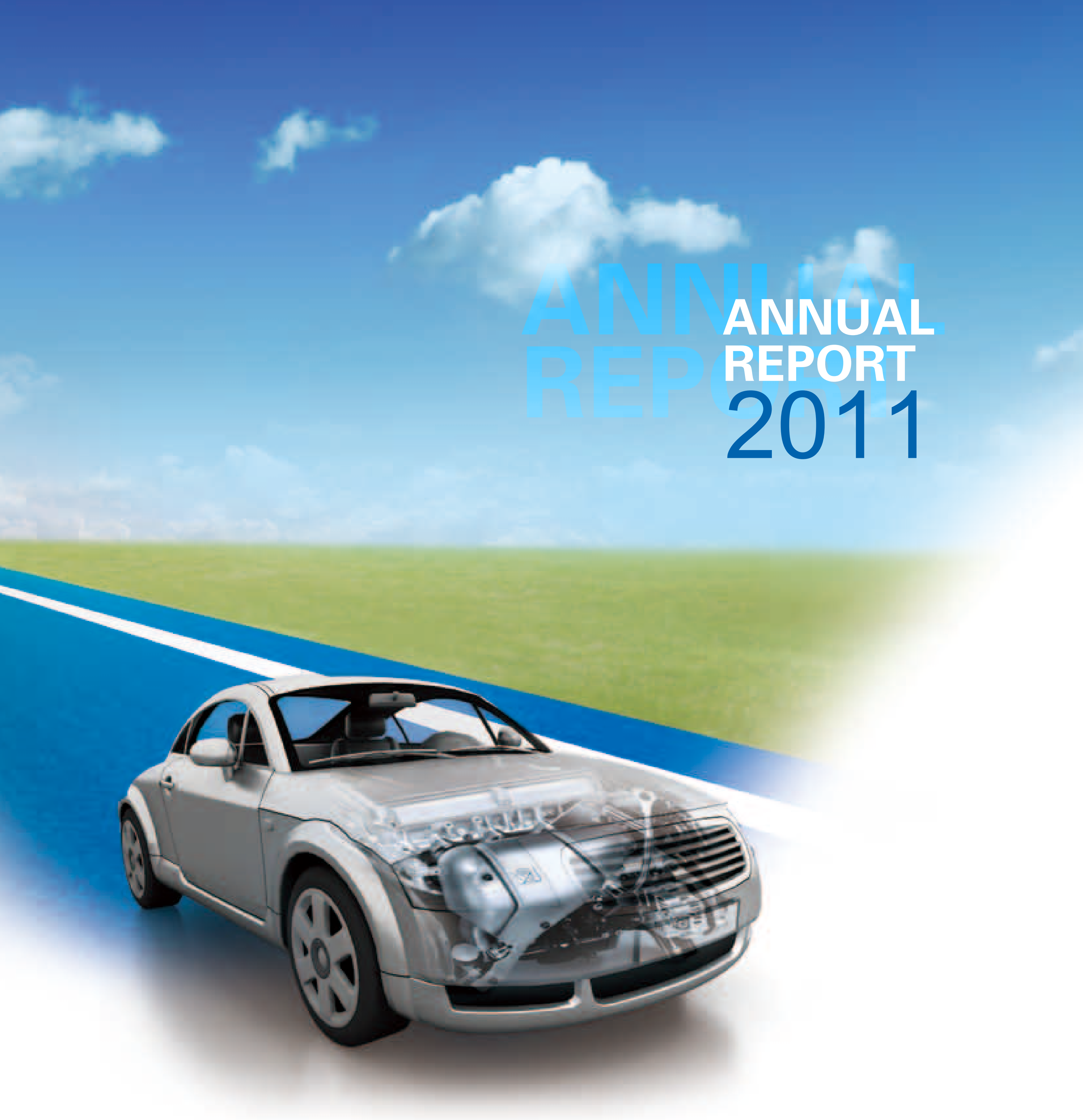
ANNUAL REPORT 2011



JIN HENG

JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED

錦恆汽車安全技術控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 872)

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

WEB SITE OF THE COMPANY

www.jinhengholdings.com

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

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CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board of Directors ("the Board"), I am pleased to present the audited financial results of Jinheng Automotive Safety Technology Holdings Limited ("the Company") and its subsidiaries ("the Group") for the financial year ended 31 December 2011.

BUSINESS REVIEW

For the year ended 31 December 2011, the Group recorded turnover and the profit attributable to the owners of the Company as approximately HK$290.8 million and HK$8.2 million respectively, while it was approximately HK$815.7 million and HK$665.5 million respectively in the same period of last year. The reduction was mainly due to the disposal of the automobile safety airbag system business completed in the second half of 2010, and the proposed disposal of YanTai Vast Co., Ltd. ("YanTai Vast") in December 2011. Disregarding the gain or loss from group restructuring and the change of fair value and purchase of preferred shares, the profit attributable to shareholders of the Company in 2011 is approximately HK$33.8 million, while it was approximately HK$21.4 million in last year.

With the benefit from the disposal of the safety airbag system business, the Group has obtained sufficient resources to develop our automobile engine management system ("EMS") and automotive electronic products business which are expected to have higher growth potential. The Group has commenced several new research and development projects for new EMS models and technical upgrade for existing models. Our EMS business has also maintained constant growth during the year, in which the turnover amount has increased by approximately 38% as compared with last year.

In view of the growing demand of economic EMS from automobile manufacturers, the Group is aimed to contribute more resources in the development of EMS business and would like to seek for opportunities to restructure the organization structure. For the year ended 31 December 2011, the Group has completed the acquisition of all Series A-1 Preferred Shares of Shiny Bright Holdings Limited ("Shiny Bright"), in which Shiny Bright and its subsidiaries are principally engaged in sale and manufacture of EMS. It is expected that with the completion of such acquisition, the Group can strengthen its control on the EMS business and thus its operations and business development can be implemented in a smoother manner that meets the goals and vision of the Group. The Group has also entered into a disposal agreement for the disposal of the entire interest YanTai Vast at the consideration of RMB20.6 million and a one-off loss of disposal is recorded.

In March 2011, the Group has entered into a deed of modification for the extension of the repayment period of HK$452 million outstanding consideration from the disposal of automobile safety airbag system business. The extension period is 15 months and bears 8% interest per annum. The Company has received partial repayment of principal during the year, and the outstanding balance of principal will be received by the end of the first half of 2012.

CHAIRMAN'S STATEMENT

OUTLOOK AND FUTURE PROSPECTS

The Group is expanding the research and manufacturing capacities to satisfy the growing demand of our EMS business. The expansion plant is under construction. It is expected to be completed by the end of 2012, and the test-run will be completed in the third quarter of 2013. The expansion plan is only not designed to fulfill the existing sale contracts of our EMS models, but also intended to enhance the ability of the Group to capture the growing business opportunities available in the EMS market and fulfill the different demands from our customers.

With the continuous launch of new products and the enlargement of customer bases, the directors of the Company believe that the Group will have improvement in the financial performance and can maintain our competitive advantages and leading position in the market. The Group is also performing different research projects in order to achieve vertical integration of our product supply chain, which it is believed that the quality can be enhanced and the production cost can be reduced.

Being an experienced pioneer in PRC automobile spare parts market, we are continuously seeking different investment opportunities to expand our product range. We may also seek for opportunities to restructure the existing businesses in order to use existing resources in a more effective way and 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, 23 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

For the year ended 31 December 2011, the turnover amount of the Group were approximately HK$290.8 million, while it was approximately HK$815.7 million in the same period of last year. The difference was mainly resulted from the disposal of the automobile safety airbag business in the middle of last year, while certain new models of EMS and automobile electronic spare parts businesses have just commenced commercial production during the year. The average gross profit margin in 2011 was approximately 19.6%, while was a slight increment in compared with the 19.3% in 2010.

The other revenue of the Group during the period under review was increased by approximately HK$29.6 million to approximately HK$46.1 million as compared to the same period of 2010. This includes the income from certain research and development projects related to the EMS business and the interest income from the promissory note.

For the year ended 31 December 2011, the research and development expenses of the Group were approximately HK$14.6 million, while it was approximately HK$53.0 million in 2010. The Group has launched several new development projects of EMS and automobile electronic spare parts, which are expected to launch commercial production in the foreseeable future.

In 2011, the distribution costs and administrative expenses of the Group were decreased by 71.1% and 32.7% to approximately HK$6.1 million and HK$32.5 million respectively as compared to 2010. Such decrease was mainly due to the disposal of automobile safety airbag business completed in the third quarter of 2010.

The finance costs during the year under review were decreased by approximately 50.8% to approximately HK$8.0 million as compared to the same period of 2010. The reduction was mainly due to the conversion and redemption of certain convertible notes completed in 2010, and the development of the Group is mainly financed by its internal resources benefited from the disposal of several subsidiaries in 2010.

For the year ended 31 December 2011, the profit attributable to owners of the Company was approximately HK$8.2 million, while it was approximately HK$665.5 million in last year which was mainly contributed from the gain on disposal of certain subsidiaries. The change of profit amount reflects the gain on disposal of core business in 2010, while the remaining profitable business is still in the development stage. The difference was also due to the continuous group restructuring and the contribution for establishing solid foundation for the developing EMS and automobile electronic spare parts businesses.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2011, the Group had bank and cash balances of approximately HK$45.4 million (31 December 2010: approximately HK$141.2 million) and net current assets of approximately HK$537.1 million, which increased by approximately HK$60.7 million as compared with the last fiscal year. The improvement was mainly due to the restructuring of the Group. The total non-current assets of the Group is approximately HK$211.5 million in 2011, while it was approximately HK$248.9 million in the last year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2011, the Group had non-current liabilities of approximately HK$21.0 million (2010: HK$18.2 million), which represent the deferred tax liabilities.

The Group also had short-term bank loans of HK$36.5 million which included bank loans with an aggregate amount of approximately HK$22.8 million with interest rates ranging from 6.10% to 7.92% per annum, and discounted bills of HK$13.7 million (equivalent to approximately RMB11.1 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 2011, 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 2011, the Group has pledged certain trade receivables of approximately HK$8.8 million, and certain discounted bills with recourse totaling HK$13.7 million were secured by the related bills receivable and were repayable within one year.

GEARING RATIO

The Group's gearing ratio, which was derived from the total liabilities to total assets, decreased to 20.9% in 2011 from 34.1% in 2010.

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$6.0 million in respect of acquisition of fixed assets as at 31 December 2011.

MATERIAL ACQUISITIONS AND DISPOSALS

In December 2011, the Group has entered into a disposal agreement, in which the Group will disposal all equity interest held in Yantai Vast Company Limited at a consideration of RMB20,600,000. After the completion of this disposal, it will no longer be a jointly controlled entity of the Group and an impairment loss of approximately HK$26 million has been recognised during the year. As at the date of this report, this disposal is not yet completed.

SIGNIFICANT INVESTMENT

There was no other significant investment during the year.

CONTINGENT LIABILITIES

As at 31 December 2011, the directors of the Company were not aware of any material contingent liabilities.

SUBSEQUENT EVENTS

No subsequent events occurred after 31 December 2011, which may have a significant effect, on the assets and liabilities of future operations of the Group.

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 2011, the Group employed approximately 446 staff in the PRC and Hong Kong, representing an increase of 50 staff from 31 December 2010. The increase in staff was mainly from the PRC operations. The Group's remuneration to employees, including directors' emoluments, decreased by approximately HK$31.0 million to approximately HK$26.2 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The Company was listed on GEM of the Stock Exchange on 9 December 2004 through offering a total of 95,970,000 shares, in which 86,372,000 shares are placing shares and a public offering of 9,598,000 new shares. The 86,372,000 placing shares comprising 71,402,000 new shares and 14,970,000 sale shares. The net proceeds from this offering, after deduction for relevant expenses, is approximately HK$80.5 million. On 12 November 2008, the Company withdrew the listing of its shares on GEM and listed its entire issued share capital by way of transfer on the Main Board of the Stock Exchange.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Li Feng, aged 50, 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 48, 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 46, 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 43, 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 sixteen 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 49, 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 40, 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 78, 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 40, is currently the assistant general manger of China Dragon Securities Co. Ltd. Mr. Zhu graduated from the Research Institute of the People's Bank of China in 1998 with a master's degree in international finance. Mr. Zhu was appointed as an independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Zhu. The emoluments payable to Mr. Zhu is HK$80,004 per annum. The appointment terms of Mr. Zhu were fixed for a term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Hao Dianqing, aged 60, 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 53, 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 2011.

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 to the consolidated 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 to the consolidated financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2011 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 30 to 34.

DIVIDENDS

Pursuant to a resolution passed at a directors' meeting on 23 March 2012, 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 (2010: HK$Nil).

FIXED ASSETS

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

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 40 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 40(a) to the consolidated 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 2011 are set out in note 33 and 34 to the consolidated 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	43.6%	
Five largest customers in aggregate	96.2%	
The largest supplier		11.6%
Five largest suppliers in aggregate		40.8%

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. Yang Donglin
Mr. Foo Tin Chung, Victor

Non-executive director

Mr. Li Hong

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. Yang Donglin, Li Hong and Hui Hung Kwan 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 2011, 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	200,000	0.04%
	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Xing Zhanwu	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Li Hong	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Yang Donglin	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Foo Tin Chung,	Beneficial owner	4,800,000	0.93%
Victor	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*

Note: As at 31 December 2011, 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 39.88% in the Company:

Shareholder	Number of shares held in Applaud Group	%
Li Feng	5,129	55.36
Li Hong	1,464	15.80
Xing Zhanwu	674	7.27
Yang Donglin	868	9.37
Foo Tin Chung, Victor	1,130	12.20
Total	9,265	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.

REPORT OF THE DIRECTORS

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

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 total number of securities available for issue under the 2009 Share Option Scheme as at 31 December 2011 was 44,350,000 shares which represented approximately 8.6% of the issued share capital of the Company as at 31 December 2011.

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 2011, 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	204,940,802	39.88%

Short positions in shares

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

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

Short positions in underlying shares

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

Save as disclosed above, as at 31 December 2011, 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 2011, 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.

REPORT OF THE DIRECTORS

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 2011, are disclosed in note 43 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 43 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 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 2011, the transaction amount under Troitec Supply Agreement is approximately HK$Nil (2010: HK$17,868,388).

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 September 2010 Hafei Jinheng was disposed and no longer be a subsidiary of the Group, and the transaction amount before this disposal under Taiyuan Sub-contracting Agreement is approximately HK$13,512,244 in 2010.

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. In September 2010, Beijing Sega was disposed and no longer be a subsidiary of the Group, and the transaction amount before this disposal under Sega Supply Agreement is approximately HK$838,498 in 2010.

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. During the period between January to October 2011 (which Mr Zhao was a connected person of the Company), the transaction amount under Great Idea Supply Agreement is approximately HK$30,479,163 (2010: 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.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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 maximum value of orders to be placed by Jinzhou Jinheng (the "Winner Annual Cap") for the three years ending 31 December 2012 would not exceed 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. During the period between January to October 2011 (which Mr Zhao was a connected person of the Company), the transaction amount under Winner Supply Agreement is approximately HK$79,582,442 (2010: 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.

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 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 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.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

Waiver from the Stock Exchange *(continued)*

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 14 July 2009 and 11 July 2010 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.

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

By order of the board

Li Feng
Chairman

Hong Kong, 23 March 2012

CORPORATE GOVERNANCE REPORT

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

During the period under review, the Company conducted voluntary reviews of its internal governance against the principles and provisions set out in the code on corporate governance practices as set out in appendix 14 of Listing Rules (the "Code") from time to time. In December 2005, the Code on Corporate Governance Practices of Jinheng Automotive Safety Technology Holdings Ltd. (the "Jinheng Code") was adopted on standards no less exacting than those required by the Code. The Board will continue to monitor and revise the Jinheng Code and assess the effectiveness of our corporate governance practices in tandem with changes in the environment and requirements and the increasingly stringent standards, to ensure such policies are in line with the expectations and interests of shareholders in order to gain recognition by the international capital market on the back of a fair, transparent and sound corporate governance system.

Pursuant to appendix 16 of the Listing Rules, this report is to be incorporated in the Company's summary financial report and annual report, respectively, to disclose its corporate governance practices adopted in the year under review together with the prospective practices under development to the shareholders.

THE BOARD

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

The Board comprises 8 Directors, including 4 executive Directors and 4 non-executive Directors, 3 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 5 meetings during the year 2011. The Directors are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD MEETING *(continued)*

- appointment and resignation of members of the Board;
- appointment and resignation of auditors of the Company;
- other material disposal and acquisition and capital expenditure.

Details of Directors' attendance at Board meetings held In 2011 are set out as follows:

	Attendance
Executive Directors	
Mr. Li Feng	5/5
Mr. Xing Zhanwu	5/5
Mr. Yang Donglin	5/5
Mr. Foo Tin Chung, Victor	5/5
Non-Executive Director	
Mr. Li Hong	5/5
Independent Non-Executive Directors	
Mr. Hui Hung Kwan	5/5
Mr. Huang Shilin	5/5
Mr. Zhu Tong	5/5

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 17 June 2011, Mr. Li Feng, Mr. Foo Tin Chung, Victor and Mr. Huang Shilin 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 2011 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.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

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

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

Details of attendance of members at meeting of the remuneration committee held In 2011 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 2011 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.

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

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.

INVESTOR RELATIONS

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

- delivery of the interim and annual results and reports to all shareholders;
- publication of announcements on the interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS *(continued)*

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

- establishing dedicated personnel for liaison with investors and analysts by answering their questions;
- arranging on-site visits to the production facilities of the Company to enhance their timely understanding of the situations and latest development of the Company's business operations;
- gathering, in a timely manner, opinions and comments from analysts and investors on the operations of the Company, compiling reports thereon at regular intervals and selectively adopting them in the Company's operations;
- making available information on the Company's website, including description of the Company, Board and corporate governance, results of the Company, financial highlights, promotional materials and press releases of the Company, etc.; and
- actively communicating with various parties, in particular, convening briefing sessions, press conferences and individual meeting with institutional investors upon the announcement of interim and annual results and making decisions on material investments. The Company also participates in a range of investor activities and communicates on one-on-one basis with its investors regularly.

INDEPENDENT AUDITORS' REPORT

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 30 to 107, which comprise the consolidated and Company statements of financial position as at 31 December 2011, 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 2011 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

23 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 HK$	2010 HK$
Turnover	7	**290,767,562**	815,690,559
Cost of sales		**(233,731,094)**	(658,018,044)
Gross profit		**57,036,468**	157,672,515
Other revenue	8	**46,058,287**	16,455,152
Other net (loss)/income	9	**(25,949,082)**	639,836,948
Research and development expenses	10	**(14,617,858)**	(52,963,219)
Distribution costs		**(6,053,463)**	(20,977,621)
Administrative expenses		**(32,495,748)**	(48,317,710)
Profit from operations		**23,978,604**	691,706,065
Finance costs	12	**(7,987,414)**	(16,237,700)
Share of losses of jointly controlled entities	25	**(185,760)**	(1,050,178)
Profit before taxation	13	**15,805,430**	674,418,187
Taxation	14	**(4,353,806)**	(11,901,712)
Profit for the year		**11,451,624**	662,516,475
Attributable to:			
Owners of the Company		**8,169,030**	665,489,888
Non-controlling interests		**3,282,594**	(2,973,413)
Profit for the year		**11,451,624**	662,516,475
Earnings per share			
– Basic	19	**1.59 HK cents**	1.38 HK dollars
– Diluted	19	**1.59 HK cents**	1.36 HK dollars

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 HK$	2010 HK$
Profit for the year	**11,451,624**	662,516,475
Other comprehensive income for the year, net of income tax:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**13,853,356**	10,098,045
Total comprehensive income for the year	**25,304,980**	672,614,520
Attributable to:		
Owners of the Company	**17,772,852**	674,732,056
Non-controlling interests	**7,532,128**	(2,117,536)
Total comprehensive income for the year	**25,304,980**	672,614,520

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	**2011 HK$**	2010 HK$
Non-current assets			
Fixed assets			
– Property, plant and equipment	20	**75,244,601**	61,708,667
– Interests in leasehold land held for own use under operating leases	20	**14,601,285**	22,493,719
Deposits paid for acquisition of property, plant and equipment		**24,130,373**	20,650,298
Construction in progress	21	**8,692,904**	630,284
Intangible assets	22	**83,514,090**	85,026,226
Goodwill	23	**5,297,450**	5,048,158
Interests in jointly controlled entities	25	**–**	53,374,038
		211,480,703	248,931,390
Current assets			
Inventories	27	**45,470,908**	30,967,325
Trade receivables, prepayments and other receivables	28	**581,809,333**	640,088,939
Loan receivable	29	**11,000,400**	11,000,400
Cash and cash equivalents	30	**45,401,132**	141,217,189
		683,681,773	823,273,853
Asset classified as held for sale	31	**25,176,074**	–
		708,857,847	823,273,853
Current liabilities			
Trade and other payables	32	**120,988,055**	202,252,051
Current tax payable	26	**556,846**	183,200
Bank loans	33	**36,506,173**	50,211,118
Other loans	34	**13,703,704**	13,676,709
Convertible preferred shares	36	**–**	80,572,775
		171,754,778	346,895,853
Net current assets		**537,103,069**	476,378,000
Total assets less current liabilities		**748,583,772**	725,309,390

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	**2011 HK$**	2010 HK$
Non-current liabilities			
Deferred tax liabilities	26	**20,965,558**	18,264,613
NET ASSETS		**727,618,214**	707,044,777
Capital and reserves			
Share capital	40	**5,138,489**	5,138,489
Reserves	40	**670,030,895**	659,965,776
Total equity attributable to owners of the Company		**675,169,384**	665,104,265
Non-controlling interests		**52,448,830**	41,940,512
TOTAL EQUITY		**727,618,214**	707,044,777

Approved and authorised for issue by the board of directors on 23 March 2012

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

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 HK$	2010 HK$
Non-current assets			
Investments in subsidiaries	24	**37,265,316**	37,265,316
Current assets			
Trade receivables, prepayments and other receivables	28	**633,045,278**	698,196,995
Cash and cash equivalents	30	**18,839,648**	2,562,934
		651,884,926	700,759,929
Current liabilities			
Trade and other payables	32	**12,427,897**	74,626,764
Net current assets		**639,457,029**	626,133,165
NET ASSETS		**676,722,345**	663,398,481
Capital and reserves			
Share capital	40	**5,138,489**	5,138,489
Reserves	40	**671,583,856**	658,259,992
TOTAL EQUITY		**676,722,345**	663,398,481

Approved and authorised for issue by the board of directors on 23 March 2012

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company										
	Share capital HK$	Share premium HK$	Merger reserve HK$	Statutory surplus reserve HK$	Capital reserve HK$	Exchange reserve HK$	Other reserve HK$	Retained profits HK$	Sub-total HK$	Non-controlling interests HK$	Total HK$
At 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
Profit for the year	–	–	–	–	–	–	–	665,489,888	665,489,888	(2,973,413)	662,516,475
Other comprehensive income for the year, net of income tax:											
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	–	–	9,242,168	–	–	9,242,168	855,877	10,098,045
Total comprehensive income/(loss) for the year	–	–	–	–	–	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
Dividend paid during year	–	–	–	–	–	–	–	(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 and 1 January 2011	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
Profit for the year	–	–	–	–	–	–	–	8,169,030	8,169,030	3,282,594	11,451,624
Other comprehensive income for the year, net of income tax:											
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	–	–	9,603,822	–	–	9,603,822	4,249,534	13,853,356
Total comprehensive income for the year	–	–	–	–	–	9,603,822	–	8,169,030	17,772,852	7,532,128	25,304,980
Dividend paid during year	–	–	–	–	–	–	–	(7,707,733)	(7,707,733)	–	(7,707,733)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	2,976,190	2,976,190
Appropriations to statutory reserve	–	–	–	2,013,384	–	–	–	(2,013,384)	–	–	–
At 31 December 2011	**5,138,489**	**249,722,557**	**–**	**6,371,715**	**–**	**26,385,275**	**(26,927,346)**	**414,478,694**	**675,169,384**	**52,448,830**	**727,618,214**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$	2010 HK$
Operating activities		
Profit before taxation	**15,805,430**	674,418,187
Adjustments for:		
– Depreciation	**8,997,825**	29,029,975
– Amortisation of intangible assets	**9,473,631**	46,377,681
– Amortisation of land held for own use under an operating leases	**1,091,972**	1,730,045
– Finance costs	**7,987,414**	16,237,700
– Bank interest income	**(214,512)**	(175,278)
– Interest income from promissory notes	**(26,981,118)**	–
– Share of losses of jointly controlled entities	**185,760**	1,050,178
– Loss on disposal of property, plant and equipment	**812,739**	3,731,716
– Gain on disposal of interest in leasehold land held for own use under an operating lease	**(239,459)**	–
– Equity-settled share-based payment expenses	**–**	203,468
– Gain on disposal of subsidiaries	**–**	(698,774,515)
– Net changes in fair value of convertible preferred shares	**(6,386,506)**	26,336,283
– Loss on purchase of convertible preferred shares	**6,386,506**	28,328,704
– Gain on disposal of other non-current financial assets	**–**	(6,767)
– Loss on early redemption of convertible notes	**–**	209,401
– Reversal of impairment loss in respect of trade receivables	**(404,470)**	–
– Impairment loss recognised in respect of asset classified as held for sale	**25,629,325**	–
Operating profit before changes in working capital	**42,144,537**	128,696,778
Increase in inventories	**(14,503,583)**	(58,201,511)
(Increase)/decrease in trade receivables, prepayments and other receivables	**(16,871,059)**	299,781,103
(Decrease)/increase in trade and other payables	**(73,056,544)**	94,738,931
Cash (used in)/generated from operations	**(62,286,649)**	465,015,301
PRC income tax paid	**(2,211,025)**	(6,056,209)
Withholding tax paid	**–**	(1,917,653)
Net cash (used in)/generated from operating activities	**(64,497,674)**	457,041,439
Investing activities		
Payment for purchase of property, plant and equipment	**(20,033,904)**	(48,569,312)
Payment for construction in progress	**(8,692,904)**	(25,597,879)
Payment for purchase of intangible assets	**(3,738,792)**	(15,837,206)
Increase in deposits paid for acquisition of property, plant and equipment	**(3,480,075)**	(11,031,538)
Proceeds from disposal of property, plant and equipment	**248,759**	55,430
Proceeds from promissory notes received	**66,364,689**	–
Net cash inflow from disposal of subsidiaries	**–**	252,158,659
Bank interest received	**214,512**	175,278
Interest received from promissory notes	**25,375,184**	–
Proceeds from disposal of other non-current financial assets	**–**	77,355
Net cash generated from investing activities	**56,257,469**	151,430,787

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$	2010 HK$
Financing activities		
Decrease in pledged bank deposits	–	33,713,067
Proceeds from new bank loans	**40,209,876**	256,849,590
Repayments of bank loans	**(53,914,821)**	(239,459,671)
Proceeds from other loans	**13,703,704**	11,185,934
Repayments of other loans	**(13,676,709)**	(270,588)
Proceeds from shares issued under share option scheme	–	42,453,864
Redemption of convertible notes	–	(18,256,000)
Repayment of purchase of convertible preferred shares	**(69,776,395)**	(59,944,103)
Interests paid	**(7,987,414)**	(13,464,915)
Capital contribution from non-controlling interests	**2,976,190**	–
Dividends paid	**(7,707,733)**	(520,709,721)
Net cash used in financing activities	**(96,173,302)**	(507,902,543)
Net (decrease)/increase in cash and cash equivalents	**(104,413,507)**	100,569,683
Effect of foreign exchange rate changes	**8,597,450**	664,903
Cash and cash equivalents at 1 January	**141,217,189**	39,982,603
Cash and cash equivalents at 31 December	**45,401,132**	141,217,189

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

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 2011, the directors consider the immediate parent and ultimate controlling party of the Company and its subsidiaries (together referred to as 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2011.

HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The principal effects of adopting these new HKFRSs are as follows:

HKAS 24 (revised 2009) simplifies the definition of "related party" and removes inconsistencies, which emphasises a symmetrical view of related party transactions. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the group is related, or transactions with other entities related to the same government. These amendments have had no material impact on the Group's consolidated financial statements.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the consolidated financial statements in the current and previous periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The adoption of these new HKFRSs had no material effect on the results and the financial position of the Group for the current or prior accounting period. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]
HKFRS 7 (Amendments)	Disclosure – Transfers of Financial Assets[1]
	Disclosure – Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2015, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

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 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 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 affected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

For other new HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

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 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 Group is set out below.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries and the Group's interest in jointly controlled entities.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that convertible preferred shares and certain financial instruments are stated at their fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 judgments, 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 judgments 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.

Judgments 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 to the consolidated financial statements.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Basis of consolidation *(Continued)*

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

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.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). 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.

(d) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Business combination *(Continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquire or share-base payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Jointly controlled entities

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

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of 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 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 consolidated statement of financial position, its investments in jointly controlled entities are stated at cost less impairment losses.

(f) 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. 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.

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)*

(g) 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.

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.

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.

(h) Construction in progress

Construction in progress represents buildings under construction and equipment pending installation, and is stated at cost less impairment losses. 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.

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3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Intangible assets (other than goodwill)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – development costs

Expenditure on development activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated.

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible assets will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Intangible assets (other than goodwill) *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at fair value at the acquisition date (which is regarded as their cost).

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measure as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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 periodically.

(j) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries) and other current and non-current receivables that are stated at cost or amortised cost 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.

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3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) 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, the impairment loss is measured by comparing the recoverable amount 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.

– 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)*

(j) 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 held for own use under operating leases;

– intangible assets;

– investments in subsidiaries;

– goodwill; and

– asset classified as held for sale.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) 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.

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.

(k) Leased assets

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

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.

(l) Inventories

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(m) 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, 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.

(n) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(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. 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Employee benefits *(Continued)*

(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).

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(u) Income tax *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(v) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to settled the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(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.

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3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(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.

(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

A party is considered to be related to the Group if:

(1) A person or a close member of that person's family is related to the Group of that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(z) Related parties *(Continued)*

(2) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(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 5 and 23 contain information about the assumptions and the risk factors relating to financial instruments and goodwill impairment. 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.

(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 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.

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(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 to the consolidated financial statements. 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, cash and cash equivalents, trade and other payables, bank loans, other loans 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		The Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables				
(including cash and cash equivalents)	**631,953,981**	783,926,562	**651,884,926**	700,759,929
Financial liabilities				
Amortised costs	**161,229,849**	256,969,872	**12,427,897**	74,626,764
Fair value through profit or loss				
– Convertible preferred shares	**–**	80,572,775	**–**	–

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 38% (2010: 17%) and 66% (2010: 51%) of the total trade 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 consolidated 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 receivables are set out in note 28 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 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

At 31 December 2011

	Weighted average effective interest rate %	On demand or less than 1 year HK$	2 to 5 years HK$	Over 5 years HK$	Total undiscounted cash flow HK$	Total carrying amount HK$
Non-derivative financial liabilities						
Trade and other payables	–	111,019,972	–	–	111,019,972	111,019,972
Bank loans	7.79%	37,576,229	–	–	37,576,229	36,506,173
Other loans	–	13,703,704	–	–	13,703,704	13,703,704
		162,299,905	–	–	162,299,905	161,229,849

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

(b) Liquidity risk *(Continued)*

The Company

At 31 December 2011

	Weighted average effective interest rate %	On demand or less than 1 year HK$	2 to 5 years HK$	Over 5 years HK$	Total undiscounted cash flow HK$	Total carrying amount HK$
Non-derivative financial liabilities						
Amounts due to subsidiaries	–	6,063,872	–	–	6,063,872	6,063,872
Other payables	–	6,364,025	–	–	6,364,025	6,364,025
		12,427,897	–	–	12,427,897	12,427,897

The Group

At 31 December 2010

	Weighted average effective interest rate %	On demand or less than 1 year HK$	2 to 5 years HK$	Over 5 years HK$	Total undiscounted cash flow HK$	Total carrying amount HK$
Non-derivative financial liabilities						
Trade and other payables	–	193,082,045	–	–	193,082,045	193,082,045
Bank loans	8.12%	52,270,273	–	–	52,270,273	50,211,118
Other loans	–	13,676,709	–	–	13,676,709	13,676,709
		259,029,027	–	–	259,029,027	256,969,872

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

(b) Liquidity risk *(Continued)*

The Company

At 31 December 2010

	Weighted average effective interest rate %	On demand or less than 1 year HK$	2 to 5 years HK$	Over 5 years HK$	Total undiscounted cash flow HK$	Total carrying amount HK$
Non-derivative financial liabilities						
Amounts due to subsidiaries	–	8,739,714	–	–	8,739,714	8,739,714
Other payables	–	65,887,050	–	–	65,887,050	65,887,050
		74,626,764	–	–	74,626,764	74,626,764

(c) Currency risk

The Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the respective subsidiaries. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(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 short-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$120,802 (2010: HK$95,111). This is mainly attributable to the Group's exposure to interest rates on its variable rate short-term borrowings.

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

(e) Fair values

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

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rate from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes option pricing model and Binominal option pricing model).

The directors consider that the carrying amounts of financial assets and financial liabilities that recorded in the consolidated financial statements approximately their fair values.

(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).

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

(e) Fair values *(Continued)*

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

At 31 December 2011

The Group

There is no financial asset and financial liabilities measured at fair value under Level 3 as at 31 December 2011.

The movement during the year ended 31 December 2011 in the balance of Level 3 fair value measurement is as follows:

	Redemption and conversion components embedded in convertible preferred shares HK$
At 1 January 2011	80,572,775
Change in fair value recognised in profit or loss	(6,386,506)
Release upon on purchase	(74,186,269)
At 31 December 2011	–

At 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

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

(e) Fair values *(Continued)*

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

The Group

The movement during the year ended 31 December 2010 in the balance of Level 3 fair value measurements is as follows:

	Conversion option embedded in convertible notes HK$	Redemption and conversion components embedded in convertible preferred shares HK$	Total HK$
At 1 January 2010	(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
Repayment of upon on purchase/early redemption	257,316	(42,668,342)	(42,411,026)
At 31 December 2010	–	80,572,775	80,572,775

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

6. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision makers, 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 to the consolidated financial statements.

6. SEGMENT INFORMATION *(CONTINUED)*

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 is one (2010: 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:

	2011	2010
	HK$	HK$
The PRC	**290,767,562**	805,620,939
Iran	–	4,185,473
Korea	–	4,038,267
Others	–	1,845,880
	290,767,562	815,690,559

Information about major customers

For the year ended 31 December 2011, revenue generated from three (2010: two) customers of the Group amounting to HK$264,985,415 (2010: HK$209,441,729) 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 2011 and 2010.

Revenue from major customers of them amounted to 10% or more of the Group's revenue, are set out below:

	2011	2010
	HK$	HK$
Customer A	**126,836,778**	–
Customer B	**79,857,230**	–
Customer C	**58,291,407**	–
Customer D	–	124,064,433
Customer E	–	85,377,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. TURNOVER

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

An analysis of turnover is as follows:

	2011 HK$	2010 HK$
Sales of automotive safety system components and other automotive components	**164,385,305**	279,483,091
Sales of electronic airbag systems	**126,382,257**	521,795,954
Sales of mechanical airbag systems	**–**	14,411,514
	290,767,562	815,690,559

8. OTHER REVENUE

	2011 HK$	2010 HK$
Experiment fee income	**14,560,241**	11,767,486
Interest income from promissory notes	**26,981,118**	–
Bank interest income	**214,512**	175,278
Subsidy income	**–**	574,713
Sundry income	**4,302,416**	3,937,675
	46,058,287	16,455,152

9. OTHER NET (LOSS)/INCOME

	2011 HK$	2010 HK$
Reversal of impairment loss in respect of trade receivables	**404,470**	–
Gain on disposal of interest in leasehold land held for own use under an operating lease	**239,459**	–
Net foreign exchange loss	**(150,947)**	(328,045)
Loss on disposal of property, plant and equipment	**(812,739)**	(3,731,716)
Impairment loss recognised in respect of asset classified as held for sale	**(25,629,325)**	–
Gain on disposal of subsidiaries *(note 41)*	**–**	698,774,515
Loss on early redemption of convertible notes	**–**	(209,401)
Net fair value change on convertible preferred shares	**6,386,506**	(26,336,283)
Loss on purchase of convertible preferred shares	**(6,386,506)**	(28,328,704)
Others	**–**	(3,418)
	(25,949,082)	639,836,948

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10. RESEARCH AND DEVELOPMENT EXPENSES

	2011 HK$	2010 HK$
Research and development costs incurred	**18,356,650**	68,800,425
Less: development costs capitalised during the year *(note 22)*	**(3,738,792)**	(15,837,206)
	14,617,858	52,963,219

11. STAFF COSTS

	2011 HK$	2010 HK$
Salaries, wages and bonuses	**21,621,334**	46,366,768
Equity-settled share-based payment expenses	**–**	203,468
Staff welfare	**4,065,527**	8,036,562
Contributions to retirement benefits schemes	**483,139**	2,613,138
	26,170,000	57,219,936

12. FINANCE COSTS

	2011 HK$	2010 HK$
Interest expense on bank loans wholly repayable within five years	**4,026,206**	10,330,210
Interest expense on convertible notes	**–**	2,772,785
Interest expense on other loans	**669,846**	–
Discounting charges on discounted bills	**3,291,362**	3,134,705
	7,987,414	16,237,700

13. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2011 HK$	2010 HK$
Auditors' remuneration	**600,000**	600,000
Depreciation of property, plant and equipment	**8,997,825**	29,029,975
Amortisation of leasehold land held for own use under operating leases	**1,091,972**	1,730,045
Amortisation of intangible assets *(note 22)*		
– Acquired technology	**846,167**	1,151,320
– Development costs	**4,215,622**	40,915,642
– Patents	**4,411,842**	4,310,719
Royalty expenses	**–**	360,351
Operating lease charges in respect of rented properties	**4,009,844**	2,238,178

14. TAXATION

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

	2011 HK$	2010 HK$
Current tax		
PRC enterprise income tax for the year *(note 26(a))*	**2,584,671**	8,307,636
Deferred tax		
Origination and reversal of temporary differences *(note 26(b))*	**1,769,135**	3,594,076
Total income tax expense	**4,353,806**	11,901,712

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:

	Note	**2011**	2010
Jinzhou Jinheng Automotive Safety System Co., Limited ("Jinheng Automotive")	(ii) & (iii)	–	15%
Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")	(i) & (iii)	–	11%
Harbin Hafei Jinheng Automotive Safety System Co., Limited ("Hafei Jinheng")	(iii)	–	25%
Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega")	(iii)	–	25%
Shenyang Jinheng Jinsida Automotive Electronic Co., Limited ("Jinheng Jinsida")	(ii)	**12%**	11%
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Limited ("Beijing Great Idea")	(i)	**12%**	11%
Troitec Automotive Electronics Co., Ltd. ("Troitec")	(ii)	**12%**	11%
Shanxi Winner Auto-Parts Limited ("Shanxi Winner")	(ii)	**15%**	11%
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 and Beijing Great Idea are in the fifth year and fourth year of their tax holidays, respectively.

(ii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. According to the New Tax Law, from 1 January 2008, the standard corporate income tax rate for enterprises in the PRC was reduced from 33% to 25%. Further, the State Council released the Implementation Rules to the Corporate Income Tax Law on 6 December 2007 and the Notice on the Implementation Rules of the Grandfathering Relief under the Corporate Income Tax Law (Guo Fa [2007] No.39) on 26 December 2007 (collectively, the "Implementation Rules").

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

Jinheng Automotive and Shanxi Winner are an "encouraged hi-tech enterprise" and entitles to reduce the tax rate to 15% from 2009 to 2011 and from 2011 to 2013 respectively.

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 and Beijing Great Idea 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.

(iii) These companies were disposed during the year ended 31 December 2010.

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

	2011 **HK$**	2010 HK$
Profit before taxation	**15,805,430**	674,418,187
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**4,450,537**	157,804,114
Underprovision of tax in prior years	**235,261**	33,539
Tax effect of non-deductible expenses	**4,192,752**	7,444,994
Tax effect of non-taxable revenue	**(4,527,350)**	(148,200,334)
Tax effect of tax concessions	**(3,277,423)**	(8,427,427)
Tax effect of unrecognised temporary differences and tax losses	**2,473,923**	479,316
Tax effect of share of profits of subsidiaries *(note i)*	**806,106**	2,805,957
Others	**–**	(38,447)
Taxation	**4,353,806**	11,901,712

14. TAXATION *(CONTINUED)*

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

Note:

(i) Tax effect of share of 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 2011, withholding tax of HK$806,106 (2010: HK$2,805,957) is recognised.

15. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2011

	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. Yang Donglin	–	258,000	–	–	–	258,000
Mr. Foo Tin Chung, Victor	–	741,000	–	–	12,000	753,000
Non-executive director						
Mr. Li Hong	210,000	–	–	–	–	210,000
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	490,008	2,679,000	–	–	12,000	3,181,008

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15. DIRECTORS' REMUNERATION *(CONTINUED)*

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

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

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 (2010: Nil).

16. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2010: five) 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 2011 and 2010 is as follows:

	2011	2010
	HK$	HK$
Salaries and other emoluments	**724,877**	–
Contribution to retirement scheme	**9,300**	–
	734,177	–

The above individual's emoluments in 2011 were within the band of HK$1 to HK$500,000.

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

17. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company includes a profit of HK$21,031,597 (2010: profit of HK$879,629,337) 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:

	2011	2010
	HK$	HK$
Amount of profit attributable to owners of the Company dealt with in the Company's financial statements	**21,031,597**	879,629,337
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	–	40,000,000
Company's profit for the year *(note 40)*	**21,031,597**	919,629,337

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18. DIVIDENDS

(a) Dividends attributable to the year

	2011 HK$	2010 HK$
Final dividend proposed after the end of the reporting period of 1.5 HK cents per share (2010: 1.5 HK cents per share)	**7,707,733**	7,707,733

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 in cash were paid during the year ended 31 December 2010.

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

	2011 HK$	2010 HK$
Final dividend in respect of the previous financial year, approved and paid during the year of 1.5 HK cents per share (2010: 1.5 HK cents per share)	**7,707,733**	6,860,833

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$8,169,030 (2010: HK$665,489,888) and the weighted average of 513,848,888 (2010: 481,831,457) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares	
	2011	2010
Issued ordinary shares at 1 January	**513,848,888**	443,500,000
Effect of share options exercised *(note 39)*	–	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	**513,848,888**	481,831,457

19. EARNINGS PER SHARE *(CONTINUED)*

(b) Diluted earnings per share

For the year ended 31 December 2011, diluted earnings per share are the same as the basic earnings per share as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2011.

For the year ended 31 December 2010, the calculation of diluted earnings per share is based on the profit attributable to owners of the Company of HK$665,489,888 and the weighted average number of ordinary shares of 489,267,612 ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Number of shares	
	2011	2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	**513,848,888**	481,831,457
Effect of deemed issue of ordinary shares under the Company's share option schemes for nil consideration *(note 39)*	–	7,436,155
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**513,848,888**	489,267,612

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20. FIXED ASSETS

The Group

	Buildings held for own use HK$	Machinery and equipment HK$	Motor vehicles HK$	Office equipment HK$	Sub-total HK$	Interests in leasehold land held for own use under an operating leases HK$	Total HK$
Cost:							
At 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 and 1 January 2011	20,315,405	49,831,649	7,262,468	10,247,056	87,656,578	25,715,116	113,371,694
Additions	–	13,977,630	4,899,956	1,156,318	20,033,904	–	20,033,904
Transfer from construction in progress *(note 21)*	–	661,409	–	–	661,409	–	661,409
Exchange alignment	1,065,053	2,957,643	212,316	514,400	4,749,412	1,315,772	6,065,184
Disposals	–	(518,207)	(819,272)	(624,683)	(1,962,162)	(8,342,853)	(10,305,015)
At 31 December 2011	21,380,458	66,910,124	11,555,468	11,293,091	111,139,141	18,688,035	129,827,176
Accumulated depreciation:							
At 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 and 1 January 2011	2,059,187	18,449,373	770,536	4,668,815	25,947,911	3,221,397	29,169,308
Charge for the year	994,038	5,956,981	673,751	1,373,055	8,997,825	1,091,972	10,089,797
Exchange alignment	210,628	1,291,586	91,933	255,321	1,849,468	148,241	1,997,709
Written back on disposal	–	(145,520)	(622,295)	(132,849)	(900,664)	(374,860)	(1,275,524)
At 31 December 2011	3,263,853	25,552,420	913,925	6,164,342	35,894,540	4,086,750	39,981,290
Carrying amounts:							
At 31 December 2011	**18,116,605**	**41,357,704**	**10,641,543**	**5,128,749**	**75,244,601**	**14,601,285**	**89,845,886**
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

20. FIXED ASSETS *(CONTINUED)*

(a) At 31 December 2011, 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 Shanxi in the PRC.

At 31 December 2010, 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) At 31 December 2011, leasehold lands with carrying amount of HK$14,601,285 (2010: HK$22,493,719) are situated outside Hong Kong under medium-term leases.

21. CONSTRUCTION IN PROGRESS

The Group

	2011	2010
	HK$	HK$
Cost:		
At 1 January	**630,284**	39,099,757
Exchange alignment	**31,125**	230,682
Additions	**8,692,904**	25,597,879
Transfer to fixed assets *(note 20)*	**(661,409)**	(33,658,587)
Disposal of subsidiaries	–	(30,639,447)
At 31 December	**8,692,904**	630,284

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22. INTANGIBLE ASSETS

The Group

	Acquired technology HK$	Development costs HK$	Patents HK$	Total HK$
Cost:				
At 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 and 1 January 2011	4,991,031	48,115,405	75,390,589	128,497,025
Exchange alignment	265,464	2,376,069	3,722,993	6,364,526
Additions *(note 10)*	–	3,738,792	–	3,738,792
At 31 December 2011	5,256,495	54,230,266	79,113,582	138,600,343
Accumulated amortisation:				
At 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 and 1 January 2011	4,184,685	23,130,987	16,155,127	43,470,799
Exchange alignment	225,643	1,009,461	906,719	2,141,823
Charge for the year	846,167	4,215,622	4,411,842	9,473,631
At 31 December 2011	5,256,495	28,356,070	21,473,688	55,086,253
Carrying amounts:				
At 31 December 2011	**–**	**25,874,196**	**57,639,894**	**83,514,090**
At 31 December 2010	806,346	24,984,418	59,235,462	85,026,226

22. INTANGIBLE ASSETS *(CONTINUED)*

Acquired technology comprises the following:

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.

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$9,353,525 (2010: HK$29,572,485), HK$120,106 (2010: HK$16,510,246) and nil (2010: HK$294,950) are included in "cost of sales", "research and development expenses" and "administrative expenses" respectively.

23. GOODWILL

The Group

	2011 **HK$**	2010 HK$
At 1 January	**5,048,158**	5,085,367
Disposal of subsidiaries	**–**	(210,501)
Exchange alignment	**249,292**	173,292
At 31 December	**5,297,450**	5,048,158

23. GOODWILL *(CONTINUED)*

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 periodically 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 2012 to 2016. 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

	2011 **HK$**	2010 HK$
Unlisted shares, at cost	**37,265,316**	37,265,316

24. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Details of the subsidiaries as at 31 December 2011 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$46,211,000	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
Smooth Ever Limited ("Smooth Ever")	British Virgin Islands, limited liability company	US$1	100	100	–	Investment holding in Hong Kong

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24. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name of company	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest %	Proportion of ownership interest: Held by the Company %	Proportion of ownership interest: Held by subsidiary %	Principal activities and place of operation
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

	2011 HK$	2010 HK$
Share of net assets	33,199,100	28,915,845
Amount due (to)/from a jointly controlled entity	(210,475)	6,641,419
Goodwill	17,816,774	17,816,774
	50,805,399	53,374,038
Less: Transfer to the asset classified as held for sale *(note 31)*	(50,805,399)	–
	–	53,374,038

During the year ended 31 December 2011, the following Group's interest in the jointly controlled entity was transferred to the asset classified as held for sale:

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

Summarised financial information in respect of the Group's effective interest on jointly controlled entities before transferred to the asset classified as held for sale:

	2011 HK$	2010 HK$
Non-current assets	40,150,539	49,250,303
Current assets	100,735,902	76,356,811
Non-current liabilities	(3,881,179)	(5,199,780)
Current liabilities	(103,806,162)	(91,491,489)
Net assets	33,199,100	28,915,845
Income	64,715,132	59,883,808
Expenses	(64,900,892)	(60,933,986)
Loss for the year	(185,760)	(1,050,178)
Other comprehensive income, net of income tax	1,454,586	632,889

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

The Group

	2011	2010
	HK$	HK$
At 1 January	**183,200**	(2,544,478)
Provision for PRC income tax for the year *(note 14)*	**2,584,671**	8,307,636
Disposal of subsidiaries	**–**	476,251
PRC income tax paid	**(2,211,025)**	(6,056,209)
At 31 December	**556,846**	183,200

(b) Deferred tax (assets)/liabilities recognised

The Group

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

	Provisions	Development costs	Acquired technology and patents	Fixed assets	Tax losses	Unremitted earnings	Others	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
At 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 and 1 January 2011	–	6,844,498	14,808,866	1,707,425	(7,265,766)	889,772	1,279,818	18,264,613
Charged/(credit) to consolidated income statement *(note 14)*	–	(869,270)	(551,481)	(81,919)	639,307	806,106	1,826,392	1,769,135
Exchange alignment	–	384,024	731,302	93,589	(338,152)	–	61,047	931,810
At 31 December 2011	**–**	**6,359,252**	**14,988,687**	**1,719,095**	**(6,964,611)**	**1,695,878**	**3,167,257**	**20,965,558**

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

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

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

	2011	2010
	HK$	HK$
Net deferred tax liabilities recognised in the consolidated statement of financial position	**20,965,558**	18,264,613

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 3, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK77,248,688 (2010: HK$63,602,355) 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 2011 and 2010.

27. INVENTORIES

	The Group	
	2011	2010
	HK$	HK$
Raw materials	**26,999,023**	25,556,593
Work-in-progress	**6,093,535**	3,171,336
Finished goods	**10,786,236**	2,194,430
Spare parts and consumables	**1,592,114**	44,966
	45,470,908	30,967,325

The amount of inventories recognised as an expense amounted to HK$182,702,085 during the year ended 31 December 2011 (2010: HK$589,267,199).

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28. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Trade receivables	**135,303,930**	122,395,203	–	–
Less: allowance for doubtful debts	**(1,128,689)**	(1,533,159)	–	–
	134,175,241	120,862,044	–	–
Bills receivable	**38,000,782**	36,902,523	–	–
	172,176,023	157,764,567	–	–
Amounts due from subsidiaries	–	–	**245,728,757**	245,939,400
Prepayments	**6,256,884**	8,379,966	–	–
Promissory note receivables	**385,635,311**	452,000,000	**385,635,311**	452,000,000
Other receivables	**17,741,115**	21,944,406	**1,681,210**	257,595
	581,809,333	640,088,939	**633,045,278**	698,196,995

As at 31 December 2010, included in trade receivables are the amount due from related company of HK$5,624,913 *(see note 43(c))*.

The amounts due from subsidiaries are unsecured, interest free and receivable on demand.

The Company and the promissory note issuer (the "Note Issuer") entered into a deed of modification, pursuant to which the Company and the Note Issuer have conditionally agreed to amend the existing terms of the promissory note, including the inclusion of interest rate (bearing no interest amount to 8% per annum) and the extension of maturity date (being 12 March 2011 extend to 12 June 2012), with effect from the 12 March 2011. As at 31 December 2011, the promissory note receivables are interest-bearing at the rate of 8% per annum accrued daily on the outstanding principal amount on 365-day year basis (2010: Nil) and mature on 12 June 2012. The promissory note is secured by entire issued share capital of Jinheng (BVI) Limited *(see note 41).*

As at 31 December 2011, HK$8,780,580 (2010: Nil) of trade receivables were pledged to a bank to secure short-term bank loans as set out in note 33 to the consolidated financial statement.

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

28. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

(a) Ageing analysis

The aging analysis of trade receivables, based on the invoice date, and net of allowance for doubtful debts, is as follows:

	The Group	
	2011	2010
	HK$	HK$
Within 3 months	**112,423,075**	79,542,828
Over 3 months but less than 6 months	**13,166,757**	40,914,513
Over 6 months but less than 12 months	**8,585,409**	404,703
	134,175,241	120,862,044

The Group generally grants a credit period of not more than 90 to 180 days from date of billing. Further details on the Group's credit policy are set out in note 5.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables 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 directly.

The aged analysis of the Group's trade receivables which are impaired is presented as follows:

	The Group	
	2011	2010
	HK$	HK$
Overdue by:		
Over 6 months but less than 12 months	–	1,033
Over 12 months	**1,128,689**	1,532,126
	1,128,689	1,533,159

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

	The Group	
	2011	2010
	HK$	HK$
At 1 January	**1,533,159**	4,883,878
Impairment losses reversed	**(404,470)**	–
Disposal of subsidiaries	–	(3,350,719)
At 31 December	**1,128,689**	1,533,159

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28. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

(b) Impairment of trade receivables *(continued)*

At 31 December 2011, the Group's trade receivables of HK$1,128,689 (2010: HK$1,533,159) 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$1,128,689 (2010: HK$1,533,159) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

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

	The Group	
	2011	2010
	HK$	HK$
Neither past due nor impaired	**112,423,076**	116,445,350
Overdue by:		
Less than 3 month past due	**13,166,757**	4,011,991
3 to 12 months past due	**8,585,408**	404,703
	21,752,165	4,416,694
Total	**134,175,241**	120,862,044

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.

29. LOAN RECEIVABLE

As at 31 December 2011, a loan of HK$11,000,400 (2010: HK$11,000,400) was advanced to a minority shareholder of Honest Bright. The loan receivable carries interest at 2.5% (2010: 2.5%) per annum and is recoverable on demand. The loan receivable is secured by the 48.8% (2010: 48.8%) equity interests in Honest Bright held by this minority shareholder.

30. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Cash and cash equivalents in the statement of financial position and statement of cash flows	**45,401,132**	141,217,189	**18,839,648**	2,562,934

Cash and cash equivalents of the Group of HK$10,473,125 (2010: HK$8,989,280) 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.

31. ASSET CLASSIFIED AS HELD FOR SALE

	2011	2010
	HK$	HK$
Asset related to interests in jointly controlled entity	**25,176,074**	–

Note:

On 28 December 2011, the Group entered into sale and purchase agreement with independent third parties to disposal of its 50% equity interests of Yantai Vast for cash consideration of RMB20,600,000 (equivalent to approximately of HK$25,432,000). Impairment loss of HK$25,629,325 was recognised on reclassification of the interests in jointly controlled entity to asset classified as held for sale during the year ended 31 December 2011.

32. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Trade payables	**69,452,194**	73,315,406	–	–
Amounts due to subsidiaries	–	–	**6,063,872**	8,739,714
Other payables and accruals	**51,535,861**	128,936,645	**6,364,025**	65,887,050
	120,988,055	202,252,051	**12,427,897**	74,626,764

As at 31 December 2011, included in other payables and accruals are amount due to a related company of HK$10,000,000 (2010: HK$10,000,000) *(see note 43(d))*.

32. TRADE AND OTHER PAYABLES *(CONTINUED)*

As at 31 December 2011, included in other payables are deferred income of HK$558,445 (2010: HK$253,540), HK$2,951,807 (2010: HK$5,453,667) and HK$6,457,831 (2010: HK$3,462,799) related to government grant received for subsidising the construction of production plants and product development of subsidiaries in Beijing, Shanxi and Tianjian respectively, the PRC.

The amounts due to subsidiaries were unsecured, interest free and repayable on demand.

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables is as follows:

	The Group	
	2011	2010
	HK$	HK$
Within 3 months	**57,147,234**	65,193,848
Over 3 months but less than 6 months	**6,805,716**	1,900,731
Over 6 months but less than 12 months	**963,589**	1,065,224
Over 1 year	**4,535,655**	5,155,603
	69,452,194	73,315,406

33. BANK LOANS

The bank loans are repayable as follows:

	The Group	
	2011	2010
	HK$	HK$
Current		
Short term bank loans:		
– secured *(notes (a) and (b))*	**20,456,790**	34,328,765
– unsecured *(notes (c) and (d))*	**16,049,383**	15,882,353
	36,506,173	50,211,118

33. BANK LOANS *(CONTINUED)*

The maturities of above bank loans are as follows:

	2011	2010
	HK$	HK$
Carrying amount repayable:		
On demand or within one year	**36,506,173**	50,211,118
Less: amounts shown under current liabilities	**(36,506,173)**	(50,211,118)
Amount due after one year	**–**	–

At 31 December 2011 and 2010, terms of bank loans were summarised as follows:

(a) Short-term secured bank loan of HK$6,790,123 (2010:HK$5,882,353) which carries variables interest rate at lending rate of The People's Bank of China (2010: fixed rates of 5.61%) per annum. As at 31 December 2011, the loan was secured by trade receivables of approximately of HK$8,780,580.

(b) Included in short-term secured bank loans are discounted bills with recourse of HK$13,666,667 (2010: HK$28,446,412) are secured by the related bills receivable.

(c) As at 31 December 2011, there was an unsecured bank loan of HK$12,345,679 and HK$3,703,704 carries interest at 6.56% and variables interest rate at lending rate of The People's Bank of China respectively per annum. As at 31 December 2010, there was a short-term unsecured bank loans of HK$11,764,706 which carry interest at 5.56% per annum are guaranteed by a third party.

(d) As at 31 December 2010, other unsecured bank loans totaling HK$4,117,647 carry interest at rate of 6.00% per annum.

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 (2010: Nil).

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.

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.

35. CONVERTIBLE NOTES *(CONTINUED)*

The movements of convertible notes during the year ended 31 December 2010 are as follows:

	Liability component HK$	**Derivative component** HK$	**Total** HK$
At 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, 1 January 2011 and 31 December 2011	–	–	–

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 2010, 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 2011, the Group has completed the acquisition of all Series A-1 Preferred Shares of Shiny Bright (the "Preferred Shares") from the holders of the Preferred Shares at a consideration of HK$80,572,775.

During the year ended 31 December 2010, the Group purchased 1,764,985 Preferred Shares 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.

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36. CONVERTIBLE PREFERRED SHARES *(CONTINUED)*

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

	2011	2010
	HK$	HK$
At 1 January	**80,572,775**	85,851,891
Return of repayment of purchase price	–	11,052,943
Release upon purchase	**(74,186,269)**	(42,668,342)
Change in fair value	**(6,386,506)**	26,336,283
At 31 December	–	80,572,775

37. CONTINGENT LIABILITIES

As at 31 December 2011 and 2010, the Group and the Company did not have any significant contingent liabilities.

38. 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.

39. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

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

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

(iii) the nominal value of a share.

(a) The terms and conditions of the grants that existed during the year ended 31 December 2010 are as follows, whereby all options are settled by physical delivery of shares:

Share Option Scheme

	Number of instruments	Vesting conditions and exercisable percentage condition	Up to %	Contractual life of options
Options granted to directors				
– on 23 August 2007	16,000,000	23 August 2007	30	5 years
		23 February 2008	60	
		23 August 2008	100	
Options granted to employees				
– on 23 August 2007	4,000,000	23 August 2007	30	5 years
		23 February 2008	60	
		23 August 2008	100	
– on 23 August 2007	200,000	23 August 2007	100	5 years
– on 11 November 2008	17,100,000	11 November 2008	20	3 years
		1 July 2009	60	
		1 July 2010	100	
Total share options	37,300,000			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

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

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

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

For the year ended 31 December 2010, the weighted average share price at the date of exercise for shares options exercised during the year was HK$1.14.

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.

40. 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 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 and 1 January 2011	5,138,489	249,722,557	–	408,537,435	663,398,481
Profit for the year	–	–	–	21,031,597	21,031,597
Dividends paid during the year	–	–	–	(7,707,733)	(7,707,733)
At 31 December 2011	**5,138,489**	**249,722,557**	**–**	**421,861,299**	**676,722,345**

40. CAPITAL AND RESERVES *(CONTINUED)*

(a) Share capital

(i) Authorised and issued share capital

	2011		2010	
	Number of shares	**HK$**	Number of shares	HK$
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000,000**	10,000,000,000	100,000,000
Issued:				
At 1 January	**513,848,888**	**5,138,489**	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**	513,848,888	5,138,489

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.

40. 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;

– 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.

(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.

(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; 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.

(c) Distributability of reserves

The Company had distributable reserves of HK$671,583,856 at 31 December 2011 (2010: HK$658,259,992), which include the Company's share premium and retained profits. After the end of the reporting period, the directors proposed a final dividend of 1.5 HK cents per ordinary share (2010: 1.5 HK cents per ordinary share), amounting to HK$7,707,733 (2010: HK$7,707,733). This dividend has not been recognised as a liability at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40. 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 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 2011, 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% (2010: 60%).

The net debt-to-adjusted capital ratio as at 31 December 2011 was as follows:

		The Group		**The Company**	
		2011	2010	**2011**	2010
	Note	**HK$**	HK$	**HK$**	HK$
Bank loans	33	**36,506,173**	50,211,118	**–**	–
Other loans	34	**13,703,704**	13,676,709	**–**	–
		50,209,877	63,887,827	**–**	–
Less: Cash and cash equivalents	30	**(45,401,132)**	(141,217,189)	**(18,839,648)**	(2,562,934)
Net debt		**4,808,745**	(77,329,362)	**(18,839,648)**	(2,562,934)
Total equity		**727,618,214**	707,044,777	**676,722,345**	663,378,481
Add: convertible preferred shares	36	**–**	80,572,775	**–**	–
Adjusted capital		**727,618,214**	787,617,552	**676,722,345**	663,378,481
Net debt-to-adjusted capital ratio		**0.7%**	(10%)	**(2.8%)**	(1%)

41. 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 property, plant and equipment	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 receivables, prepayments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

42. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding at 31 December 2011 and 2010 not provided for in the consolidated financial statements were as follows:

	The Group	
	2011	2010
	HK$	HK$
Contracted for property, plant and equipment but not provided for	**5,957,633**	8,472,685

(b) At 31 December 2011 and 2010, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

Properties

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Within 1 year	**1,616,420**	1,344,003	**255,840**	98,400
After 1 year but within 5 years	**1,565,071**	3,780,290	**138,580**	–
	3,181,491	5,124,293	**394,420**	98,400

The Group leases a number of properties and office equipment under operating leases for a period of 1 to 3 years (2010: 1 to 4 years).

43. 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
Li Feng ("Mr. Li")	Chairman and director of the Company
Ever Tech Holdings Limited ("Ever Tech")	Minority shareholder of Honest Bright In 2011
Jinzhou Jinheng Automotive Safety System Co., Limited ("Jinzhou Jinheng")	Common director of the Company and Jinzhou Jinheng

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

(a) Recurring

	The Group	
	2011	2010
	HK$	HK$
Purchases of raw materials from:		
– Taiyuan Aero	**–**	13,512,244
Sales of airbag systems or other automotive components to:		
– Hafei Motor	**–**	14,370,672
– Brilliance Jinbei	**–**	97,316,496
– Taiyuan Aero	**–**	17,868,388
– Jinzhou Jinheng	**126,836,778**	22,509,818
Rental expenses paid to:		
– Mr. Li	**–**	196,663

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43. 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	
	2011	2010
	HK$	HK$
Short-term employee benefits	**3,893,885**	4,017,087
Post-employment benefits	**21,300**	12,000
	3,915,185	4,029,087

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

(b) Non-recurring

(i) During the year ended 31 December 2011, Jinheng EMS (BVI), an indirect wholly-owned subsidiary of the Company, purchased 2,028,368 (2010: 1,764,985) Series A-1 Preferred Shares of Shiny Bright at a consideration of HK$80,572,775 (2010: 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) Amount due from a related company

	The Group	
	2011	2010
	HK$	HK$
Taiyuan Aero	–	5,624,913

The amounts due from Taiyuan Aero are trade-related, unsecured, interest free and are expected to be recovered within one year. These amounts are included in "Trade receivables, prepayments and other receivables" in the consolidated statement of financial position *(see note 28)*.

43. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Amount due to a related company

	The Group	
	2011	2010
	HK$	HK$
Ever Tech	**10,000,000**	10,000,000

The amount due to Ever Tech 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)*.

44. EVENTS AFTER THE REPORTING PERIOD

After the reporting date, the directors of the Company proposed a final dividend. Further details are disclosed in note 18.

45. COMPARATIVE

Certain comparative amounts have been reclassified to conform with the current year's presentation.

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. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 23 March 2012.

FIVE YEARS SUMMARY

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	2007 HK$	2008 HK$	2009 HK$	2010 HK$	**2011** **HK$**
OPERATING RESULTS					
Turnover	666,947,593	647,454,790	974,737,866	815,690,559	**290,767,562**
Profit from operations	79,173,962	61,379,878	63,981,834	691,706,065	**23,978,604**
Finance costs	(17,917,455)	(24,590,418)	(25,741,674)	(16,237,700)	**(7,987,414)**
Share of (losses)/profits of jointly controlled entities	4,096,079	4,307,788	(788,911)	(1,050,178)	**(185,760)**
Share of profits of associates	1,172,169	–	–	–	–
Profit before taxation	66,524,755	41,097,248	37,451,249	674,418,187	**15,805,430**
Taxation	(7,710,240)	(8,763,162)	(8,249,830)	(11,901,712)	**(4,353,806)**
Profit for the year	58,814,515	32,334,086	29,201,419	662,516,475	**11,451,624**
Attributable to:					
Owners of the Company	66,630,845	38,744,980	21,227,178	665,489,888	**8,169,030**
Non-controlling interests	(7,816,330)	(6,410,894)	7,974,241	(2,973,413)	**3,282,594**
Profit for the year	58,814,515	32,334,086	29,201,419	662,516,475	**11,451,624**
Earnings per share					
– Basic	16.42 cents	8.77 cents	4.79 cents	1.38 dollars	**1.59 cents**
– Diluted	13.80 cents	5.04 cents	4.77 cents	1.36 dollars	**1.59 cents**
Assets and liabilities					
Non-current assets	421,504,829	612,547,709	615,380,386	248,931,390	**211,480,703**
Net current assets/(liabilities)	109,934,840	(89,568,148)	563,242	476,378,000	**537,103,069**
Total assets less current liabilities	531,439,669	522,979,561	615,943,628	725,309,390	**748,583,772**
Non-current liabilities	(86,339,098)	(31,667,889)	(97,845,666)	(18,264,613)	**(20,965,558)**
NET ASSETS	445,100,571	491,311,672	518,097,962	707,044,777	**727,618,214**
Capital and reserves					
Share capital	4,301,200	4,435,000	4,435,000	5,138,489	**5,138,489**
Reserves	387,946,329	425,402,002	441,085,790	659,965,776	**670,030,895**
Total equity attributable to owners of the Company	392,247,529	429,837,002	445,520,790	665,104,265	**675,169,384**
Non-controlling interests	52,853,042	61,474,670	72,577,172	41,940,512	**52,448,830**
TOTAL EQUITY	445,100,571	491,311,672	518,097,962	707,044,777	**727,618,214**