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)

2010

Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. Li Hong

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 609,
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

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower,
The Landmark,
11 Pedder Street,
Central, Hong Kong

LEGAL ADVISER

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

STOCK QUOTE

872

WEB SITE OF THE COMPANY

www.jinhengholdings.com

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 2010.

The Group has taken a series of important projects during 2010 that helped built strong cornerstones for the Group's further expansion into the diversified international suppliers' market of automotive spare parts.

BUSINESS REVIEW

After the disposal of the entire equity interests of the Jinheng (BVI) Limited and its subsidiaries (the "Disposed Group") at a consideration of HK$1,130 million (the "Disposal") in July, the Group have strengthen its financial position to concentrate on other high potential business such as engine management system ("EMS") and automobile electronic products.

Currently, the Group is principally engaged in the production and sale of automotive safety products including EMS and other spare parts. The turnover of these products has recorded continuous growth during the year. For the fiscal year ended 31 December 2010, the Group recognized turnover amount of approximately HK$815.7 million, representing a decrease of approximately HK$159 million which was mainly due to the Disposal.

Apart from the Disposal in September 2010, the Group also acquired all Series A-1 Preferred Shares (the "Sales Shares") of Shiny Bright Holdings Limited (the "Shiny Bright") at a consideration of approximately HK$155.5 million. The Sale Shares represent approximately 32.79% effective interest of the enlarged capital of Shiny Bright. Shiny Bright and its subsidiaries are principally engaged in sale and manufacture of EMS in PRC. As a result of this acquisition, the Group will effectively hold 67.20% of the enlarged issued ordinary share capital of Shiny Bright on an as-if-fully-converted basis and thus can strengthen our control and commitment on the EMS business.

During the year, our EMS and automobile electronic components business maintain growth. We have commenced commercial production of new EMS models to another major customer during the year and it is expected to have continuous contribution in the coming years. The Group has planned to expand the production facilities to cope with the growing demand of EMS products and enlarge our market shares in the PRC automobile markets.

In view of the final dividend declared in the previous years and the special dividend of HK$1.00 in related to the Disposal, the Company has fully return the investment cost to our IPO shareholders, and thus accomplish our objective of creating value and providing fruitful return to our shareholders. The directors of the Company would like to take this opportunity to express its sincere gratitude for the support of shareholders in the previous years, and we thank the shareholders for their continuous support on our coming new ventures.

CHAIRMAN'S STATEMENT

OUTLOOK AND FUTURE PROSPECTS

As an active and experienced manufacture in the automobile spare parts market in the PRC with competitive price and quality-proved products, the Group will apply its competitive advantages in developing the EMS and automobile electronic products to fulfill the growing demand from the PRC automobile manufactures on domestic produced spare parts. The Group will also invest in the expansion of research and development facilities to seek for providing products with more advanced technology at lower cost and cope with the changing market demands.

In March 2011, the Group has entered into a deed of modification, in which the payment period of the outstanding consideration of HK$452 million of the Disposal has been extended by 15 months, and the outstanding amount will bear 8% interest per annum and still being pledged by the entire equity interest of the Disposed Group. As the directors of the Company consider that there are enough immediately available funds in hand and the Group can gain a reasonable interest income from such extension, this is in the interest of the shareholders and the Company as a whole. The transaction is subject to the approval from the independent shareholders of the Company in the upcoming extraordinary general meeting.

Facilitated by the solid foundation from the completion of the Disposal and the continuous implementation of the cost control policy, which was proved to be success in the past few years, it is expected that the Group can maintain its competitive advantages over other local and overseas competitors and enlarge the market shares in the PRC automobile spare parts markets. Given the large business opportunities available in the PRC, it is expected that the Group can be benefit from the growing demand and thus can provide fruitful returns to the shareholders of the Company.

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, 25 March 2011

RESULTS OF OPERATIONS

During the year ended 31 December 2010, the turnover amount of the Group were approximately HK$815.7 million, which were decreased by approximately 16.3% as compared with the same period of last year. The decrease was mainly resulted from the disposal of the automotive safety airbag and seat belts business, which was completed in September 2010. Given the continuous expansion of our EMS business and automotive electronic products, our automotive spare parts business recorded an increase of approximately 14.6% in compared with last year.

During 2010, the average gross profit margin of the Group was approximately 19.3%, which was slightly decreased by 0.7% as compared with the annual result of 2009. The difference was mainly due to the change of product mix.

The other net income of the Group during the year under review was approximately HK$639.8 million, while it was a net loss of approximately HK$9.6 million in 2009. The improvement was mainly due to the gain on disposal of the entire equity interest of the Disposed Group.

During the current reporting period, the research and development expenses of the Group were approximately HK$53.0 million while it was approximately HK$40.3 million in last year. This is mainly due to the continuous investment in the development of new products such as automobile electronic products and new EMS models, which will be the major revenue contribution segment in the coming future.

For the year ended 31 December 2010, the distribution costs of the Group recorded approximately HK$21.0 million, which was approximately 21.1% decrease as compared with the same period of last year. This was mainly resulted from the disposal of the Disposed Group.

During 2010, the administrative expenses were approximately HK$48.3 million, while it was approximately HK$74.3 million in 2009. The decrease was mainly resulted from the continuous contribution from the cost saving plan implemented in the previous years and the disposal of subsidiaries during the year.

The finance costs during the current year under review were decreased by approximately 36.9% to approximately HK$16.2 million as compared with last year. The reduction was mainly due to the repayment and conversion of convertible notes and the restructuring of bank loans during the year. This is expected to have continuous improvement in the coming years as all outstanding convertible notes have been settled during the year.

For the year ended 31 December 2010, the profit attributable to owners of the Company was increased by approximately HK$644.3 million to approximately HK$665.5 million in compared with the same period of last year. The substantial increment was mainly due to the contribution of the cost saving policy and the gain of disposal of subsidiaries recorded during the year.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2010, the Group had bank and cash balances of approximately HK$141.2 million (31 December 2009: approximately HK$40.0 million) and net current assets of approximately HK$476.4 million, which increased by approximately HK$475.8 million as compared with the last fiscal year. The improvement was mainly due to the restructuring of the Group. As a result of the Disposal, the total non-current assets of the Group decreased by approximately HK$366.5 million to approximately HK$248.9 million in the current year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2010, the Group had non-current liabilities of approximately HK$18.3 million, which represent the deferred tax liabilities.

The Group also had short-term bank loans of HK$50.2 million which included bank loans with an aggregate amount of HK$21.8 million with fixed interest rates ranging from 5.56% to 6.00% per annum, and discounted bills of HK$28.4 million (equivalent to RMB24.2 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.

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 2010, 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 2010, the Group has pledged certain patents held by a subsidiary, and certain discounted bills with recourse totaling HK$28.4 million were secured by the related bills receivable and were repayable within one year.

GEARING RATIO

The Group's gearing ratio, which was derived from the total liabilities to total assets, decreased to 34.1% in 2010 from 67.1% in 2009.

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$8.5 million in respect of acquisition of fixed assets as at 31 December 2010.

MATERIAL ACQUISITIONS AND DISPOSALS

In September 2010, pursuant to the approval of the share transfer agreement dated on 10 July 2010, the Group disposed of 100% equity interest of Disposal Group at a consideration of HK$1,130 million. As a result of the Disposal, the Group does not hold any equity interest in Disposal Group.

In September 2010, the Group has entered into an acquisition agreement, in which the Group will acquire the entire Series A-1 Preferred Shares issued by Shiny Bright at a consideration of HK$155.5 million. The Group will effectively hold 67.20% of the enlarged issued ordinary share capital of Shiny Bright on an as-if-fully-converted basis after the completion of this acquisition.

SIGNIFICANT INVESTMENT

There was no other significant investment during the year.

CONTINGENT LIABILITIES

As at 31 December 2010, the directors of the Company were not aware of any material contingent liabilities.

SUBSEQUENT EVENTS

In January 2011, pursuant to the acquisition agreement dated 30 September 2010 in related to the acquisition of all the Series A-1 Preferred Shares issued by Shiny Bright, the Group has settled the second tranche of the consideration. As a result the Group has held all the Series A-1 Preferred Shares issued by Shiny Bright.

In March 2011, the Company has entered into a Deed of Modification, pursuant to which the Company agreed to amend the existing terms of the original third promissory note with principal amount of HK$452 million, which was issued by Vital Glee Development Limited for the settlement of outstanding consideration in related to the disposal of the Disposed Group. The restated promissory note will bear interest at the rate of 8% per annum and the new maturity date will be 12 June 2012.

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 2010, the Group employed approximately 396 staff in the PRC and Hong Kong, representing a decrease of 1,054 staff from 31 December 2009. The decrease in staff was mainly from the PRC operations. The Group's remuneration to employees, including directors' emoluments, decreased by approximately HK$6.9 million to approximately HK$57.2 million for the current fiscal year.

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

RETIREMENT SCHEMES

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

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in 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 options 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 options were exercised to subscribe for 400,000 ordinary shares in the Company at a consideration of approximately HK$0.4 million. On 23 July 2010, 37,300,000 share options were exercised to subscribe for 37,300,000 ordinary shares in the Company at a consideration of approximately HK$42.4 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. On 14 June 2010, the Company has issued 19,160,000 shares to convertible note holders as a result of the exercise of the conversion right of convertible notes with nominal value HK$17,244,000.

A total of 132,848,888 new shares were issued as a result of these transactions. The number of total issued share capital of the Company becomes 513,848,888 shares as of the date of this report.

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.

EXECUTIVE DIRECTORS

Mr. Li Feng, aged 49, 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 47, 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. Yang Donglin, aged 45, 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.

Mr. Foo Tin Chung, Victor, aged 42, 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 had held directorship at RBI Holdings Limited, a company listed on the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. Li Hong, aged 48, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hui Hung Kwan, aged 39, 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 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 doctorial tutor, deputy head of 汽車研究所 (Automobile Research Center) at Tsing Hua University, as well as the supervisor of 汽車碰撞實驗室 (Vehicle Collision Laboratory) of National Laboratory in Automotive Safety and Energy. He is currently the honorary supervisor of the 汽車安全技術分會 (Chapter of Automobile Safety Technology) of The Society of Automotive Engineers of China. Mr. Huang was appointed as an independent non-executive Director in November 2005. There is no service agreement between the Company and Mr. Huang. The emoluments payable to Mr. Huang is HK$80,004 per annum. The appointment terms of Mr. Huang were fixed for a 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 39, 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.

SENIOR MANAGEMENT

Mr. Hao Dianqing, aged 59, 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. Zhu Jiangbin, aged 52, 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.

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 2010.

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 24 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 7 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 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 33 to 37.

DIVIDENDS

Pursuant to a resolution passed at a directors' meeting on 25 March 2011, a final dividend of 1.5 HK cents per share totalling HK$7,707,733 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 (2009: HK$Nil).

FIXED ASSETS

Details of movements in fixed assets are set out in note 20 on the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 41 on the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 41(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 2010 are set out in note 33 and 34 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	15.2%	
Five largest customers in aggregate	47.0%	
The largest supplier		9.9%
Five largest suppliers in aggregate		30.4%

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 (resigned on 27 October 2010)
Mr. Yang Donglin
Mr. Foo Tin Chung, Victor

Non-executive directors

Mr. Li Hong
Mr. Zeng Qingdong (resigned on 27 October 2010)

Independent non-executive directors

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

As at 31 December 2010, 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	720,000	0.14%
	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Xing Zhanwu	Beneficial owner	5,184,000	1.01%
	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)*
Foo Tin Chung, Victor	Beneficial owner	4,800,000	0.93%

Note: As at 31 December 2010, 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 45.06% in the Company:

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		%
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	
Jin Ying Limited		4,015		38.36
Zhao Jiyu		417		3.98
Cao Feng		139		1.33
Total		10,467		100

Jin Ying Limited was beneficially owned by the following individuals:

Shareholder	Number of shares held in Applaud Group	%
Li Feng	2,978	49.34
Li Hong	852	14.12
Xu Jianzhong	750	12.43
Xing Zhanwu	726	12.03
Yang Donglin	590	9.78
Cao Feng	139	2.30
Total	6,035	100

(b) Interests in underlying shares

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

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

SHARE OPTION SCHEMES

The Company has 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 as at 31 December 2010 was 44,350,000 shares which represented approximately 8.6% of the issued share capital of the Company as at 31 December 2010.

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 o 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. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	4,000,000	–	23 August 2007	23 August 2007 to 22 August 2012	4,000,000	HK$1.60	HK$1.58	HK$1.90
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	4,000,000	–	23 August 2007	23 August 2007 to 22 August 2012	4,000,000	HK$1.60	HK$1.58	HK$1.90
Mr. Zeng Qingdong (曾慶東)	Non-executive director of the Company (resigned)	4,000,000	–	23 August 2007	23 August 2007 to 22 August 2012	4,000,000	HK$1.60	HK$1.58	HK$1.90
Mr. Li Hong (李宏)	Non-executive director of the Company	4,000,000	–	23 August 2007	23 August 2007 to 22 August 2012	4,000,000	HK$1.60	HK$1.58	HK$1.90
Mr. Hao Dianqing (郝殿卿)	Employee, vice president of the Group	4,000,000	–	23 August 2007	23 August 2007 to 22 August 2012	4,000,000	HK$1.60	HK$1.58	HK$1.90
Mr. Wong Wah Wai (黃華威) *(Note)*	Employee, senior accountant of the Company	200,000	–	23 August 2007	23 August 2007 to 22 August 2012	200,000	HK$1.60	HK$1.58	HK$1.90
		20,200,000	–			20,200,000			

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

SHARE OPTION SCHEMES *(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:

	2010
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	–	11 November 2008	11 November 2008 to 10 November 2011	3,100,000	HK$0.59	HK$0.5	HK$1.90
Ms Shi Li (石莉)	Employee, accounting manager of the Company	1,800,000	–	11 November 2008	11 November 2008 to 10 November 2011	1,800,000	HK$0.59	HK$0.5	HK$1.90
Mr Wong Wah Wai (黃華威)	Employee, senior accountant of the Company	4,200,000	–	11 November 2008	11 November 2008 to 10 November 2011	4,200,000	HK$0.59	HK$0.5	HK$1.90
Mr Xing Zhanwen (邢占文)	Employee, general manager of the Shanxi Winner	3,000,000	–	11 November 2008	11 November 2008 to 10 November 2011	3,000,000	HK$0.59	HK$0.5	HK$1.90
Ms Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	3,000,000	–	11 November 2008	11 November 2008 to 10 November 2011	3,000,000	HK$0.59	HK$0.5	HK$1.90

SHARE OPTION SCHEMES *(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	–	11 November 2008	11 November 2008 to 10 November 2011	2,000,000	HK$0.59	HK$0.5	HK$1.90
		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:

	2010
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.

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2010, 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	Approximately percentage of the total issued shares of the Company
Applaud Group Limited	Beneficial owner	231,530,000	45.06%
Jin Ying Limited	Interest in controlled corporation	231,530,000	45.06%

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 2010, 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 2010, 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 2010, are disclosed in note 44 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 44 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.

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. After the completion of Disposal in September 2010, Hafei Jinheng was no longer a subsidiary of the Group.

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. In 2010, the transaction amount under Hafei Supply Agreement is approximately HK$663,053 (2009: HK$3,487,625).

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. In 2010, the transaction amount under Hafei Second Supply Agreement is approximately HK$21,791,061(2009: HK$67,703,088).

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.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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. After the completion of Disposal in September 2010, Jinbei Jinheng was no longer a subsidiary of the Group.

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. In 2010, the transaction amount under Jinbei Supply Agreement is approximately HK$97,316,496 (2009: HK$123,528,777).

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. In 2010, the transaction amount under Troitec Supply Agreement is approximately HK$17,868,388(2009: HK$47,696,150).

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. In 2010, the transaction amount under Taiyuan Sub-contracting Agreement is approximately HK$13,512,244(2009: HK$35,574,083).

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.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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. After the completion of Disposal in September 2010, Beijing Sega was no longer a subsidiary of the Group. In 2010, the transaction amount under Sega Supply Agreement is approximately HK$838,498(2009: HK$1,129,500).

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.

The Great Idea Supply Agreement – Continuing Connected Transactions

On 10 July 2010, Beijing Jinheng Great Idea Automotive Electronic Systems Co., Ltd. ("Beijing Great Idea") and Jinzhou Jinheng Automotive Safety System Co., Limited, ("Jinzhou Jinheng") entered into a supply contract (the"Great Idea Supply Agreement") for a term ending on 31 December 2012 pursuant to which Beijing Great Idea (or its associated companies) will manufacture and sell automotive electronic systems and spare parts to Jinzhou Jinheng (or its associated companies). Jinzhou Jinheng indicated that the estimated maximum value of orders to be placed by Jinzhou Jinheng (the "Great Idea Annual Cap") for the three years ending 31 December 2012 would not exceed RMB50.0 million, RMB70.0 million and RMB90.0 million respectively. Mr Zhao Qingjie ("Mr Zhao") is interested in approximately 19% of the issued share capital of Wonder Auto Technology Inc. ("Wonder Auto Technology") and is a director of Wonder Auto Technology, which is a company wholly and beneficially owns Jinzhou Jinheng. Notwithstanding Mr. Zhao has resigned as executive Director on 27 October 2010, Mr. Zhao shall remain a connected person of the Company for the 12 months following his resignation under the Listing Rules. In addition, upon completion of the Disposal, Jinzhou Jinheng will become an indirect wholly owned subsidiary of Wonder Auto Technology. As such, Jinzhou Jinheng will become a connected person of the Company under the Listing Rules. In 2010, the transaction amount under Great Idea Supply Agreement is approximately HK$13,179,092.

The Directors expect that the aggregate orders from Jinzhou Jinheng for the three financial years ending 31 December 2012 will exceed HK$10,000,000 in each of the corresponding year. As such, the transactions under the Great Idea Supply Agreement will constitute non-exempt continuing connected transactions under the Listing Rules.

The Winner Supply Agreement – Continuing Connected Transactions

On 10 July 2010, Shanxi Winner Auto-Parts Limited ("Shanxi Winner") and Jinzhou Jinheng entered into a supply contract (the "Winner Supply Agreement") for a term ending on 31 December 2012 pursuant to which Shanxi Winner (or its associated companies) will manufacture and sell safety airbag inflators and other automotive components to Jinzhou Jinheng (or its associated companies). Jinzhou Jinheng indicated that the estimated maximumvalue of orders to be placed by Jinzhou Jinheng (the "Winner Annual Cap") for the three years ending 31 December 2012 would notexceed RMB190.0 million, RMB250.0 million and RMB320.0 million respectively. Mr Zhao is interested in approximately 19% of the issued share capital of Wonder Auto Technology and is a director of Wonder Auto Technology, which is a company wholly and beneficially owns Jinzhou Jinheng. Notwithstanding Mr. Zhao has resigned as executive Director on 27 October 2010, Mr. Zhao shall remain a connected person of the Company for the 12 months following his resignation under the Listing Rules. In addition, upon completion of the Disposal, Jinzhou Jinheng will become an indirect wholly owned subsidiary of Wonder Auto Technology. As such, Jinzhou Jinheng will become a connected person of the Company under the Listing Rules. In 2010, the transaction amount under Winner Supply Agreement is approximately HK$29,931,442.

The Directors expect that the aggregate orders from Jinzhou Jinheng for the three financial years ending 31 December 2012 will exceed HK$10,000,000 in each of the corresponding year. As such, the transactions under the Winner Supply Agreement will constitute non-exempt continuing connected transactions under the Listing Rules.

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, the Troitec Supply Agreement and Taiyuan Sub-contracting and Supply Agreement for the three financial years ending 31 December 2011, and the Great Idea Supply Agreement and the Winner Supply Agreement for the three financial year ending 31 December 2012.

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, Sega Supply Agreement, Great Idea Supply Agreement and Winner 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, 14 July 2009 and 11 July 2011 made by the Company in respect of each of the continuing connected transactions.

AUDITORS

On 29 December 2010, HLB Hodgson Impey Cheng was appointed by the Board to fill the casual vacancy created by Li, Tang Chen & Co.

Previously 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.

HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB Hodgson Impey Cheng 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, 25 March 2011

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 8 Directors, including 4 executive Directors and 4 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;

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 9 meetings during the year 2010. 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;

BOARD MEETING *(continued)*

- appointment and resignation of members of the Board;
- appointment and resignation of auditors of the Company;
- approval of Great Idea Supply Agreement and Winner Supply Agreement of which constitute connected transactions; and
- other material disposal and acquisition and capital expenditure.

Details of Directors' attendance at Board meetings held in 2010 are set out as follows:

	Attendance
Executive Directors	
Mr. Li Feng	9/9
Mr. Xing Zhanwu	9/9
Mr. Zhao Qingjie (resigned on 27 October 2010)	8/9
Mr. Yang Donglin	9/9
Mr. Foo Tin Chung, Victor	9/9
Non-Executive Directors	
Mr. Li Hong	9/9
Mr. Zeng Qingdong (resigned on 27 October 2010)	8/9
Independent Non-Executive Directors	
Mr. Hui Hung Kwan	9/9
Mr. Huang Shilin	9/9
Mr. Zhu Tong	9/9

CODE FOR DEALING IN SECURITIES OF THE COMPANY

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT OF DIRECTORS

During their terms of office, the Directors all carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. Meanwhile, they carried out the duties of directors imposed by the Company Law, the Articles of Association of the Company and the Listing Rules, complied with the relevant requirements, strictly implemented resolutions of general meetings, promoted the continuous and healthy development of the Company's operations, pressed for the improvement of the governance standard of the Company and exerted the decision-making function of the Board in its full swing. In this regard, on the annual general meeting held on 11 June 2010, Mr. Xing Zhanwu, Mr. Zeng Qingdong, Mr. Hui Hung Kwan and Mr. Zhu Tong. were re-elected and re-appointed and subject to rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

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

Names and biography of the Directors are set out on pages 9 to 10 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 2010 are set out as follows:

	Attendance
Mr. Hui Hung Kwan	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.

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 meeting of the remuneration committee held in 2010 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.

NOMINATION COMMITTEE *(continued)*

Details of attendance of members at meeting of the nomination committee held in 2010 are set out as follows:

	Attendance
Mr. Hui Hung Kwan	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$0.6 million and non-audit service amounted to HK$1.35 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.

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.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Jinheng Automotive Safety Technology Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 115, which comprise the consolidated and Company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 2010 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.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2009 were audited by another auditors who expressed an unmodified opinion on those statements on 16 April 2010.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

25 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Notes	2010 HK$	2009 HK$
Turnover	7	**815,690,559**	974,737,866
Cost of sales		**(658,018,044)**	(779,598,887)
Gross profit		**157,672,515**	195,138,979
Other revenue	8	**16,455,152**	19,684,963
Other net income/(loss)	9	**639,836,948**	(9,634,241)
Research and development expenses	10	**(52,963,219)**	(40,277,842)
Distribution costs		**(20,977,621)**	(26,594,204)
Administrative expenses		**(48,317,710)**	(74,335,821)
Profit from operations		**691,706,065**	63,981,834
Finance costs	12	**(16,237,700)**	(25,741,674)
Share of losses of jointly controlled entities	25	**(1,050,178)**	(788,911)
Profit before taxation	13	**674,418,187**	37,451,249
Taxation	14	**(11,901,712)**	(8,249,830)
Profit for the year		**662,516,475**	29,201,419
Attributable to:			
Owners of the Company		**665,489,888**	21,227,178
Non-controlling interests		**(2,973,413)**	7,974,241
Profit for the year		**662,516,475**	29,201,419
Earnings per share	19		
– Basic		**1.38 HK dollars**	4.79 HK cents
– Diluted		**1.36 HK dollars**	4.77 HK cents

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 HK$	2009 HK$
Profit for the year	**662,516,475**	29,201,419
Other comprehensive income for the year, net of income tax:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**10,098,045**	–
Release of exchange reserve upon disposal of a subsidiary	–	71,478
Other comprehensive income for the year, net of income tax	**10,098,045**	71,478
Total comprehensive income for the year	**672,614,520**	29,272,897
Attributable to:		
Owners of the Company	**674,732,056**	21,298,656
Non-controlling interests	**(2,117,536)**	7,974,241
Total comprehensive income for the year	**672,614,520**	29,272,897

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 HK$	2009 HK$
Non-current assets			
Fixed assets			
– Property, plant and equipment	20	**61,708,667**	272,408,818
– Interests in leasehold land held for own use under operating leases	20	**22,493,719**	44,596,662
Deposits paid for acquisition of fixed assets		**20,650,298**	39,256,762
Construction in progress	21	**630,284**	39,099,757
Intangible assets	22	**85,026,226**	160,111,681
Goodwill	23	**5,048,158**	5,085,367
Interests in jointly controlled entities	25	**53,374,038**	54,668,922
Other non-current financial assets	26	**–**	125,000
Deferred tax assets	27	**–**	27,417
		248,931,390	615,380,386
Current assets			
Inventories	28	**30,967,325**	179,948,688
Trade and other receivables	29	**640,088,939**	694,435,415
Loan receivable	30	**11,000,400**	11,000,400
Current tax recoverable	27	**–**	2,544,478
Pledged bank deposits		**–**	33,713,067
Cash and cash equivalents	31	**141,217,189**	39,982,603
		823,273,853	961,624,651
Current liabilities			
Trade and other payables	32	**202,252,051**	501,972,594
Current tax payable	27	**183,200**	–
Bank loans	33	**50,211,118**	324,897,186
Other loans	34	**13,676,709**	2,761,363
Convertible notes	35	**–**	45,578,375
Convertible preferred shares	36	**80,572,775**	85,851,891
		346,895,853	961,061,409
Net current assets		**476,378,000**	563,242
Total assets less current liabilities		**725,309,390**	615,943,628

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	**2010 HK$**	2009 HK$
Non-current liabilities			
Bank loans	33	–	67,054,545
Deferred tax liabilities	27	**18,264,613**	30,791,121
		18,264,613	97,845,666
NET ASSETS		**707,044,777**	518,097,962
Capital and reserves			
Share capital	41	**5,138,489**	4,435,000
Reserves		**659,965,776**	441,085,790
Total equity attributable to owners of the Company		**665,104,265**	445,520,790
Non-controlling interests		**41,940,512**	72,577,172
TOTAL EQUITY		**707,044,777**	518,097,962

Approved and authorised for issue by the board of directors on 25 March 2011

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 HK$	2009 HK$
Non-current assets			
Investments in subsidiaries	24	**37,265,316**	37,265,416
Current assets			
Trade and other receivables	29	**698,196,995**	205,559,292
Cash and cash equivalents	31	**2,562,934**	13,899,677
		700,759,929	219,458,969
Current liabilities			
Trade and other payables	32	**74,626,764**	18,628,464
Convertible notes	35	**–**	45,578,375
		74,626,764	64,206,839
Net current assets		**626,133,165**	155,252,130
NET ASSETS		**663,398,481**	192,517,546
Capital and reserves			
Share capital	41	**5,138,489**	4,435,000
Reserves	41	**658,259,992**	188,082,546
TOTAL EQUITY		**663,398,481**	192,517,546

Approved and authorised for issue by the board of directors on 25 March 2011

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

		Attributable to owners of the Company										
		Share capital	Share premium	Merger reserve	Statutory surplus reserve	Capital reserve	Exchange reserve	Other reserve	Retained profits	Sub-total	Non-controlling interests	Total
	Notes	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
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 payments		–	–	–	–	1,037,632	–	–	–	1,037,632	–	1,037,632
Dividends paid during the year	18	–	–	–	–	–	–	–	(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	35	–	–	–	–	(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 and 1 January 2010		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
Total comprehensive income		–	–	–	–	–	9,242,168	–	665,489,888	674,732,056	(2,117,536)	672,614,520
Equity-settled share-based payments		–	–	–	–	203,468	–	–	–	203,468	–	203,468
Dividends paid during the year	18	–	–	–	–	–	–	–	(520,709,721)	(520,709,721)	–	(520,709,721)
Appropriations to statutory reserve		–	–	–	3,071,681	–	–	–	(3,071,681)	–	–	–
Release on conversion of convertible notes		330,489	30,909,798	–	–	(1,936,301)	–	–	–	29,303,986	–	29,303,986
Exercise of share options		373,000	52,132,546	–	–	(10,051,681)	–	–	–	42,453,865	–	42,453,865
Released on early redemption of convertible notes		–	–	–	–	(1,222,190)	–	–	1,167,447	(54,743)	–	(54,743)
Capital contribution		–	–	–	–	–	–	40,283,935	–	40,283,935	–	40,283,935
Disposal of subsidiaries		–	–	(36,341,236)	(41,371,803)	(3,403,757)	(46,629,371)	(42,425,000)	123,541,796	(46,629,371)	(28,519,124)	(75,148,495)
At 31 December 2010		5,138,489	249,722,557	–	4,358,331	–	16,781,453	(26,927,346)	416,030,781	665,104,265	41,940,512	707,044,777

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 **HK$**	2009 HK$
Operating activities		
Profit before taxation	**674,418,187**	37,451,249
Adjustments for:		
– Depreciation	**29,029,975**	35,219,855
– Amortisation of intangible assets	**46,377,681**	32,495,138
– Amortisation of land lease premium for property held for own use	**1,730,045**	1,928,575
– Finance costs	**16,237,700**	25,741,674
– Interest income	**(175,278)**	(272,746)
– Share of losses of jointly controlled entities	**1,050,178**	788,911
– Loss on disposal of property, plant and equipment	**3,731,716**	376,958
– Equity-settled share-based payment expenses	**203,468**	1,037,632
– (Gain)/loss on disposal of subsidiaries	**(698,774,515)**	185,831
– Loss on closure of a subsidiary	**–**	25,350
– Change in fair value of derivative component of convertible notes	**–**	3,427,887
– Net changes in fair value of convertible preferred shares	**26,336,283**	10,921,994
– Change in fair value of derivatives	**–**	(6,056,199)
– Loss on purchase of convertible preferred shares	**28,328,704**	–
– Gain on disposal of other non-current financial assets	**(6,767)**	–
– Loss on early redemption of convertible notes	**209,401**	917,091
– Foreign exchange gain	**–**	(109,417)
Operating profit before changes in working capital	**128,696,778**	144,079,783
Increase in inventories	**(58,201,511)**	(39,291,095)
Decrease/(increase) in trade and other receivables	**299,781,103**	(219,279,020)
Increase in trade and other payables	**94,738,931**	190,371,594
Cash generated from operations	**465,015,301**	75,881,262
PRC income tax paid	**(6,056,209)**	(6,872,472)
Withholding tax paid	**(1,917,653)**	(1,861,143)
Net cash generated from operating activities	**457,041,439**	67,147,647
Investing activities		
Payment for purchase of property, plant and equipment	**(48,569,312)**	(45,843,470)
Payment for construction in progress	**(25,597,879)**	(12,797,079)
Payment for purchase of intangible assets	**(15,837,206)**	(23,747,136)
Payment for purchase of land use right	**–**	(7,679,216)
(Increase)/decrease in deposits paid for acquisition of fixed assets	**(11,031,538)**	4,201,093
Proceeds from disposal of property, plant and equipment	**55,430**	100,468
Net cash inflow/(outflow) from disposal of subsidiaries	**252,158,659**	(122,652)
Interest received	**175,278**	272,746
Proceeds from disposal of other non-current financial assets	**77,355**	–
Net cash generated from/(used in) investing activities	**151,430,787**	(85,615,246)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2010

	2010 **HK$**	2009 HK$
Financing activities		
(Decrease)/increase in pledged bank deposits	**33,713,067**	(16,815,718)
Proceeds from new bank loans	**256,849,590**	391,951,731
Repayments of bank loans	**(239,459,671)**	(305,782,598)
Proceeds from other loans	**11,185,934**	–
Repayments of other loans	**(270,588)**	(5,465,909)
Proceeds from shares issued under share option scheme	**42,453,864**	–
Redemption of convertible notes	**(18,256,000)**	(29,000,000)
Repayment of purchase of convertible preferred shares	**(59,944,103)**	(11,052,943)
Bank loan interests paid	**(13,464,915)**	(19,329,226)
Capital contribution from a minority shareholder	**–**	8,522,727
Other borrowing costs paid	**–**	(4,954,664)
Dividends paid	**(520,709,721)**	(6,652,500)
Net cash (used in)/generated from financing activities	**(507,902,543)**	1,420,900
Net increase/(decrease) in cash and cash equivalents	**100,569,683**	(17,046,699)
Effect of foreign exchange rate changes	**664,903**	109,417
Cash and cash equivalents at 1 January	**39,982,603**	56,919,885
Cash and cash equivalents at 31 December	**141,217,189**	39,982,603

1. GENERAL INFORMATION

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.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 24 to the consolidated financial statements.

At 31 December 2010, the directors consider the immediate parent and ultimate controlling party of the Group to be Applaud Group Limited ("Applaud Group"), which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

The consolidated financial statements are presented in Hong Kong dollar ("HK$") except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES

Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

The following new and revised standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") have been applied by the Group in the current year and have affected the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements. The impact of the application of the new and revised standards and interpretations is discussed below.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

(i) HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

(ii) HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

(iii) HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree. HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

2. CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

New and revised standards and interpretations applied with no material effects on the consolidated financial statements

The following new and revised standards and interpretations have also been applied in these consolidated financial statements. The application of these new and revised standards and Interpretations has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

The amendments clarify the scope of HKFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKFRS 5 clarify that the disclosure requirements in HKFRSs other than HKFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and the disclosures are not already provided in the consolidated financial statements.

The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

Amendments to HKAS 7 Statement of Cash Flows (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

2. CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

New and revised standards and interpretations applied with no material effects on the consolidated financial statements (Continued)

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for the Group's changes in ownership interests in subsidiaries of the Group.

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

HKAS 28 (as revised in 2008) Investments in Associates

The principle adopted under HKAS 27 (as revised in 2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to HKAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

2. CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

New and revised standards and interpretations applied with no material effects on the consolidated financial statements (Continued)

Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ('HK Int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities. The application of HK Int 5 has had no material impact on the amounts reported for the current and prior years.

HK (IFRIC) -Int 17 Distributions of Non-cash Assets to Owners

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

HK (IFRIC) -Int 18 Transfers of Assets from Customers

The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with HKAS 18 Revenue.

Improvements to HKFRSs issued in 2009

The application of Improvements to HKFRSs issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

Standards and Interpretations in issue but not yet effective

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 7 (Amendments)	Disclosure – Transfers of Financial Assets[7]
HKFRS 9	Financial Instruments[3]
HKFR 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (as revised in 2009)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[5]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 February 2010
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 July 2011

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

2. CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

Standards and Interpretations in issue but not yet effective *(Continued)*

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC)-Int 19 will affect the required accounting. In particular, under HK(IFRIC)-Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated 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 consolidated 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 2010 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 3(g))*.

The functional currencies of the Company and its subsidiaries in the People's Republic of China (the "PRC") are HK$ and Renminbi respectively. For the purposes of presenting the consolidated financial statements, the Group adopted HK$ as its presentation currency.

The preparation of consolidated 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 4.

(c) Subsidiaries and non-controlling 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Subsidiaries and non-controlling interests *(Continued)*

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.

Non-controlling 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. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling 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 non-controlling interests and the owners of the Company.

Prior to 1 January 2010, where losses applicable to the minority exceed the non-controlling interests 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. On or after 1 January 2010, total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 3(p), (q) or (r) depending on the nature of the liability.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Subsidiaries and non-controlling interests *(Continued)*

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

In the Company's statement of financial position, an investment in subsidiaries is stated at cost less any impairment losses *(see note 3(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.

3. 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 3(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 3(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 3(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 3(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.

3. 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 3(k))*.

Other investments in securities are classified as available-for-sale securities. At the end of each reporting period, 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 3(w)(iii). When these investments are derecognised or impaired *(see note 3(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 the end of each reporting period, 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 3(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 3(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.

3. 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 3(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 3(y))*, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses *(see note 3(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 consolidated statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses *(see note 3(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 3(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 the end of each reporting period 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.

3. 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 3(d))*, the impairment loss is measured by comparing the recoverable amount (determined in accordance *note 3(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 3(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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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.

3. 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 3(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts *(see note 3(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 3(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 3(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 the end of each reporting period. 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 3(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 convertible preferred shares are converted, the carrying amounts of the convertible preferred shares at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. If the convertible preferred shares are redeemed, any difference between the amount paid and the carrying amounts of convertible preferred shares is recognised in profit or loss.

3. 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 consolidated 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) *Equity-settled 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).

3. 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 end of the reporting period, 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(u) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

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 3(v)(ii). Contingent liabilities that cannot be reliably fair valued are disclosed in accordance with note 3(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.

3. 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 end of the reporting period. 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 end of the reporting period. 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.

3. 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 consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in these consolidated 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.

4. ACCOUNTING ESTIMATES AND JUDGMENTS

The methods, estimates and judgments 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 judgments, on matters that are inherently uncertain. Notes 23, 40 and 5 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 notes 20 and 22) 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 end of the reporting period. 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 the end of each reporting period 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 judgment 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.

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

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

Property, plant and equipment and intangible assets are assessed at the end of each reporting period 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.

(e) 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 judgment 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.

(f) Income taxes

The Group is subject to income taxes in the PRC. Significant judgment 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.

(g) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined be valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are primarily based on market conditions existing at the end of each reporting period.

(h) Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivable, pledged bank deposits, cash and cash equivalents, inventories, trade and other payables, bank loans, other loans, convertible notes and convertible preferred shares. Details of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments

	The Group	
	2010	2009
	HK$	HK$
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**823,273,853**	961,624,651
Financial liabilities		
Amortised costs	**337,542,647**	1,028,115,954

Financial risk factors

The Group is exposed to a variety of financial risks: credit, liquidity, currency and interest rate risks arise 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 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 end of the reporting period, the Group has a certain level of concentrations of credit risk as 17% (2009: 16%) and 51% (2009: 45%) 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.

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(a) Credit risk *(Continued)*

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 and bills receivables are set out in note 29.

The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 38 to the consolidated 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.

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

The Group

	2010					2009				
	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 2 years HK$	More than 2 years but less than 5 years HK$	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 2 years HK$	More than 2 years but less than 5 years HK$
Trade and other payables	193,082,045	193,082,045	193,082,045	-	-	501,972,594	501,972,594	501,972,594	-	-
Bank loans	50,211,118	52,270,273	52,270,273	-	-	391,951,731	402,840,459	333,467,773	50,619,263	18,753,423
Other loans	13,676,709	13,676,709	13,676,709	-	-	2,761,363	2,761,972	2,761,972	-	-
Convertible notes	-	-	-	-	-	45,578,375	52,929,726	3,360,000	49,569,726	-
Convertible preferred shares	80,572,775	80,572,775	80,572,775	-	-	85,851,891	117,613,636	117,613,636	-	-
	337,542,647	339,601,802	339,601,802	-	-	1,028,115,954	1,078,118,387	959,175,975	100,188,989	18,753,423

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(b) Liquidity risk *(Continued)*

The Company

	2010					2009				
	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 2 years HK$	More than 2 years but less than 5 years HK$	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 2 years HK$	More than 2 years but less than 5 years HK$
Amounts due to subsidiaries	8,739,714	8,739,714	8,739,714	–	–	16,434,350	16,434,350	16,434,350	–	–
Trade and other payables	65,887,050	65,887,050	65,887,050	–	–	2,194,114	2,194,114	2,194,114	–	–
Convertible notes	–	–	–	–	–	45,578,375	52,929,726	3,360,000	49,569,726	–
	74,626,764	74,626,764	74,626,764	–	–	64,206,839	71,558,190	21,988,464	49,569,726	–

(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.

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.

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(c) Currency risk *(Continued)*

(i) Exposure to currency risk

The following table details the Group's and Company's exposure at the end of the reporting period 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 HK$, translated using the spot rate at the end of the reporting period. 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)			
	2010		2009	
	United States dollars	**Euros**	United States dollars	Euros
Trade and other receivables	**–**	**–**	899,138	783,519
Cash and cash equivalents	**132,985**	**113,038**	268,871	1,859,338
Trade and other payables	**(202,702)**	**–**	(1,529,380)	(34,490)
Net exposure arising from recognised assets and liabilities	**(69,717)**	**113,038**	(361,371)	2,608,367

The Company

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2010		2009	
	United States dollars	**Euros**	United States dollars	Euros
Cash and cash equivalents	**4,962**	**2,608**	117,991	2,734
Net exposure arising from recognised assets and liabilities	**4,962**	**2,608**	117,991	2,734

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(c) Currency risk *(Continued)*

(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 end of the reporting period had changed at that date, assuming all other risk variables remained constant.

The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$
United States dollars	**5%**	**(3,486)**	5%	19,436
	(5)%	**3,486**	(5)%	(19,436)
Euros	**5%**	**5,652**	5%	110,834
	(5)%	**(5,652)**	(5)%	(110,834)

The Company

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$
United States dollars	**5%**	**248**	5%	5,900
	(5)%	**(248)**	(5)%	(5,900)
Euros	**5%**	**130**	5%	137
	(5)%	**(130)**	(5)%	(137)

5. 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 end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, 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 with 2009.

(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 HK$95,111 (2009: HK$125,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate short-term and long-term 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 2010 and 2009.

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(e) Fair values *(Continued)*

(ii) Financial instruments carried at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Year ended 31 December 2010

	The Group	
	Level 3 HK$	Total HK$
Liabilities		
Derivative financial instruments:		
– Redemption and conversion components embedded in convertible preferred shares	**80,572,775**	**80,572,775**

5. 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:

	The Group		
	Conversion option embedded in convertible notes HK$	**Redemption and conversion components embedded in convertible preferred shares HK$**	**Total HK$**
Balance at 1 January	**(693,491)**	**85,851,891**	**85,158,400**
Change in fair value recognised in profit or loss	–	**26,336,283**	**26,336,283**
Return of repayment of purchase price	–	**11,052,943**	**11,052,943**
Release upon on conversion	**436,175**	–	**436,175**
Release upon on purchase/early redemption	**257,316**	**(42,668,342)**	**(42,411,026)**
Balance at 31 December	–	**80,572,775**	**80,572,775**

Year ended 31 December 2009

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

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(e) Fair values *(Continued)*

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

	The Company	
	Level 3	**Total**
	HK$	HK$
Liabilities		
Derivative financial instruments:		
– Conversion option embedded in convertible notes	(693,491)	(693,491)

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

	The Group			
	Option to subscribe preferred shares	**Conversion option embedded in convertible notes**	**Redemption and conversion components embedded in convertible preferred shares**	**Total**
	HK$	HK$	HK$	HK$
Balance at 1 January	6,056,199	(4,121,378)	85,982,840	87,917,661
Change in fair value recognised in profit or loss	(6,056,199)	3,427,887	10,921,994	8,293,682
Repayment of purchase price	–	–	(11,052,943)	(11,052,943)
Balance at 31 December	–	(693,491)	85,851,891	85,158,400

There were no transfers between Levels 1 and 2 in the both year.

6. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

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 7 on these consolidated 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 (2009: four) customer-based geographical segments. The PRC is the major market for the Group's business. Segment revenue from external customers by the location of customers is analysed as follows:

	2010 **HK$**	2009 HK$
The PRC	**805,620,939**	948,878,233
Iran	**4,185,473**	12,049,050
Korea	**4,038,267**	12,350,472
Others	**1,845,880**	1,460,111
	815,690,559	974,737,866

Information about major customers

For the year ended 31 December 2010, revenue generated from two (2009: one) customers of the Group amounting to HK$209,441,729 (2009: HK$104,128,985) has individually accounted for over 10% of the Group's total revenue. No other single customer contributed 10% or more to the Group's revenue for both 2010 and 2009.

7. 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.

An analysis of turnover is as follows:

	2010 HK$	2009 HK$
Sales of mechanical airbag systems	**14,411,514**	8,976,126
Sales of electronic airbag systems	**521,795,954**	721,910,639
Sales of automotive safety system components and other automotive components	**279,483,091**	243,851,101
	815,690,559	974,737,866

8. OTHER REVENUE

	2010 HK$	2009 HK$
Experiment fee income	**11,767,486**	16,909,624
Subsidy income	**574,713**	–
Interest income	**175,278**	272,746
Sundry income	**3,937,675**	2,502,593
	16,455,152	19,684,963

9. OTHER NET INCOME/(LOSS)

	2010 HK$	2009 HK$
Net foreign exchange (loss)/gain	**(328,045)**	538,628
Net fair value change on derivative components of convertible notes	**–**	(3,427,887)
Loss on early redemption of convertible notes	**(209,401)**	(917,091)
Net fair value change on convertible preferred shares	**(26,336,283)**	(10,921,994)
Loss on purchase of convertible preferred shares	**(28,328,704)**	–
Net fair value change on derivatives	**–**	6,056,199
Gain/(loss) on disposal of subsidiaries *(note 42)*	**698,774,515**	(185,831)
Loss on closure of a subsidiary	**–**	(25,350)
Loss on disposal of fixed assets	**(3,731,716)**	(376,958)
Others	**(3,418)**	(373,957)
	639,836,948	(9,634,241)

10. RESEARCH AND DEVELOPMENT EXPENSES

	2010 HK$	2009 HK$
Research and development costs incurred	**68,800,425**	64,024,978
Less: development costs capitalised during the year *(note 22)*	**(15,837,206)**	(23,747,136)
	52,963,219	40,277,842

11. STAFF COSTS

	2010 HK$	2009 HK$
Salaries, wages and bonuses	**46,366,768**	51,493,316
Equity-settled share-based payment expenses	**203,468**	1,037,632
Staff welfare	**8,036,562**	7,813,568
Contributions to retirement benefits schemes	**2,613,138**	3,735,060
	57,219,936	64,079,576

12. FINANCE COSTS

	2010 HK$	2009 HK$
Interest expense on bank advances wholly repayable within five years	**10,330,210**	15,785,086
Interest expense on convertible notes	**2,772,785**	6,366,990
Interest expense on other loans	**–**	45,458
Discounting charges on discounted bills	**3,134,705**	3,544,140
	16,237,700	25,741,674

13. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2010 **HK$**	2009 HK$
Auditors' remuneration	**600,000**	801,764
Depreciation of property, plant and equipment	**29,029,975**	35,219,855
Amortisation of land lease premium	**1,730,045**	1,928,575
Amortisation of intangible assets *(note 22)*		
– Acquired technology	**1,151,320**	2,981,210
– Development costs	**40,915,642**	25,348,754
– Patents	**4,310,719**	4,165,174
Royalty expenses	**360,351**	450,730
Operating lease charges in respect of properties	**2,238,178**	2,146,333

14. TAXATION

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

	2010 **HK$**	2009 HK$
Current tax		
PRC income tax for the year *(note 27(a))*	**8,307,636**	4,482,981
Deferred tax		
Origination and reversal of temporary differences *(note 27(b))*	**3,594,076**	3,766,849
Income tax	**11,901,712**	8,249,830

14. TAXATION *(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:

	Notes	**2010**	2009
Jinzhou Jinheng Automotive Safety System Co., Limited ("Jinheng Automotive")	(ii)	**15%**	15%
Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")	(i)	**11%**	10%
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)	**11%**	0%
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Limited ("Beijing Great Idea")	(i)	**11%**	0%
Troitec Automotive Electronics Co., Ltd. ("Troitec")	(ii)	**11%**	0%
Beijing Sheng Shi Tai Fu Automotive Electronic Co., Ltd. ("Sheng Shi Tai Fu")		**N/A**	25%
Shanxi Winner Auto-Parts Limited ("Shanxi Winner")	(i)	**11%**	10%
Tianjian Zhuo Yuan Electrical Technology Limited ("Tianjian Zhuo Yuan")		**N/A**	25%
Tianjian Troitec Automotive Electronic Co., Ltd. ("Tianjian Troitec")		**25%**	25%

14. TAXATION *(CONTINUED)*

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

Notes:

(i) These companies 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 fourth year, third year and fifth 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

	2010 **HK$**	2009 HK$
Profit before taxation	**674,418,187**	37,451,249
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**157,804,114**	10,565,618
Underprovision of tax in prior years	**33,539**	289,349
Tax effect of non-deductible expenses	**7,444,994**	9,703,109
Tax effect of non-taxable revenue	**(148,200,334)**	(760,229)
Tax effect of tax concessions	**(8,427,427)**	(11,877,641)
Tax effect of unrecognised temporary differences and tax losses	**479,316**	118,478
Withholding tax on distributable profits of subsidiaries *(note i)*	**2,805,957**	2,315,816
Tax effect of utilisation of unrecognised tax losses in previous years	**–**	(2,431,092)
Others	**(38,447)**	326,422
Taxation	**11,901,712**	8,249,830

14. TAXATION *(CONTINUED)*

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

Notes:

(i) 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 2010, withholding tax of HK$2,805,957 (2009: HK$2,315,816) is recognised.

15. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2010

	Fees HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonuses HK$	Share-based payments HK$	Contributions to retirement benefit schemes HK$	Total HK$
Executive directors						
Mr. Li Feng	–	840,000	–	–	–	840,000
Mr. Xing Zhanwu	–	840,000	–	–	–	840,000
Mr. Zhao Qingjie (resigned on 27 October 2010)	–	500,000	–	–	–	500,000
Mr. Yang Donglin	–	258,000	–	–	–	258,000
Mr. Foo Tin Chung, Victor	–	741,000	–	–	12,000	753,000
Non-executive directors						
Mr. Li Hong	210,000	–	–	–	–	210,000
Mr. Zeng Qingdong (resigned on 27 October 2010)	100,000	–	–	–	–	100,000
Independent non-executive directors						
Mr. Huang Shilin	80,004	–	–	–	–	80,004
Mr. Zhu Tong	80,004	–	–	–	–	80,004
Mr. Hui Hung Kwan	120,000	–	–	–	–	120,000
Total	590,008	3,179,000	–	–	12,000	3,781,008

15. DIRECTORS' REMUNERATION *(CONTINUED)*

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

Year ended 31 December 2009

	Fees HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonuses HK$	Share-based payments HK$	Contributions to retirement benefit schemes HK$	Total HK$
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 (resigned on 31 July 2009)	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

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 40.

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 (2009: Nil).

16. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (2009: four) are directors whose emoluments are disclosed in note 15. The aggregate of the emoluments in respect of the other individual for the years ended 31 December 2010 and 2009 is as follows:

	2010	2009
	HK$	HK$
Salaries and other emoluments	–	335,000
Equity-settled 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 HK$500,001 to HK$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.

17. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company includes a profit of HK$879,629,337 (2009: loss of HK$17,451,752) 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:

	2010	2009
	HK$	HK$
Amount of profit/(loss) attributable to owners of the Company dealt with in the Company's financial statements	**879,629,337**	(17,451,752)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**40,000,000**	20,000,000
Company's profit for the year *(note 41)*	**919,629,337**	2,548,248

18. DIVIDENDS

(a) Dividends attributable to the year

	2010	2009
	HK$	HK$
Final dividend proposed after the end of the reporting period of 1.5 HK cents per share (2009: 1.5 HK cents per share)	**7,707,733**	6,860,833

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period. The special dividends of HK$1.00 per share (2009: Nil) in cash were paid during the year.

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

	2010	2009
	HK$	HK$
Final dividend in respect of the previous financial year, approved and paid during the year of 1.5 HK cents per share (2009: 1.5 HK cents per share)	**6,860,833**	6,652,500

19. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$665,489,888 (2009: HK$21,227,178) and the weighted average of 481,831,457 (2009: 443,500,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares	
	2010	2009
Issued ordinary shares at 1 January	**443,500,000**	443,500,000
Effect of share options exercised *(note 40)*	**16,555,068**	–
Effect of share issued for conversion of convertible notes	**21,776,389**	–
Weighted average number of ordinary shares for the purpose of basic earnings per share	**481,831,457**	443,500,000

19. EARNINGS PER SHARE *(CONTINUED)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of HK$665,489,888 (2009: HK$21,227,178) and the weighted average number of ordinary shares of 489,267,612 (2009: 444,767,870 ordinary shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Number of shares	
	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	**481,831,457**	443,500,000
Effect of deemed issue of ordinary shares under the Company's share option schemes for nil consideration *(note 40)*	**7,436,155**	1,267,870
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**489,267,612**	444,767,870

20. FIXED ASSETS

The Group

	Buildings held for own use HK$	Machinery and equipment HK$	Motor vehicles HK$	Office equipment HK$	Sub-total HK$	Interest in leasehold land held for own use under an operating leases HK$	Total HK$
Cost:							
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 21)*	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)
At 31 December 2009 and 1 January 2010	80,730,484	211,544,744	14,473,227	71,082,539	377,830,994	49,915,943	427,746,937
Additions	**17,647**	**27,181,183**	**2,584,822**	**18,785,660**	**48,569,312**	**–**	**48,569,312**
Exchange alignment	**1,081,670**	**2,847,567**	**137,619**	**742,741**	**4,809,597**	**1,051,812**	**5,861,409**
Transfer from construction in progress *(note 21)*	**31,659,396**	**1,999,191**	**–**	**–**	**33,658,587**	**–**	**33,658,587**
Disposal of subsidiaries	**(92,705,449)**	**(191,095,819)**	**(8,835,031)**	**(76,897,685)**	**(369,533,984)**	**(25,252,639)**	**(394,786,623)**
Disposals	**(468,343)**	**(2,645,217)**	**(1,098,169)**	**(3,466,199)**	**(7,677,928)**	**–**	**(7,677,928)**
At 31 December 2010	**20,315,405**	**49,831,649**	**7,262,468**	**10,247,056**	**87,656,578**	**25,715,116**	**113,371,694**
Accumulated depreciation:							
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)
At 31 December 2009 and 1 January 2010	12,039,171	57,714,363	3,756,413	31,912,229	105,422,176	5,319,281	110,741,457
Charge for the year	**2,865,610**	**17,622,913**	**930,404**	**7,611,048**	**29,029,975**	**1,730,045**	**30,760,020**
Exchange alignment	**161,865**	**853,571**	**67,232**	**283,912**	**1,366,580**	**83,515**	**1,450,095**
Disposal of subsidiaries	**(12,873,982)**	**(56,919,125)**	**(3,283,009)**	**(32,903,922)**	**(105,980,038)**	**(3,911,444)**	**(109,891,482)**
Written back on disposal	**(133,477)**	**(822,349)**	**(700,504)**	**(2,234,452)**	**(3,890,782)**	**–**	**(3,890,782)**
At 31 December 2010	**2,059,187**	**18,449,373**	**770,536**	**4,668,815**	**25,947,911**	**3,221,397**	**29,169,308**
Carrying amounts:							
At 31 December 2010	**18,256,218**	**31,382,276**	**6,491,932**	**5,578,241**	**61,708,667**	**22,493,719**	**84,202,386**
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

20. 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 and Shanxi in the PRC.

(b) As at 31 December 2009, leasehold land and buildings with carrying value amount of HK$43,082,771 are mortgaged to banks for certain banking facilities granted to the Group as disclosed in note 33.

(c) At 31 December 2010, leasehold lands with carrying amount of HK$22,493,719 (2009: HK$44,596,662) are situated outside Hong Kong under medium-term leases.

21. CONSTRUCTION IN PROGRESS

The Group

	2010	2009
	HK$	HK$
Cost:		
At 1 January	**39,099,757**	43,304,754
Exchange alignment	**230,682**	–
Additions	**25,597,879**	12,797,079
Transfer to fixed assets *(note 20)*	**(33,658,587)**	(17,002,076)
Disposal of subsidiaries	**(30,639,447)**	–
At 31 December	**630,284**	39,099,757

22. INTANGIBLE ASSETS

The Group

	Acquired technology HK$	Development costs HK$	Patents HK$	Total HK$
Cost:				
At 1 January 2009	24,147,294	136,738,491	72,858,607	233,744,392
Additions *(note 10)*	–	23,747,136	–	23,747,136
Disposal of a subsidiary	(13,768,117)	–	–	(13,768,117)
At 31 December 2009 and 1 January 2010	10,379,177	160,485,627	72,858,607	243,723,411
Exchange alignment	**215,098**	**2,291,787**	**2,570,352**	**5,077,237**
Additions *(note 10)*	**–**	**15,837,206**	**–**	**15,837,206**
Disposal of subsidiaries	**(5,603,244)**	**(130,499,215)**	**(38,370)**	**(136,140,829)**
At 31 December 2010	**4,991,031**	**48,115,405**	**75,390,589**	**128,497,025**
Accumulated amortisation:				
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 and 1 January 2010	9,015,220	63,132,810	11,463,700	83,611,730
Exchange alignment	**153,547**	**583,165**	**403,995**	**1,140,707**
Charge for the year	**1,151,320**	**40,915,642**	**4,310,719**	**46,377,681**
Disposal of subsidiaries	**(6,135,402)**	**(81,500,630)**	**(23,287)**	**(87,659,319)**
At 31 December 2010	**4,184,685**	**23,130,987**	**16,155,127**	**43,470,799**
Carrying amounts:				
At 31 December 2010	**806,346**	**24,984,418**	**59,235,462**	**85,026,226**
At 31 December 2009	1,363,957	97,352,817	61,394,907	160,111,681

22. 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 HK$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 Troitec Automotive Electronic Co., Ltd., 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 Troitec Automotive Electronic Co., Ltd. to be 18 years.

Amortisation charges for the year of HK$29,572,485 (2009: HK$18,758,718), HK$16,510,246 (2009: HK$13,318,662) and HK$294,950 (2009: HK$413,758) are included in "cost of sales", "research and development expenses" and "administrative expenses" respectively.

23. GOODWILL

The Group

	2010 HK$	2009 HK$
At 1 January	**5,085,367**	6,153,549
Disposal of subsidiaries	**(210,501)**	(1,068,182)
Exchange alignment	**173,292**	–
At 31 December	**5,048,158**	5,085,367

Impairment tests for cash-generating units containing goodwill

Goodwill acquired has been allocated to the cash generating unit ("CGU") of the single operating segment "Production and sales of automotive related products".

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 5 years ending 31 December 2011 to 2015. For the years following the detailed planning period, the assumed growth rates with range from 8% to 20% are used which comply with general expectations for the relevant CGU. The present value of cash flows is calculated by discount rates of 17%. The gross profit margin is approximately of 18%.

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 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.

24. INVESTMENTS IN SUBSIDIARIES

The Company

	2010	2009
	HK$	HK$
Unlisted shares, at cost	**37,265,316**	37,265,416

Details of the subsidiaries as at 31 December 2010 are as follows:

Name of company	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by subsidiary %	Principal activities and place of operation
Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd. ("Jinheng Jinsida")	The PRC, limited liability company	HK$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	HK$100	100	–	100	Investment holding in Hong Kong
Great Idea Group Limited ("Great Idea")	Hong Kong, limited liability company	HK$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	HK$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	HK$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

24. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name of company	Place of incorporation and kind of legal entity	Issued and fully paid/ registered capital	Proportion of ownership interest: Group's effective interest %	Proportion of ownership interest: Held by the Company %	Proportion of ownership interest: Held by subsidiary %	Principal activities and place of operation
Smooth Ever Limited ("Smooth Ever")	British Virgin Islands, limited liability company	US$1	100	100	–	Investment holding in Hong Kong
First Able Group Limited ("First Able")	Hong Kong, limited liability company	HK$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	HK$1	51.2	–	51.2	Investment holding in Hong Kong
Sure Lucky Investments Limited ("Sure Lucky")	Hong Kong, limited liability company	HK$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	HK$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	HK$10,000	100	–	100	Investment holding in Hong Kong

Note:
The Group is able to constitute control over Tianjian Troitec because it has the power to appoint four directors out of the five directors of that company.

25. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2010 HK$	2009 HK$
Share of net assets	**28,915,845**	36,219,259
Amount due from jointly controlled entity	**6,641,419**	632,889
Goodwill	**17,816,774**	17,816,774
	53,374,038	54,668,922

Details of the Group's interest in the jointly controlled entity as at 31 December 2010 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: Group's effective interest %	Held by the Company %	Held by subsidiary %	Principal activities and place of operation
YanTai Vast Co., Ltd. ("YanTai Vast")	The PRC, limited liability company	RMB40,000,000	50	–	50	Manufacture and sales of cylinder liners and spare parts of automobile engines in the PRC

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

	2010 HK$	2009 HK$
Non-current assets	**49,250,303**	51,638,788
Current assets	**76,356,811**	68,461,372
Non-current liabilities	**(5,199,780)**	(4,982,301)
Current liabilities	**(91,491,489)**	(78,898,600)
Net assets	**28,915,845**	36,219,259
Income	**59,883,808**	56,832,920
Expenses	**(60,933,986)**	(57,621,831)
Loss for the year	**(1,050,178)**	(788,911)
Other comprehensive income, net of income tax	**632,889**	–

26. OTHER NON-CURRENT FINANCIAL ASSETS

	2010	2009
	HK$	HK$
Unlisted equity securities in the PRC available-for-sale, at cost	**–**	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.

27. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

The Group

	2010	2009
	HK$	HK$
At 1 January	**(2,544,478)**	(154,986)
Provision for PRC income tax for the year *(note 14)*	**8,307,636**	4,482,981
Disposal of subsidiaries	**476,251**	–
PRC income tax paid	**(6,056,209)**	(6,872,473)
Current tax payable/(recoverable)	**183,200**	(2,544,478)

27. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(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 HK$	Development costs HK$	Acquired technology and patents HK$	Fixed assets HK$	Tax losses HK$	Unremitted earnings HK$	Others HK$	Total HK$
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/(credit) to consolidated income statement *(note 14)*	(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	–	–	(2,685,447)	–	–	–	(97,027)	(2,782,474)
At 31 December 2009 and 1 January 2010	(1,180,296)	16,186,176	14,304,018	3,662,578	(8,356,880)	3,047,667	3,100,441	30,763,704
Charged/(credit) to consolidated income statement *(note 14)*	**–**	**(2,031,783)**	**–**	**(75,439)**	**1,763,250**	**2,805,957**	**1,132,091**	**3,594,076**
Exchange alignment	**(6,744)**	**378,651**	**504,848**	**73,124**	**(327,690)**	**–**	**399,740**	**1,021,929**
Withholding tax paid	**–**	**–**	**–**	**–**	**–**	**(1,917,653)**	**–**	**(1,917,653)**
Disposal of subsidiaries	**1,187,040**	**(7,688,546)**	**–**	**(1,952,838)**	**(344,446)**	**(3,046,199)**	**(3,352,454)**	**(15,197,443)**
At 31 December 2010	**–**	**6,844,498**	**14,808,866**	**1,707,425**	**(7,265,766)**	**889,772**	**1,279,818**	**18,264,613**

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

	2010 HK$	2009 HK$
Net deferred tax assets recognised on the statement of financial position	**–**	(27,417)
Net deferred tax liabilities recognised on the statement of financial position	**18,264,613**	30,791,121
	18,264,613	30,763,704

27. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 3(u), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK63,602,355 (2009: HK$48,800,362) and deductible temporary differences of HK$283,366 (2009: HK$2,889,937) 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 2010 and 2009.

28. INVENTORIES

	The Group	
	2010	2009
	HK$	HK$
Raw materials	**25,556,593**	91,515,858
Work-in-progress	**3,171,336**	16,829,899
Finished goods	**2,194,430**	70,458,425
Spare parts and consumables	**44,966**	1,144,506
	30,967,325	179,948,688

The amount of inventories recognised as an expense amounted to HK$657,935,445 during the year ended 31 December 2010 (2009: HK$778,868,233).

29. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Trade receivables	**122,395,203**	485,629,618	–	–
Less: allowance for doubtful debts	**(1,533,159)**	(4,883,878)	–	–
	120,862,044	480,745,740	–	–
Bills receivable	**36,902,523**	145,607,853	–	–
	157,764,567	626,353,593	–	–
Amounts due from subsidiaries	–	–	**245,939,400**	205,072,898
Prepayments	**8,379,966**	53,076,558	–	420,466
Promissory note receivables	**452,000,000**	–	**452,000,000**	–
Other receivables	**21,944,406**	15,005,264	**257,595**	65,928
	640,088,939	694,435,415	**698,196,995**	205,559,292

Included in trade receivables are the amounts due from related companies of HK$5,624,913 (2009: HK$113,894,027) *(see note 44(c))*.

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

Promissory note receivables are non-interest bearing and mature at 180th day from the date of issue of the promissory note.

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

29. TRADE 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 allowance for doubtful debts), with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010	2009
	HK$	HK$
Within 3 months	**116,445,351**	433,999,266
Over 3 months but less than 6 months	**40,914,513**	184,096,939
Over 6 months but less than 12 months	**404,703**	8,257,388
	157,764,567	626,353,593

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 5.

(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 3(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	
	2010	2009
	HK$	HK$
At 1 January	**4,883,878**	4,883,878
Disposal of subsidiaries	**(3,350,719)**	–
At 31 December	**1,533,159**	4,883,878

At 31 December 2010, the Group's trade receivables and bills receivable of HK$1,533,159 (2009: HK$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 HK$1,533,159 (2009: HK$4,883,878) were recognised. The Group does not hold any collateral over these balances.

29. TRADE 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	
	2010	2009
	HK$	HK$
Neither past due nor impaired	**153,347,873**	579,607,119
Overdue by:		
Less than 3 month past due	**4,011,991**	38,489,086
3 to 12 months past due	**404,703**	8,257,388
	4,416,694	46,746,474
Total	**157,764,567**	626,353,593

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.

30. LOAN RECEIVABLE

As at 31 December 2010, a loan of HK$11,000,400 (2009: HK$11,000,400) was advanced to a minority shareholder of Honest Bright. The loan receivable carries interest at 2.5% (2009: 2.5%) per annum and is recoverable on demand. The loan receivable is secured by the 48.8% (2009: 48.8%) equity interests in Honest Bright held by this minority shareholder.

31. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Cash and cash equivalents in the statement of financial position and statement of cash flows	**141,217,189**	39,982,603	**2,562,934**	13,899,677

Cash and cash equivalents of the Group of HK$8,989,280 (2009: HK$15,522,189) 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.

32. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Trade payables	**73,315,406**	284,163,359	**–**	–
Bills payable	**–**	109,846,176	**–**	–
	73,315,406	394,009,535	**–**	–
Amounts due to subsidiaries	**–**	–	**4,749,506**	16,434,350
Other payables	**128,936,645**	107,963,059	**69,877,258**	2,194,114
	202,252,051	501,972,594	**74,626,764**	18,628,464

Included in trade and other payables are amounts due to related companies of HK$10,000,000 (2009: HK$25,634,379) *(see note 44(d))*

Included in other payables are deferred income of HK$253,540 (2009: HK$9,960,227), HK$5,453,667 (2009: HK$2,670,455) and HK$3,462,799 (2009: HK$Nil) related to government grant received for subsidising the construction of production plants of subsidiaries in Beijing, Shanxi and Tianjian respectively, the PRC.

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

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

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

	The Group	
	2010	2009
	HK$	HK$
Within 3 months	**65,193,848**	339,690,385
Over 3 months but less than 6 months	**1,900,731**	47,710,099
Over 6 months but less than 12 months	**1,065,224**	3,668,498
Over 1 year	**5,155,603**	2,940,553
	73,315,406	394,009,535

33. BANK LOANS

The bank loans are repayable as follows:

	Group	
	2010	2009
	HK$	HK$
Current		
Short term bank loans:		
– secured *(notes (a) and (b))*	**34,328,765**	129,679,004
– unsecured *(notes (c) and (d))*	**15,882,353**	191,818,182
Current portion of long-term bank loans:		
– unsecured *(note (e))*	–	3,400,000
	50,211,118	324,897,186
Non-current		
Long-term bank loans:		
– unsecured *(note (e))*	–	67,054,545
	–	67,054,545
	50,211,118	391,951,731

At 31 December 2010, terms of bank loans were summarised as follows:

(a) Short-term secured bank loans of HK$5,882,353 (2009:HK$24,943,182) which carry interest at rates of 5.61% (2009: 4.86% to 6.90%) per annum. As at 31 December 2010, no Group's leasehold land and buildings (2009: HK$43,082,771) are secured by mortgages.

(b) Included in short-term secured bank loans are discounted bills with recourse of HK$28,446,412 (2009: HK$104,735,822) are secured by the related bills receivable.

(c) Short-term unsecured bank loans of HK$11,764,706 (2009: HK$3,409,091) which carry interest at 5.56% (2009: 6.36%) per annum are guaranteed by a third party. As at 31 December 2009, there was an unsecured bank loan of HK$11,363,636 carries interest at 5.31% per annum is guaranteed by a minority shareholder of a subsidiary.

(d) Other unsecured bank loans totaling HK$4,117,647 (2009: HK$177,045,455) carry interest at rate of 6.00% (2009: from 2.14% to 4.86%) per annum.

(e) In 2009, there were long-term unsecured bank loans of HK$70,454,545 carry interest at rate ranging from 3.5% to 5.4% per annum.

33. BANK LOANS *(CONTINUED)*

(f) All of the bank loans are repayable as follows:

	The Group	
	2010	2009
	HK$	HK$
Within one year	**50,211,118**	324,897,186
In the second year	–	49,354,545
In the third to fifth years, inclusive	–	17,700,000
	50,211,118	391,951,731

Further details of the Group's management of liquidity risk are set out in note 5.

34. OTHER LOANS

Other loans were obtained from independent third parties and are unsecured and repayable within one year. All other loans are non-interest bearing (2009: HK$261,364 with 5.31% per annum).

35. CONVERTIBLE NOTES

On 26 May 2006, the Company issued convertible notes with a nominal value of HK$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 HK$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 HK$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. During the year ended 31 December 2010, all remaining convertible notes of HK$5,756,000 were redeemed by the Company and of HK$17,244,000 converted by the holders of the convertible notes.

On 14 July 2006, the Company issued convertible notes with a nominal value of HK$25,000,000, HK$3,000,000 and HK$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 HK$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 HK$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. During the year ended 31 December 2010, all remaining convertible notes of HK$12,500,000 were redeemed by the Company and of HK$12,500,000 converted by the holders of the convertible notes.

The convertible notes were split into liability, derivative and equity components of HK$70,544,443, HK$1,305,431 and HK$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.

35. CONVERTIBLE NOTES *(CONTINUED)*

During the year ended 31 December 2010, part of the convertible notes were early redeemed by the Company. The loss on early redemption of liability component of convertible bond is derived from the difference between the carrying amount of liability and derivative components of approximately HK$17,991,855 and the fair value of liability component of approximately HK$18,201,256.

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

	Liability component HK$	Derivative component HK$	Total HK$
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 early redemption	(28,082,909)	–	(28,082,909)
Change in fair value	–	3,427,887	3,427,887
At 31 December 2009 and 1 January 2010	46,271,866	(693,491)	45,578,375
Interest charged during the year	**2,772,785**	–	**2,772,785**
Interest paid during the year	**(1,055,318)**	–	**(1,055,318)**
Derecognition on early redemption	**(18,249,171)**	**257,316**	**(17,991,855)**
Derecognition on conversion	**(29,740,162)**	**436,175**	**(29,303,987)**
At 31 December 2010	–	–	–

36. 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 ended 31 December 2009, 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.

During the year ended 31 December 2010, the Group purchased 1,764,985 Series A-1 Preferred Shares of Shiny Bright from the Investors at a consideration of HK$70,997,046.

The convertible preferred shares were split into liability with embedded derivative and equity components of HK$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 the end of each reporting period.

36. CONVERTIBLE PREFERRED SHARES *(CONTINUED)*

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

	2010	2009
	HK$	HK$
At 1 January	**85,851,891**	85,982,840
Return of repayment/(repayment) of purchase price	**11,052,943**	(11,052,943)
Release upon purchase	**(42,668,342)**	–
Change in fair value	**26,336,283**	10,921,994
At 31 December	**80,572,775**	85,851,891

37. DERIVATIVES

In connection with the sales of Series A-1 Preferred Shares of Shiny Bright as set out in note 36, the Group also entered into the Tranche 2 Subscription Agreement with the Investors, Shiny Bright granted the Investors, at a consideration of HK$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 ended 31 December 2009.

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 the end of each reporting period.

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

	2010	2009
	HK$	HK$
At 1 January	–	6,056,199
Change in fair value	–	(6,056,199)
At 31 December	–	–

38. 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 was the facility drawn down by the subsidiaries of HK$35,000,000. The Directors did 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 33 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.

39. 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 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 HK$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.

40. 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;

40. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(CONTINUED)*

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

(iii) the nominal value of a share.

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

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			

40. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(CONTINUED)*

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

	2010		2009	
	Weighted average exercise price HK$	**Number of options**	Weighted average exercise price HK$	Number of options
Outstanding at the beginning of the year	**1.14**	**37,300,000**	1.14	37,700,000
Exercised during the year	**1.14**	**(37,300,000)**	–	–
Forfeited during the year	–	–	1.60	(400,000)
Outstanding at the end of the year	–	–	1.14	37,300,000
Exercisable at the end of the year		–		30,460,000

The weighted average share price at the date of exercise for shares options exercised during the year was HK$1.14 (2009: Nil).

During the year ended 31 December 2010, the number of shares issued in respect of which share option had been exercised under the scheme were 37,300,000 (2009:Nil).

(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.

40. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(CONTINUED)*

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

(i) Share Option Scheme

	At 23 August 2007 (date of grant)
Fair value at measurement date	HK$0.426
Share price	HK$1.60
Exercise price	HK$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	HK$0.098
Share price	HK$0.50
Exercise price	HK$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.

41. 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 HK$	Share premium HK$	Capital reserve HK$	Retained profits HK$	Total HK$
At 1 January 2009	4,435,000	166,680,213	13,887,199	10,581,754	195,584,166
Equity-settled share-based payments	–	–	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 paid during the year	–	–	–	(6,652,500)	(6,652,500)
At 31 December 2009 and 1 January 2010	4,435,000	166,680,213	13,006,704	8,395,629	192,517,546
Equity-settled share-based payments	**–**	**–**	**203,468**	**–**	**203,468**
Released on early redemption of convertible notes	**–**	**–**	**(1,222,190)**	**1,222,190**	**–**
Released on conversion of convertible notes	**330,489**	**30,909,798**	**(1,936,301)**	**–**	**29,303,986**
Exercise of share options	**373,000**	**52,132,546**	**(10,051,681)**	**–**	**42,453,865**
Profit for the year	**–**	**–**	**–**	**919,629,337**	**919,629,337**
Dividends paid during the year	**–**	**–**	**–**	**(520,709,721)**	**(520,709,721)**
At 31 December 2010	**5,138,489**	**249,722,557**	**–**	**408,537,435**	**663,398,481**

41. CAPITAL AND RESERVES *(CONTINUED)*

(a) Share capital

(i) Authorised and issued share capital

	2010 Number of shares	2010 HK$	2009 Number of shares	2009 HK$
Authorised:				
Ordinary shares of $0.01 each	**10,000,000,000**	**10,000,000**	10,000,000,000	100,000,000
Issued:				
At 1 January	**443,500,000**	**4,435,000**	443,500,000	4,435,000
Conversion of convertible notes	**33,048,888**	**330,489**	–	–
Exercise of share options	**37,300,000**	**373,000**	–	–
At 31 December	**513,848,888**	**5,138,489**	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.

(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.

41. CAPITAL AND RESERVES *(CONTINUED)*

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

(iv) Capital reserve

The capital reserve comprises the following:

– the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 3(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 3(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 3(x).

(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 non-controlling interests over the carrying value of share of net assets acquired in accordance with the accounting policy adopted for subsidiaries and non-controlling interests in note 3(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 non-controlling interests in note 3(c).

(c) Distributability of reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to owners of the Company was HK$416,130,781 (2009: HK$149,613,052). After the end of the reporting period, the directors proposed a final dividend of 1.5 HK cents per ordinary share (2009: 1.5 HK cents per ordinary share), amounting to HK$7,707,733 (2009: HK$6,860,833). This dividend has not been recognised as a liability at the end of the reporting period.

41. CAPITAL AND RESERVES *(CONTINUED)*

(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 the year ended 31 December 2010, 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 60% (2009: 70%).

41. CAPITAL AND RESERVES *(CONTINUED)*

(d) Capital management *(Continued)*

The net debt-to-adjusted capital ratio at 31 December 2010 was as follows:

		The Group		The Company	
		2010	2009	**2010**	2009
	Note	**HK$**	HK$	**HK$**	HK$
Bank loans	33	**50,211,118**	391,951,731	–	–
Other loans	34	**13,676,709**	2,761,363	–	–
Convertible notes	35	–	45,578,375	–	45,578,375
		63,887,827	440,291,469	–	45,578,375
Less: Cash and cash equivalents	31	**(141,217,189)**	(39,982,603)	**(2,562,934)**	(13,899,677)
Net debt		**(77,329,362)**	400,308,866	**(2,562,934)**	31,678,698
Total equity		**707,044,777**	518,097,962	**663,378,481**	192,517,546
Add: convertible preferred shares	36	**80,572,775**	85,851,891	–	–
Adjusted capital		**787,617,552**	603,949,853	**663,378,481**	192,517,546
Net debt-to-adjusted capital ratio		**(10%)**	66%	**(1%)**	16%

42. DISPOSAL OF SUBSIDIARIES

In September 2010, pursuant to the approval of the share transfer agreement dated on 10 July 2010, the Group disposed of 100% equity interest of Jinheng (BVI) Limited. As a result of the disposal, the Group does not hold any equity interest in Jinheng (BVI) Limited and its subsidiaries ("Disposal Group").

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

	HK$
Net assets disposed of:	
Property, plant and equipment	263,553,946
Interests in leasehold land held for own use under operating leases	21,341,195
Deposits paid for acquisition of fixed assets	29,638,002
Construction in progress	30,639,447
Intangible assets	48,481,510
Other non-current financial assets	57,143
Deferred tax assets	27,574
Inventories	207,182,874
Trade and other receivables	545,565,373
Current tax recoverable	476,251
Cash and cash equivalents	55,900,119
Trade and other payables	(353,313,202)
Bank loans	(359,130,532)
Deferred tax liabilities	(15,197,443)
	475,222,257
Release of non-controlling interests	(28,519,124)
Release of goodwill	210,501
Release of exchange reserve	(46,629,371)
Gain on disposal	698,774,515
Consideration receivable for disposal of subsidiaries	1,099,058,778
Satisfied by:	
Cash	339,000,000
Promissory notes	791,000,000
Costs for disposal of subsidiaries	(30,941,222)
	1,099,058,778
Net cash inflow from disposal:	
Cash consideration	339,000,000
Cash and cash equivalents disposed	(55,900,119)
Costs for disposal of subsidiaries	(30,941,222)
	252,158,659

For the period from 1 January 2010 to the date of disposal, the Disposal Group was engaged in production and sales of automotive safety products in the PRC. The turnover contributed by the Disposal Group was approximately HK$646,421,692 and profit of approximately HK$26,332,545 has recognised in the Group's profit for the year ended 31 December 2010.

43. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding at 31 December 2010 not provided for in the consolidated financial statements were as follows:

	The Group	
	2010	2009
	HK$	HK$
Contracted for property, plant and equipment	**8,472,685**	9,870,572

(b) At 31 December 2010, the Group had a capital commitment of HK$Nil (2009: HK$7,727,273) representing capital contribution for setting up a subsidiary, Tianjian Troitec in the PRC.

(c) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

Properties

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Within 1 year	**1,344,003**	1,853,937	**98,400**	221,400
After 1 year but within 5 years	**3,780,290**	4,047,410	–	98,400
After 5 years	–	931,503	–	–
	5,124,293	6,832,850	**98,400**	319,800
Others				
Within 1 year	–	27,273	–	–

The Group leases a number of properties and office equipment under operating leases for a period of 1 to 4 years (2009: 2 to 30 years).

44. MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
Hafei Motor Co., Ltd. ("Hafei Motor")	Minority shareholder of Hafei Jinheng, which disposed in September 2010
Shenyang Jinbei Automotive Company Limited ("Jinbei Automotive")	Minority shareholder of Jinbei Jinheng, which disposed in September 2010
Shenyang Brilliance Jinbei Automobile Company Limited ("Brilliance Jinbei")	An associate of Jinbei Automotive
Taiyuan Aero Instruments Company Limited ("Taiyuan Aero")	Minority shareholder of Shanxi Winner
Freemind Technology Limited ("Freemind Technology")	Minority shareholder of Honest Bright in 2009
Li Feng ("Mr. Li")	Chairman and director of the Company
Ever Tech Holdings Limited ("Ever Tech")	Minority shareholder of Honest Bright in 2010
Jinzhou Jinheng Automotive Safety System Co., Limited ("Jinzhou Jinheng")	Mr. Zhao Qingjie act as common director of the Company and Wonder Auto Technology Inc., which is intermediate holding company of Jinzhou Jinheng, until 27 October 2010

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	
	2010	2009
	HK$	HK$
Purchases of raw materials from:		
– Taiyuan Aero	**13,512,244**	35,574,083
Sales of airbag systems or other automotive components to:		
– Hafei Motor	**14,370,672**	72,320,213
– Brilliance Jinbei	**97,316,496**	123,528,777
– Taiyuan Aero	**17,868,388**	47,696,150
– Jinzhou Jinheng	**22,509,818**	–
Rental expenses paid to:		
– Mr. Li	**196,663**	377,273

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.

44. 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 15 and certain highest paid employee as disclosed in note 16, is as follows:

	The Group	
	2010	2009
	HK$	HK$
Short-term employee benefits	**4,017,087**	4,513,553
Post-employment benefits	**12,000**	59,455
Equity compensation benefits	**–**	432,888
	4,029,087	5,005,896

Total remuneration is included in "staff costs" *(see note 11)*.

(b) Non-recurring

(i) During the year ended 31 December 2010, Jinheng EMS (BVI) Limited, an indirect wholly-owned subsidiary of the Company, purchased 1,764,985 Series A-1 Preferred Shares of Shiny Bright at a consideration of HK$70,997,046, from Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited, which are minority shareholders of Shiny Bright based on the enlarged issued ordinary share of Shiny Bright on an as-if-fully-converted basis.

(ii) In September 2010, the Company disposed of 100% equity interest of Jinheng (BVI) Limited at a total consideration of HK$1,130,000,000 to Vital Glee Development Limited ("Vital Glee"), which is under control of Mr. Zhao Qingjie, director of the Company until 27 October 2010.

(c) Amounts due from related companies

	The Group	
	2010	2009
	HK$	HK$
Hafei Motor	**–**	17,757,566
Brilliance Jinbei	**–**	80,468,301
Taiyuan Aero	**5,624,913**	15,668,160
	5,624,913	113,894,027

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 and other receivables" in the consolidated statement of financial position *(see note 29)*.

44. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Amounts due to related companies

	The Group	
	2010	2009
	HK$	HK$
Ever Tech	**10,000,000**	–
Freemind Technology	**–**	10,000,000
Taiyuan Aero	**–**	15,634,379
	10,000,000	25,634,379

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 32)*.

(e) Details of corporate guarantees given by related companies and the Company are set out in notes 33 and 38 respectively.

45. EVENTS AFTER THE REPORTING PERIOD

(a) After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 18.

(b) In January 2011, pursuant to the acquisition agreement dated 30 September 2010 in related to the acquisition of all the Series A-1 Preferred Shares issued by Shiny Bright, the Group has purchased remaining 2,028,368 Series A-1 Preferred Shares at a total consideration of HK$80,572,775.

(c) On 12 March 2011, the Company and Vital Glee entered into a conditional deed to amend certain existing terms of the promissory note in the principal amount of HK$452,000,000 issued by Vital Glee on 14 September 2010. For more details, please refer to the Company's announcement dated 13 March 2011.

46. NON-CASH TRANSACTIONS

In September 2010, the Company disposed of 100% equity interest of Jinheng (BVI) Limited at a total consideration of HK$1,130,000,000, the consideration of HK$791,000,000 was satisfied by the promissory notes issued by Vital Glee.

47. CONTINGENT LIABILITIES

As at 31 December 2010, the Group and the Company had no material contingent liabilities.

48. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2011.

FIVE YEARS SUMMARY

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	2006 HK$	2007 HK$	2008 HK$	2009 HK$	**2010** **HK$**
OPERATING RESULTS					
Turnover	352,541,854	666,947,593	647,454,790	974,737,866	**815,690,559**
Profit from operations	57,392,228	79,173,962	61,379,878	63,981,834	**691,706,065**
Finance costs	(7,774,742)	(17,917,455)	(24,590,418)	(25,741,674)	**(16,237,700)**
Share of (losses)/profits of jointly controlled entities	2,728,827	4,096,079	4,307,788	(788,911)	**(1,050,178)**
Share of profits of associates	951,286	1,172,169	–	–	–
Profit before taxation	53,297,599	66,524,755	41,097,248	37,451,249	**674,418,187**
Taxation	(5,516,560)	(7,710,240)	(8,763,162)	(8,249,830)	**(11,901,712)**
Profit for the year	47,781,039	58,814,515	32,334,086	29,201,419	**662,516,475**
Attributable to:					
Owners of the Company	45,608,257	66,630,845	38,744,980	21,227,178	**665,489,888**
Non-controlling interests	2,172,782	(7,816,330)	(6,410,894)	7,974,241	**(2,973,413)**
Profit for the year	47,781,039	58,814,515	32,334,086	29,201,419	**662,516,475**
Earnings per share					
– Basic	11.86 cents	16.42 cents	8.77 cents	4.79 cents	**1.38 dollars**
– Diluted	11.27 cents	13.80 cents	5.04 cents	4.77 cents	**1.36 dollars**
Assets and liabilities					
Non-current assets	247,063,459	421,504,829	612,547,709	615,380,386	**248,931,390**
Net current assets/(liabilities)	133,802,999	109,934,840	(89,568,148)	563,242	**476,378,000**
Total assets less current liabilities	380,866,458	531,439,669	522,979,561	615,943,628	**725,309,390**
Non-current liabilities	(99,545,104)	(86,339,098)	(31,667,889)	(97,845,666)	**(18,264,613)**
NET ASSETS	281,321,354	445,100,571	491,311,672	518,097,962	**707,044,777**
Capital and reserves					
Share capital	3,855,600	4,301,200	4,435,000	4,435,000	**5,138,489**
Reserves	247,067,839	387,946,329	425,402,002	441,085,790	**659,965,776**
Total equity attributable to owners of the Company	250,923,439	392,247,529	429,837,002	445,520,790	**665,104,265**
Non-controlling interests	30,397,915	52,853,042	61,474,670	72,577,172	**41,940,512**
TOTAL EQUITY	281,321,354	445,100,571	491,311,672	518,097,962	**707,044,777**