfeited during the year | 1.60 | (400,000) | – | – |
| Granted during the year | – | – | 0.60 | 17,500,000 |
| Outstanding at the end of the year | | 37,300,000 | | 37,700,000 |
| Exercisable at the end of the year | | 30,460,000 | | 24,020,000 |

The weighted average share price at the date of exercise for shares options exercised during the year was \$Nil (2008: \$1.15).

The options outstanding at 31 December 2009 had exercise prices ranging from \$0.59 to \$1.60 (2008: \$0.59 to \$1.60) and a weighted average remaining contractual life of 2.28 years (2008: 3.29 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37. EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

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

Fair value of share options and assumptions

(i) 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% |

(ii) 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)

38. CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Share capital \$ | Share premium \$ | Capital reserve \$ | Retained profits/ (Accumulated losses) \$ | Total \$ |
|--|------------------------|------------------------|--------------------------|---|--------------|
| 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 |
| At 1 January 2009 | 4,435,000 | 166,680,213 | 13,887,199 | 10,581,754 | 195,584,166 |
| Equity settled share-based transactions | – | – | 1,037,632 | – | 1,037,632 |
| Released on early redemption of convertible notes | – | – | (1,918,127) | 1,918,127 | – |
| Profit for the year | – | – | – | 2,548,248 | 2,548,248 |
| Dividends approved in respect of prior year | – | – | – | (6,652,500) | (6,652,500) |
| At 31 December 2009 | 4,435,000 | 166,680,213 | 13,006,704 | 8,395,629 | 192,517,546 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. CAPITAL AND RESERVES (continued)

(a) Share capital

(i) Authorised and issued share capital

| | 2009 | | 2008 | |
|--|------------------|-------------|------------------|-------------|
| | Number of shares | \$ | Number of shares | \$ |
| 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 | 443,500,000 | 4,435,000 | 430,120,000 | 4,301,200 |
| Shares issued under share option schemes (note (ii)) | – | – | 2,680,000 | 26,800 |
| Shares issued for acquisition of a subsidiary (note (iii)) | – | – | 10,700,000 | 107,000 |
| At 31 December | 443,500,000 | 4,435,000 | 443,500,000 | 4,435,000 |

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, no options were exercised to subscribe for ordinary shares in the Company. In 2008, options were exercised to subscribe for 2,680,000 ordinary shares in the Company at a consideration of \$1,272,175 of which \$26,800 was credited to share capital and the balance of \$1,245,375 was credited to the share premium account. \$1,863,379 had 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 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 39(c)(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. 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 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was \$149,613,052 (2008: \$138,929,682). After the reporting date the directors proposed a final dividend of 1.5 HK cents per ordinary share (2008: 1.5 HK cents per ordinary share), amounting to \$6,860,833 (2008: \$6,652,500). This dividend has not been recognised as a liability at the reporting 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 2009, the Group has complied with all the externally imposed capital requirements. The Group also has a strategy to maintain the net debt-to-adjusted capital ratio at or below 70% (2008: 60%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38. CAPITAL AND RESERVES (continued)

(d) Capital management (continued)

The net debt-to-adjusted capital ratio at 31 December 2009 was as follows:

| | Note | The Group | | The Company | |
|------------------------------------|------|--------------|--------------|--------------|-------------|
| | | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Bank loans | 30 | 391,951,731 | 305,782,598 | – | – |
| Other loans | 31 | 2,761,363 | 8,227,272 | – | – |
| Convertible notes | 32 | 45,578,375 | 68,775,613 | 45,578,375 | 68,775,613 |
| | | 440,291,469 | 382,785,483 | 45,578,375 | 68,775,613 |
| Less: Cash and cash equivalents | 28 | (39,982,603) | (56,919,885) | (13,899,677) | (2,900,986) |
| Net debt | | 400,308,866 | 325,865,598 | 31,678,698 | 65,874,627 |
| Total equity | | 518,097,962 | 469,613,477 | 192,517,546 | 195,584,166 |
| Add: convertible preferred shares | 33 | 85,851,891 | 113,737,234 | – | – |
| Adjusted capital | | 603,949,853 | 583,350,711 | 192,517,546 | 195,584,166 |
| Net debt-to-adjusted capital ratio | | 66% | 56% | 16% | 34% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. ACQUISITION/DISPOSAL OF SUBSIDIARIES

(a) No subsidiaries were acquired by the Company or the Group during the year ended 31 December 2009.

(b) Disposal/closure of subsidiaries during the year ended 31 December 2009

(i) *Tianjian Zhuo Yuan*

On 11 November 2009, pursuant to the approval of the share transfer agreement dated on 10 November 2009, the Group disposed of 52% equity interest of Tianjian Zhuo Yuan. As a result of the disposal, the Group does not hold any equity interest in Tianjian Zhuo Yuan.

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

| | \$ |
|--|-------------|
| <hr/> | |
| Net assets disposed of | |
| Fixed assets | 520,863 |
| Intangible assets | 10,741,790 |
| Inventories | 1,443,168 |
| Trade and other receivables | 5,607,207 |
| Cash and cash equivalents | 122,652 |
| Trade and other payables | (4,238,148) |
| Deferred tax liabilities | (2,782,474) |
| | <hr/> |
| | 11,415,058 |
| | <hr/> |
| Share of net identifiable assets attributable to the Group (52%) | 5,935,831 |
| Release of goodwill | 1,068,182 |
| Loss on disposal | (185,831) |
| | <hr/> |
| Consideration receivable for disposal of a subsidiary | 6,818,182 |
| | <hr/> |
| Representing: | |
| Consideration receivable | 6,136,364 |
| Forgiven of a liability due to Tianjian Zhuo Yuan shareholder | 681,818 |
| | <hr/> |
| Consideration receivable for disposal of a subsidiary | 6,818,182 |
| | <hr/> |
| Analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary | |
| Cash and cash equivalents disposed of | (122,652) |
| | <hr/> |

In accordance with the sale and purchase agreement, consideration of RMB5,400,000 (equivalents to \$6,136,364) is receivable within one year from date of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. ACQUISITION/DISPOSAL OF SUBSIDIARIES (continued)

(b) Disposal/closure of subsidiaries during the year ended 31 December 2009 (continued)

(ii) Sheng Shi Tai Fu

Pursuant to the approval of business registration cancellation applied by Troitec (the sole shareholder of Sheng Shi Tai Fu) in October 2009, Sheng Shi Tai Fu was closed.

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

| | \$ |
|--|----------|
| <hr/> | |
| Net assets of Sheng Shi Tai Fu | |
| Trade and other receivables | 286,080 |
| Cash and cash equivalents | 1,626 |
| Trade and other payables | (98,589) |
| | <hr/> |
| | 189,117 |
| | <hr/> |
| Share of net identifiable assets attributable to the Group (51.2%) | 96,828 |
| Release of reserve | (71,478) |
| | <hr/> |
| Loss on closure of a subsidiary | 25,350 |
| | <hr/> |

(c) Acquisition of subsidiaries during the year ended 31 December 2008

(i) 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 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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. ACQUISITION/DISPOSAL OF SUBSIDIARIES (continued)

(c) Acquisition of subsidiaries during the year ended 31 December 2008 (continued)

(i) 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) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. ACQUISITION/DISPOSAL OF SUBSIDIARIES (continued)

(c) Acquisition of subsidiaries during the year ended 31 December 2008 (continued)

(ii) 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 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39. ACQUISITION/DISPOSAL OF SUBSIDIARIES (continued)

(d) Disposal of a subsidiary during the year ended 31 December 2008

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:

| | \$ |
|--|------------|
| <hr/> | |
| <i>Net assets disposed of</i> | |
| 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) |
| | <hr/> |
| | 19,496,691 |
| | <hr/> |
| Share of net identifiable assets attributable to the Group (51%) | 9,943,312 |
| Release of reserves | (694,867) |
| Gain on disposal | 2,342,464 |
| | <hr/> |
| Consideration for disposal of a subsidiary | 11,590,909 |
| | <hr/> |
| Representing: | |
| Consideration receivable | 6,818,182 |
| Forgiven of a liability due to Tianjian AMT | 4,772,727 |
| | <hr/> |
| Consideration for disposal of a subsidiary | 11,590,909 |
| | <hr/> |
| <i>Analysis of net outflow of cash and cash equivalents</i> | |
| <i>in respect of the disposal of a subsidiary</i> | |
| Cash and cash equivalents disposed of | (995,929) |
| | <hr/> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate 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.

(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 to 180 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 reporting date, the Group has a certain level of concentrations of credit risk as 16% (2008: 10.6%) and 45% (2008: 41.8%) 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 statement of financial position after deducting any impairment allowance. The Group does not provide any guarantee 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.

The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 35 on the financial statements.

(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 terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the reporting 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 reporting date) and the earliest date of the Group and the Company can be required to pay:

| The Group | 2009 | | | | | 2008 | | | | |
|------------------------------|-----------------|--|----------------------------|------------------------------|-------------------------------|-----------------|--|----------------------------|------------------------------|-------------------------------|
| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than | | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than | |
| | | | | 1 year but less than 2 years | 2 years but less than 5 years | | | | 1 year but less than 2 years | 2 years but less than 5 years |
| | | | | \$ | \$ | | | | \$ | \$ |
| Trade and other payables | 501,972,594 | 501,972,594 | 501,972,594 | - | - | 316,422,377 | 316,422,377 | 316,422,377 | - | - |
| Bank loans | 391,951,731 | 402,840,459 | 333,467,773 | 50,619,263 | 18,753,423 | 305,782,598 | 314,510,051 | 314,510,051 | - | - |
| Other loans | 2,761,363 | 2,761,972 | 2,761,972 | - | - | 8,227,272 | 8,279,175 | 8,279,175 | - | - |
| Convertible notes | 45,578,375 | 52,929,726 | 3,360,000 | 49,569,726 | - | 68,775,613 | 91,560,000 | 5,390,000 | 5,390,000 | 80,780,000 |
| Convertible preferred shares | 85,851,891 | 117,613,636 | 117,613,636 | - | - | 85,982,840 | 130,681,818 | 130,681,818 | - | - |
| | 1,028,115,954 | 1,078,118,387 | 959,175,975 | 100,188,989 | 18,753,423 | 785,190,700 | 861,453,421 | 775,283,421 | 5,390,000 | 80,780,000 |

| The Company | 2009 | | | | | 2008 | | | | |
|-----------------------------|-----------------|--|----------------------------|------------------------------|-------------------------------|-----------------|--|----------------------------|------------------------------|-------------------------------|
| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than | | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than | |
| | | | | 1 year but less than 2 years | 2 years but less than 5 years | | | | 1 year but less than 2 years | 2 years but less than 5 years |
| | | | | \$ | \$ | | | | \$ | \$ |
| Amounts due to subsidiaries | 16,434,350 | 16,434,350 | 16,434,350 | - | - | - | - | - | - | - |
| Trade and other payables | 2,194,114 | 2,194,114 | 2,194,114 | - | - | 10,335,323 | 10,335,323 | 10,335,323 | - | - |
| Convertible notes | 45,578,375 | 52,929,726 | 3,360,000 | 49,569,726 | - | 68,775,613 | 91,560,000 | 5,390,000 | 5,390,000 | 80,780,000 |
| | 64,206,839 | 71,558,190 | 21,988,464 | 49,569,726 | - | 79,110,936 | 101,895,323 | 15,725,323 | 5,390,000 | 80,780,000 |

(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)

40. 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 reporting 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 reporting 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) | | | |
|---|--|-----------|-----------------------|------------|
| | 2009 | | 2008 | |
| | United States dollars | Euros | United States dollars | Euros |
| Trade and other receivables | 899,138 | 783,519 | 4,811,703 | 6,839,910 |
| Cash and cash equivalents | 268,871 | 1,859,338 | 11,245,712 | 3,313,418 |
| Trade and other payables | (1,529,380) | (34,490) | (629,569) | (26,827) |
| Net exposure arising from recognised assets and liabilities | (361,371) | 2,608,367 | 15,427,846 | 10,126,501 |

The Company

| | Exposure to foreign currencies (expressed in Hong Kong dollars) | | | |
|---|--|-------|-----------------------|-------|
| | 2009 | | 2008 | |
| | United States dollars | Euros | United States dollars | Euros |
| Cash and cash equivalents | 117,991 | 2,734 | 117,959 | 2,732 |
| Net exposure arising from recognised assets and liabilities | 117,991 | 2,734 | 117,959 | 2,732 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40. 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 \$Nil as at 31 December 2009 (2008: \$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 reporting date had changed at that date, assuming all other risk variables remained constant.

The Group

| | 2009 | | 2008 | |
|-----------------------|--|---|--|---|
| | 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% (5)% | 56 (56) | 5% (5)% | 18,750 (18,750) |
| United States dollars | 5% (5)% | (19,436) 19,436 | 5% (5)% | 691,197 (691,197) |
| Euros | 5% (5)% | 110,834 (110,834) | 5% (5)% | 430,349 (430,349) |

The Company

| | 2009 | | 2008 | |
|-----------------------|--|---|--|---|
| | 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)% | 5,900 (5,900) | 5% (5)% | 5,898 (5,898) |
| Euros | 5% (5)% | 137 (137) | 5% (5)% | 137 (137) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40. 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 reporting 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 reporting 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 borrowers. 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 performed on the same basis for 2008.

(d) Interest rate risk

(i) Exposure to interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to its long-term interest-bearing bank loans. Borrowings at floating rates expose the Group to cash flow interest-rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(ii) Sensitivity analysis

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year would decrease/increase by \$125,000. This is mainly attributable to the Group's exposure to interest rates on its variable rate long-term borrowings.

The Group's exposure to interest rate risk is not significant in 2008 as all of the interest-bearing borrowings are fixed rate borrowings.

(e) Fair values

(i) The fair value of financial assets and liabilities are determined as follows:

Unlisted equity securities for which fair values cannot be reliably measured are stated at cost less impairment losses.

The fair values of derivatives are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

Amounts due from subsidiaries and a jointly controlled entity are unsecured, interest-free and have no fixed repayment terms. Given with these terms, it is not meaningful to disclose the fair values.

Other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) Fair values (continued)

(ii) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the reporting date across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorized in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

| | The Group | | Total |
|---|-----------|------------|------------|
| | Level 2 | Level 3 | |
| | \$ | \$ | \$ |
| Liabilities | | | |
| Derivative financial instruments: | | | |
| – Redemption and conversion components embedded in preferred shares | – | 85,851,891 | 85,851,891 |
| – Conversion option embedded in convertible notes | (693,491) | – | (693,491) |
| | (693,491) | 85,851,891 | 85,158,400 |
| The Company | | | |
| | Level 2 | Level 3 | Total |
| | \$ | \$ | \$ |
| Liabilities | | | |
| Derivative financial instruments: | | | |
| – Conversion option embedded in convertible notes | (693,491) | – | (693,491) |
| | (693,491) | – | (693,491) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) Fair values (continued)

(ii) Financial instruments carried at fair value (continued)

The movement during the year in the balance of Level 3 fair value measurements is as follows:

| | 2009 | | |
|--|---|---|--------------|
| | Option to subscribe preferred shares \$ | Redemption and conversion components embedded in preferred shares \$ | Total \$ |
| Balance at 1st January | (6,056,199) | (85,982,840) | (92,039,039) |
| Change in fair value recognised in profit or loss | 6,056,199 | (10,921,994) | (4,865,795) |
| Repayment of purchase price | – | 11,052,943 | 11,052,943 |
| Balance at 31st December | – | (85,851,891) | (85,851,891) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

41. COMMITMENTS AND CONTINGENCIES

- (a) Capital commitments outstanding at 31 December 2009 not provided for in the consolidated financial statements were as follows:

| | The Group | |
|--|-----------|------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Contracted for property, plant and equipment | 9,870,572 | 20,265,342 |

- (b) At 31 December 2009, the Group's share of the capital commitments of its jointly controlled entity amounted to \$Nil (2008: \$Nil).
- (c) At 31 December 2009, the Group had a capital commitment of \$7,727,273 (2008: \$Nil) representing capital contribution for setting up a subsidiary, Tianjian Troitec in the PRC.
- (d) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

Properties

| | The Group | | The Company | |
|---------------------------------|-----------|------------|-------------|---------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Within 1 year | 1,853,937 | 1,592,354 | 221,400 | 101,475 |
| After 1 year but within 5 years | 4,047,410 | 5,006,356 | 98,400 | – |
| After 5 years | 931,503 | 9,611,434 | – | – |
| | 6,832,850 | 16,210,144 | 319,800 | 101,475 |
| Others | | | | |
| Within 1 year | 27,273 | 2,800 | – | – |

The Group leases a number of properties and office equipment under operating leases for a period of 2 to 30 years (2008: 2 to 30 years). The leases do not include contingent rentals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

42. 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 |
| Taiyuan Aero Instruments Company Limited ("Taiyuan Aero") | Minority shareholder (40%) of Shanxi Winner |
| Freemind Technology Limited ("Freemind Technology") | Minority shareholder (48.8%) of Honest Bright |
| Li Feng ("Mr. Li") | Chairman and director of the Company |

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

(a) Recurring

| | The Group | |
|--|-------------|------------|
| | 2009 \$ | 2008 \$ |
| Purchases of raw materials from: | | |
| – Shanxi Winner | – | 20,637,708 |
| – Taiyuan Aero | 35,574,083 | – |
| Sales of airbag systems or other automotive components to: | | |
| – Hafei Motor | 72,320,213 | 8,748,998 |
| – Brilliance Jinbei | 123,528,777 | 53,133,955 |
| – Taiyuan Aero | 47,696,150 | – |
| Rental expenses paid to: | | |
| – Mr. Li | 377,273 | 779,091 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

42. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Recurring (continued)

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

| | The Group | |
|------------------------------|------------------|------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Short-term employee benefits | 4,513,553 | 4,598,830 |
| Post-employment benefits | 59,455 | 38,591 |
| Equity compensation benefits | 432,888 | 3,030,432 |
| | 5,005,896 | 7,667,853 |

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

(b) Amounts due from related companies

| | The Group | |
|-------------------|--------------------|-------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Hafei Motor | 17,757,566 | 5,032,672 |
| Brilliance Jinbei | 80,468,301 | 37,539,730 |
| Taiyuan Aero | 15,668,160 | – |
| | 113,894,027 | 42,572,402 |

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 statement of financial position (see note 26).

(c) Amounts due to related companies

| | The Group | |
|---------------------|-------------------|-------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Freemind Technology | 10,000,000 | 10,000,000 |
| Taiyuan Aero | 15,634,379 | – |
| | 25,634,379 | 10,000,000 |

The amounts due to Freemind Technology are unsecured, interest free and are expected to be settled within one year.

The amounts due to Taiyuan Aero are trade-related, unsecured, interest free and are expected to be settled within one year.

These amounts are included in "Trade and other payables" in the consolidated statement of financial position (see note 29).

(d) Details of corporate guarantees given by related companies and the Company are set out in notes 30(d) and 35 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

43. NON-ADJUSTING POST BALANCE SHEET EVENTS

- (a) As at 8 March 2010, the Company has repaid HK\$12,500,000 to a holder of the convertible note for the redemption of the convertible note at the same nominal value. On 12 March 2010, the Company has issued 13,888,888 shares to the same convertible note holder as a result of the exercise of the conversion right of convertible note with nominal value HK\$12,500,000. After the completion of the above redemption and conversion, the Company still has the outstanding convertible notes with nominal value at \$23,000,000.
- (b) After the reporting date the directors proposed a final dividend. Further details are disclosed in note 14.

44. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2009, 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.

45. 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, 37 and 40 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 45(f)) are depreciated and amortised on a straight-line basis over their estimated useful lives. The Group annually reviews 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 reporting date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product-by-product basis at each year end date and assess the need for write down of inventories.

(c) Allowance for impairment of doubtful debts

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

45. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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 reporting 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 (including goodwill) 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 indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(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 annually reviews 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

46. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

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 year ended 31 December 2009 and which have not been adopted in these financial statements.

| | Effective for accounting periods beginning on or after |
|---|---|
| HKFRS 3, Business combinations (revised 2008) | 1 July 2009 |
| HKAS 27, Consolidated and separate financial statements (amended 2008) | 1 July 2009 |
| Amendments to HKAS 39 – Eligible hedged items | 1 July 2009 |
| HK (IFRIC) 17, Distributions of non-cash assets to owners | 1 July 2009 |
| Improvements to HKFRSs 2008 – Amendments to HKFRS 5 non-current assets held for sale and discontinued operations | 1 July 2009 |
| Improvements to HKFRSs 2009 | 1 July 2009 or 1 January 2010 |
| Amendments of HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Additional exemptions for first-time adopters | 1 January 2010 |
| Amendments to HKFRS 2, Share-based payment – Group cash-settled share-based payment transactions | 1 January 2010 |
| Amendments to HKAS 32, Financial instruments: Presentation – Classification of rights issues | 1 February 2010 |
| HK (IFRIC) 19, Extinguishing financial liabilities with equity instruments | 1 July 2010 |
| Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Limited exemption from comparative HKFRS 7 disclosures for first-time adopters | 1 July 2010 |
| HKAS 24, Related party disclosures (revised 2009) | 1 January 2011 |
| Amendments to HK (IFRIC) 14, HKAS 19 – The limit on a defined benefit assets, minimum funding requirements and their interaction | 1 January 2011 |
| HKFRS 9, Financial instruments | 1 January 2013 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and Interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

FIVE YEARS SUMMARY

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| | 2005 \$ | 2006 \$ | 2007 \$ | 2008 \$ | 2009 \$ |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| OPERATING RESULTS | | | | | |
| Turnover | 195,668,737 | 352,541,854 | 666,947,593 | 647,454,790 | 974,737,866 |
| Profit from operations | 35,535,979 | 57,392,228 | 79,173,962 | 61,379,878 | 63,981,834 |
| Finance costs | (2,797,426) | (7,774,742) | (17,917,455) | (24,590,418) | (25,741,674) |
| Share of (losses)/profits of jointly controlled entities | (269,165) | 2,728,827 | 4,096,079 | 4,307,788 | (788,911) |
| Share of profits of associates | – | 951,286 | 1,172,169 | – | – |
| Profit before taxation | 32,469,388 | 53,297,599 | 66,524,755 | 41,097,248 | 37,451,249 |
| Income tax | (446,043) | (5,516,560) | (7,710,240) | (8,763,162) | (8,249,830) |
| Profit for the year | 32,023,345 | 47,781,039 | 58,814,515 | 32,334,086 | 29,201,419 |
| Attributable to: | | | | | |
| Equity shareholders of the Company | 32,016,170 | 45,608,257 | 66,630,845 | 38,744,980 | 21,227,178 |
| Minority interests | 7,175 | 2,172,782 | (7,816,330) | (6,410,894) | 7,974,241 |
| Profit for the year | 32,023,345 | 47,781,039 | 58,814,515 | 32,334,086 | 29,201,419 |
| Earnings per share | | | | | |
| – Basic | 8.40 cents | 11.86 cents | 16.42 cents | 8.77 cents | 4.79 cents |
| – Diluted | 8.25 cents | 11.27 cents | 13.80 cents | 5.04 cents | 4.77 cents |
| Assets and liabilities | | | | | |
| Non-current assets | 118,521,598 | 247,063,459 | 421,504,829 | 612,547,709 | 615,380,386 |
| Net current assets/(liabilities) | 118,849,814 | 133,802,999 | 109,934,840 | (89,568,148) | 563,242 |
| Total assets less current liabilities | 237,371,412 | 380,866,458 | 531,439,669 | 522,979,561 | 615,943,628 |
| Non-current liabilities | (27,384,483) | (99,545,104) | (86,339,098) | (31,667,889) | (97,845,666) |
| NET ASSETS | 209,986,929 | 281,321,354 | 445,100,571 | 491,311,672 | 518,097,962 |
| Capital and reserves | | | | | |
| Share capital | 3,810,000 | 3,855,600 | 4,301,200 | 4,435,000 | 4,435,000 |
| Reserves | 195,536,665 | 247,067,839 | 387,946,329 | 425,402,002 | 441,085,790 |
| Total equity attributable to equity shareholders of the Company | 199,346,665 | 250,923,439 | 392,247,529 | 429,837,002 | 445,520,790 |
| Minority interests | 10,640,264 | 30,397,915 | 52,853,042 | 61,474,670 | 72,577,172 |
| TOTAL EQUITY | 209,986,929 | 281,321,354 | 445,100,571 | 491,311,672 | 518,097,962 |