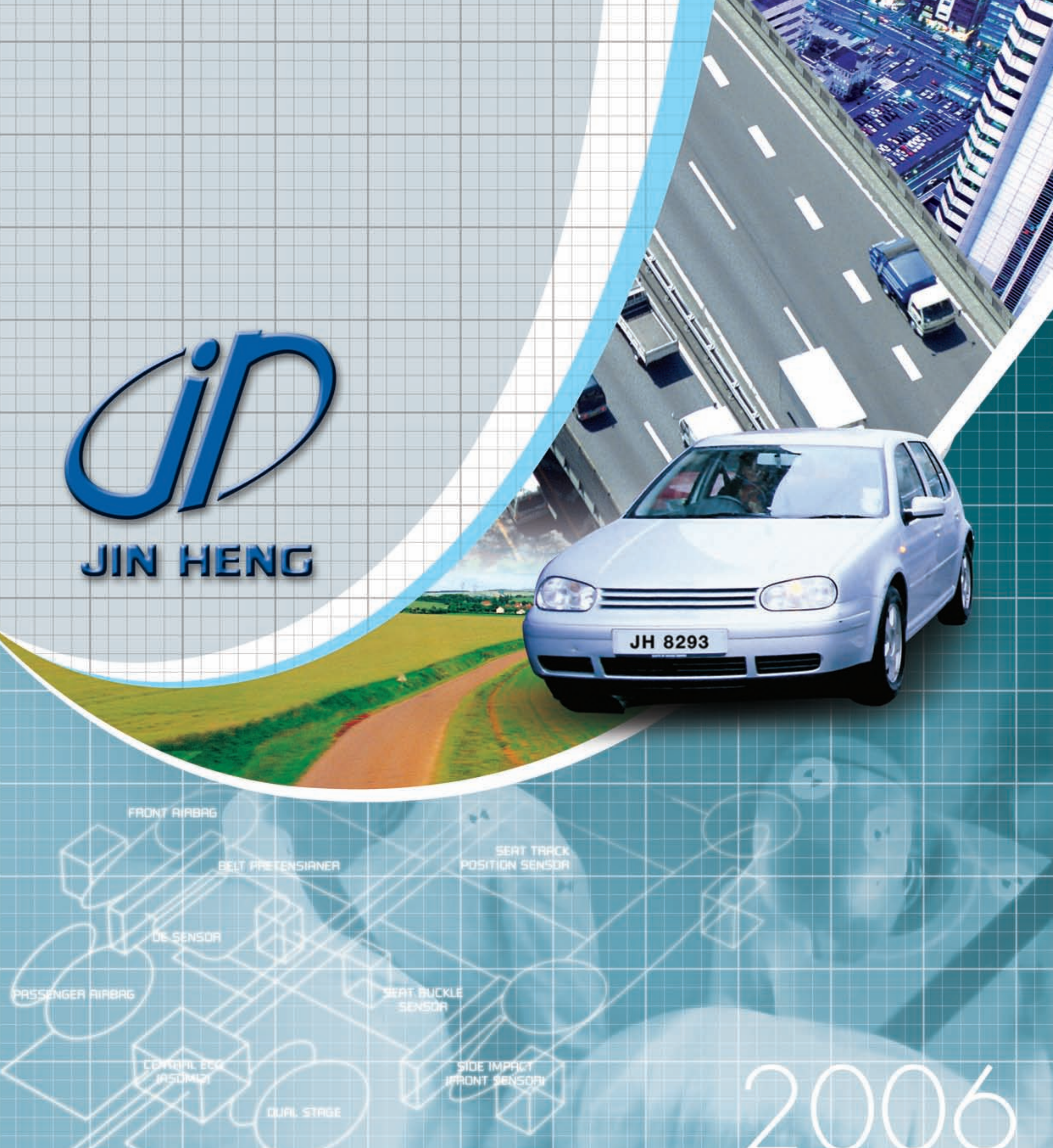
JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED
錦恆汽車安全技術控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8293)

JIN HENG



2006
ANNUAL REPORT

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This report, for which the directors of Jinheng Automotive Safety Technology Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company (the "Directors"), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Li Hong
Mr. Zeng Qingdong

Independent Non-Executive Directors

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

COMPLIANCE OFFICER

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

QUALIFIED ACCOUNTANT

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

PRINCIPAL BANKERS

The Bank of East Asia
Bank of Communication

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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COMPLIANCE ADVISER

VC Capital Limited
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Hong Kong

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Cayman Islands

STOCK QUOTE

8293

WEB SITE OF THE COMPANY

www.jinhengairbag.com

TO OUR SHAREHOLDERS

On behalf of the Board of Directors ("the Board"), I am pleased to present the audited financial results of Jinheng Automotive Safety Technology Holdings Limited ("the Company") and its subsidiaries ("the Group") for the financial year ended 31 December 2006.

The Group has taken a series of important projects during 2006 that helped built strong cornerstones for the Group's further expansion into the diversified international suppliers' market of automotive safety systems.

BUSINESS REVIEW

The Group is principally engaged in the design, research and development, manufacture and sale of automotive safety airbag systems. Currently, the Group's major products are safety airbag systems used in automotives.

The Group has recorded remarkable results for the financial year of 2006. Turnover of the Group surged to approximately HK$352.5 million, representing an 80.2% increase as compared to 2005. Profit after tax for the year was approximately HK$45.6 million, representing a 42.5% increase as compared to the previous year.

Such encouraging performance was the result of initiatives taken to the commercial sales of safety airbag systems to a number of new automotive models and to localize production of safety airbags for a overseas client, which have resulted in drastic growth of sales income for the Group. The Group has also entered new research and development contracts for 28 new automotive models for which there were a few strategic valuable project.

Furthermore, strategies to produce spare parts locally and seamlessly and to setup joint ventures with automotive manufacturers have begun to take effect. The Group has started the localization of electronic control units for airbags during the year. Beijing Jinheng Great Idea Automotive Electronic Systems Company Limited ("Beijing Great Idea"), a wholly-owned subsidiary of the Group, has completed the development of four-way electronic control units and started small-quantity production at January 2007.

The Group has acquired the remaining 49% equity interest in Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega"). Core business of Jinheng Sega is the sales and manufacturing of steering wheels for automotives, which are inseparable parts of automotive safety systems. Steering wheels manufactured will be utilized mainly during the production process of the Group's products.

The Group has taken a major step forward towards further diversification of product range during the year by the additional of safety belts into the Group's product pool. The Group has completed the development of three-point safety belt products and has signed contracts for the development of three-point seat belts for four automotive models. The Group has begun the commercial sale of seat belts for one automotive model at January 2007.

In addition, the Group has acquired 30% equity interest of YanTai Vast Company Limited ("YanTai Vast") during the year. YanTai Vast is famous among automotive engine industry with its core business in manufacturing and sales of cylinder liners and automotive engine spare parts and is equipped with special technological know-how and well-developed sales and customer network.

The Group has also acquired 61.5% equity interest of 北京鋭意泰克汽車電子有限公司("鋭意泰克"). 鋭意泰克 specializes in research and development, manufacturing and sales of engine management systems (EMS) for automotives. I believe the joining of YanTai Vast and 鋭意泰克 into the Group will definitely help expansion of our product range and thus allowing us to grasp every opportunity that arise in the automotive market of PRC.

The Group has invested approximately RMB30 million in the renovation of testing facilities and offices of the Jinzhou Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"). All renovation work was completed by October 2006, which has resulted in drastic improvement in project development capacity.

With the expanded production capacity, local production of spare parts and diversification of product range, position of the Group as one of the major suppliers in the automotive safety airbag systems' industry will be further strengthened.

Other than investment projects mentioned above, the Group has entered subscription agreement with four independent investors to issue convertible bonds with an aggregate principal amount of HK$77 million. Directors of the Company believe this demonstrated the confidence and trust among investors towards the development potential and future prospects of the Group.

OUTLOOK AND FUTURE PROSPECTS

Annual production volume of automotives in PRC exceeded 7,200,000 units in 2006, representing a 26.1% increment as compared with the figure recorded in 2005. Among them, 3,840,000 units were sedan automotives, which was 31.5% more than the amount recorded in last year. Development of automotive industry in China remains rapid and stable. Characteristics of PRC automotive industry in 2006 were summarized as follows:

1. Market share of domestic brand passenger automotives has been rising steadily: 26.3% for sedan automotives, 99.7% for mini passenger automotives, 73.7% for 2-WD SUV automotives and 33.5% for 4-WD SUV automotives.

2. Domestic brand sedan automotives started to expand into the middle-high end product range with steady growth in brand recognition level.

3. Domestic brand products constituted a major part of exported automotives.

4. Aggregate production volume of domestic brand passenger automotives reached 2,100,000 units in 2006.

Directors believe that with the steady growth of PRC's automotive industry, especially with the increasing market share of domestic brand products, the Group will see unprecedented opportunities for further development in the near future.

The Group will put more emphasis on its cost control strategies. Cost control plans will be executed in accordance with the Group's strategies at different stages. Supply chain management for all kinds of products will be further improved. Special cost control units will also be formed with an aim to maintain cost competitiveness of the Group's products.

The Group will focus on development of electronics products for automotives. On the other hand, the Group will also concentrate on supporting development of EMS market, which has already proven to be very effective with the Group already sold products to Chery Automobile Co., Ltd. and signed development contracts with Tianjin FAW Xiali Automobile Co., Ltd. and Hafei Motor Co., Ltd. Future prospect of the Group remains optimistic as a result of all the above.

The Group's future business will be divided into three main areas, namely, automotive safety systems, automotive electronics and engine spare parts. The future strategic development plan has just been completed. The Group will strive to advance in these three businesses and build a solid foundation for the Group's future development.

The Group will further strengthen areas of internal control, existing management capacities, internal audit and information dissemination. Effective performance evaluation system will also be exercised among all subordinate management teams with an aim to further improve management of the Group.

The Group will strengthen development of new technologies and new products at the automotive electronics arena so as to further expand its product range. More resources will be utilized to expand scopes of business of the Group.

The Group will recruit quality staff from abroad to improve the Group's management, technology know-how and quality as a whole in order to fit the demand from overseas clients. The Group will also focus on expanding its market to overseas countries so as to gradually become one of the major players in the international renowned automotive spare parts suppliers market.

Directors believe that the management team of the Group will maintain its practical, hard-working and trust-worthy style in the long-run, with an aim to improve the Group's core competence continuously and transform the Group into one of the best international automotive spare parts corporation with an edge in state-of-the-art automotive technologies.

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, 15 March 2007

RESULTS OF OPERATIONS

For the fiscal year ended 31 December 2006, the Group reported turnover of approximately HK$352.5 million, representing an increase of approximately 80.2% from the fiscal year ended 31 December 2005. Sales of electronic airbag systems increased by 1.9 times to approximately HK$218.2 million. Such substantial increase was mainly due to the launch of certain new models. During the year, 3 new customers have commenced the commercial sales and also 2 international brands started their localized production. Newly formed subsidiaries of the Group have started contributing tremendously to the Group. Such growth of turnover is expected to continue in the coming year.

The average gross profit margin of both mechanical and electronic airbag systems was 30.7% in 2006 owing to the difference in sales mix of mechanical and electronic airbag systems which was slightly decreased by 2.9%. The Group also offered a more competitive price to an internationally renowned automobile manufacturer in order to obtain the first order. Therefore the overall average gross profit margin for the current year was 28.2%, which was only 3.8% lower than last year.

The current year profit from operations was approximately HK$57.4 million, representing an increase of approximately HK$21.9 million or approximately 61.5% as compared to the fiscal year 2005. This was mainly resulted from the continuing improvement of turnover and the effective cost control management.

Other revenue increased by 3.5 times to approximately HK$3.7 million in the fiscal year 2006. The reason for such increment was mainly due to the increase in interest income and testing income.

In 2006, more marketing activities were carried out in order to capture the opportunities offered by the fast growing automobile industry and follow the Group's strategy to explore more new customers in local and overseas market. Also Jinheng Sega was commenced operation in October 2005 and start running on the right track during the year. As a result, the distribution costs increased by HK$3.7 million to approximately HK$7.6 million as compared to the fiscal year 2005.

For the fiscal year 2006, the research and development expenses increased by approximately HK$1.4 million to HK$3.9 million as compared with the last year. This was mainly due to the increased research and development activities.

Administrative expenses were approximately HK$35.5 million for the fiscal 2006, representing an increase of approximately HK$14.1 million in comparison with the previous year. Such increases were mainly contributed by the commencement of 2 new subsidiaries of the Group, Jinheng Sega and Shenyang Jinbei Jinheng Automotive Safety System Co., Ltd. ("Jinbei Jinheng"), after the third quarter of last year. Another 2 new subsidiaries, Beijing Great Idea and Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd. ("Jinheng Jinsida"), were newly formed during the current year.

The finance costs during the current year under review increased by approximately HK$5.0 million to HK$7.8 million. It was mainly contributed by the interest expenses incurred from the newly issued HK$77 million convertible notes.

Share of profits of jointly controlled entities and associates were approximately HK$3.7 million for the fiscal year 2006, which was increased from the losses of approximately HK$0.3 million by 14.7 times for the fiscal year 2005. Such increase was resulted from the continuous improvement of Shanxi Jinheng Automotive Spare Parts Co., Ltd. ("Jinheng Parts"), a 35% owned jointly controlled entity of the Group and the contribution of YanTai Vast, a newly acquired 30% owned associate company.

The income tax expenses for the fiscal year 2006 increased to approximately HK$5.5 million. This was due to Jinheng Automotive commenced its first year of 50% tax reduction benefit, while its income tax was fully exempted in last year.

Profit for the fiscal year of 2006 increased substantially by approximately 49% to approximately HK$47.8 million in comparison with last year. Such increase was mainly due to the substantial increase in turnover and the contribution of subsidiaries and associates.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2006, the Group had bank and cash balances of approximately HK$65.7 million (31 December 2005: approximately HK$44.4 million) and net current assets of approximately HK$133.8 million, which increased by HK$15.0 million as compared with the last fiscal year. The increase was mainly due to the increase in trade receivables as sales of the last quarter increased by 1.54 times in comparison with the corresponding period in last year. Non-current assets were increased by 1.1 times to approximately HK$247.1 million in 2006. Such increase was mainly because of the increase in investment in fixed assets and also the investment in joint ventures and associates.

As at 31 December 2006, the Group had non-current liabilities of approximately HK$99.5 million for the expansion of the Group's production facilities and as investment reserves. It includes a long-term bank loan of approximately HK$20.0 million (equivalent to RMB20.0 million) bears fixed interest rate of 5.47% per annum and is repayable on March 2008, and also a long-term bank loan of approximately HK$4.0 million (equivalent to RMB4.0 million) bears fixed interest rate of 7.84% per annum and is repayable on July 2008. Furthermore, the Company has issued convertible notes to Value Partners Limited, Sagemore Assets Limited, Blue Water Ventures International Limited and Synergy Capital Co., Ltd. in the aggregate principal amount of HK$77.0 million. Such convertible notes bears fixed interest 7% per annum and can be converted into conversion shares at initial conversion price HK$0.90 per share.

The Group also had a current term loan of HK$93.9 million, of which HK$28.0 million (equivalent to RMB28.0 million) bears fixed interest rate of 5.58% per annum, HK$12.0 million (equivalent to RMB12.0 million) bears fixed interest rate of 7.02% per annum, HK$5.0 million (equivalent to RMB5.0 million) bears fixed interest rate of 6.12% per annum, HK$10.0 million (equivalent to RMB10.0 million) bears fixed interest rate of 6.12% per annum, HK$15.0 million (equivalent to RMB15.0 million) bears fixed interest rate of 6.12% per annum, HK$12.0 million (equivalent to RMB12.0 million) bears fixed interest rate of 7.02% per annum and HK$5.8 million (equivalent to RMB5.8 million) bears fixed interest rate of 7.61% per annum. There were also included HK$6.1 million (equivalent to RMB6.1 million) discounted bills not yet matured at the year end date. These were primarily used in finance short-term cash flows for our PRC operations.

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

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2006, 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 2006, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK$15.7 million for a bank loan of RMB21.8 million (equivalent to HK$21.8 million).

In additions, discounted bills with recourse totalling HK$6.1 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 borrowings to total assets, increased to 55.2% from 33.3% in 2005.

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$7.1 million in respect of acquisition of fixed assets as at 31 December 2006.

MATERIAL ACQUISITIONS AND DISPOSALS

On 24 January 2006, pursuant to a subscription agreement dated 26 August 2005, a wholly owned subsidiary of the Company, Jinheng (Hong Kong) Limited, subscribed RMB5.0 million (equivalent to approximately HK$4.8 million) to Jinbei Jinheng for 5.6% of the increased equity interest of Jinbei Jinheng. After the completion of this transaction, the total registered capital of Jinbei Jinheng may thereof increase to RMB27.0 million (equivalent to approximately HK$26.0 million). The Group's ownership interest in Jinbei Jinheng increase from 50% to 55.6% effective on the same date.

On 15 October 2006, pursuant to the approval of the sales and purchase agreement dated 27 September 2006, the Group acquired the remaining 49% equity interest held by the minority interest of Jinheng Sega for a total consideration was RMB10.0 million (equivalent to approximately HK$9.8 million). As a result of the acquisition, the Group's equity interest in Jinheng Sega increased from 51% to 100% effective on the same date.

On 27 October 2006, pursuant to the approval of the sales and purchase agreement dated 27 September 2006, the Group acquired 100% equity interest in Jay Trumps International Limited ("Jay Trumps") and 100% equity interest in Devon Fair Investments Limited ("Devon Fair") (Subsequently renamed as Jinheng Engine Limited in October 2006). Furthermore, on 27 October 2006, pursuant to the approval of the sales and purchase agreement dated 27 September 2006, the Group acquired 33.33% equity interest in Tai Tong Investments Limited ("Tai Tong"). The aggregate consideration was HK$27.2 million. Jay Trumps and Devon Fair are investment holding companies and their principal assets are their direct interest of 51% and 49% equity interest in Auto Full International Limited ("Auto Full") respectively. Tai Tong is an investment companies and its principal asset is the direct interest of 100% equity interest in Harvest Full International Limited ("Harvest Full"). Auto Full and Harvest Full are investment holding companies and its principal asset are their direct interest of 20% and 30% equity interest in YanTai Vast respectively. YanTai Vast is engaged in manufacturing and selling of cylinder lines and spare parts of automobile engines in the PRC. As a result of the acquisition, the Group owned 30% equity interest in YanTai Vast.

SIGNIFICANT INVESTMENT

There was no significant investment during the year.

CONTINGENT LIABILITIES

As at 31 December 2006, the directors of the Company were not aware of any material contingent liabilities.

SUBSEQUENT EVENTS

No subsequent events occurred after 31 December 2006, which may have significant effects, 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 or Hong Kong dollars or US dollars and the exchange rates of such currencies were stable over the years under review, the Directors believe that such exposure does not have any significant adverse effect to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group employed approximately 976 staff in the PRC and Hong Kong, representing an increase of 409 staff from 31 December 2005. The increase in staff was mainly from the PRC operations. Accordingly, the Group's remuneration to employees, including directors' emoluments, increased by approximately HK$8.1 million to approximately HK$19.3 million for the current fiscal year.

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

RETIREMENT SCHEMES

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

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Jinzhou, Harbin, Shenyang and Beijing, the PRC whereby the Group is required to make contributions to the Schemes at the rate ranging from 19% to 22% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

CAPITAL STRUCTURE

The Company was listed on GEM of the Stock Exchange on 9 December 2004 through offering a total of 95,970,000 shares, in which 86,372,000 shares are placing shares and a public offering of 9,598,000 new shares. The 86,372,000 placing shares comprising 71,402,000 new shares and 14,970,000 sale shares. The net proceeds from this offering, after deduction for relevant expenses, is approximately HK$80.5 million. On 29 March 2006, 4,560,000 share options were exercised to subscribe for 4,560,000 ordinary shares in the Company at a consideration of approximately HK$1.7 million. On 15 January 2007, 4,560,000 share options were exercised to subscribe for 4,560,000 ordinary shares in the Company at a consideration of approximately HK$1.7 million. Totally 9,120,000 new shares were issued resulted from these transactions. The total issued share capital of the Company becomes 390,120,000 as of the date of this report. Furthermore, on 26 May 2006 and 14 July 2006, convertible notes with nominal value of HK$46 million, HK$25 million, HK$3 million and HK$3 million respectively were issued to 4 independent investors. These convertible notes can be convertible into ordinary shares of the Company at an initial conversion price of HK$0.90 per share on or after 26 November 2007 and 14 January 2008 respectively. The share capital of the Company comprises of ordinary shares.

COMPLIANCE ADVISER'S INTEREST

Pursuant to an agreement dated 29 November 2004 entered into between the Company and VC Capital Limited, the VC Capital Limited would receive a monthly fee for acting as the Company's retained sponsor for the remainder of the year ended 31 December 2004 and for the period of two years thereafter until 31 December 2006.

VC Strategic Investments Limited, an associate of VC Capital Limited, was beneficially interested in 11% of the issued capital of Top Growth Assets Limited, and Top Growth Assets Limited was beneficially interested in 81.5% of the issued capital of WAG (Greater China) Limited. During the period between 1 January 2006 and 27 November 2006, WAG (Greater China) Limited was beneficially interested in 9,000,000 shares of the Company. On 27 November 2006, VC Strategic Investments Limited sold all its shares in Top Growth Assets Limited and ceased to have any interest in the Company.

Save as disclosed above, none of VC Capital Limited, its directors, employees or their respective associates had any shareholding interests in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2006.

COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

COMPARISON OF THE BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In compliance with the GEM Listing Rules, the Company sets out below a summary of actual business progress as measured against the business objectives set out in the Prospectus for the period from 1 January 2006 to 31 December 2006 (the "Relevant Period").

BUSINESS OBJECTIVES FOR THE RELEVANT PERIOD AS STATED IN THE PROSPECTUS	ACTUAL BUSINESS PROGRESS
Expansion of Production Capacity	
• Complete installation of production facilities for SAB modules of safety airbag systems	Installation of production facilities for SAB modules of safety airbag systems was completed and tested during the year
• Complete installation of production facilities for seat belt pre-tension systems	Installation of major facilities had been in place
• Install additional production facilities for textile airbags which are one of the spare parts of the airbag safety systems	Installation of circular cutting machine and additional sewing machines and assembly platforms for textile airbags was completed in 2006
• Install production facilities for smart airbag safety system	Production facilities for smart airbag safety system had been ordered
Localization and self-production of key components	
• Conduct studies and install production facilities for trial production of seat belt pre-tensioner	The research and development works for the seat belt pre-tensioner in Jinbei Jinheng has commenced and major production facilities had been installed and tested
Enhancement of research and development capability	
• Recruit 2 technical expert for research and development	The Group has recruited 2 technical experts for research and development
• Continue the research and development for the simulation system and software	The Group has entered into an agreement with Jilin University in relation to the research and development of simulation system software, and the research of which has been duly commenced
• Commence the research and development for the smart airbag systems and the enhancement of curtain airbag systems	The Group has duly commenced the research and development of the smart airbag systems and the enhancement of curtain airbag systems

BUSINESS OBJECTIVES FOR THE RELEVANT PERIOD AS STATED IN THE PROSPECTUS *(Continued)*	ACTUAL BUSINESS PROGRESS
Formulating strategic alliances	
• Continue to identify joint venture partnership with major automobile manufacturers in the PRC	The Group is undergoing formal communication to find a suitable automobile manufacturer
• Continue to identify strategic alliance with international suppliers of spare parts	The Group has in depth discussed with the identified international suppliers of spare parts for strategic alliance
• Continue to identify joint venture partnership with major suppliers in the PRC	The Group has entered a joint venture agreement in June 2006 with 2 PRC partners for the formation of a joint venture company engaged principally in the design, manufacturing and sale of automotive electronic parts The Group has entered an acquisition agreement in September 2006 for the acquisition of the remaining equity interest of Jinheng Sega, which engaged principally in the manufacturing and sale of automotive spare parts

APPLICATION OF PROCEEDS FROM CAPITAL RAISING

The Group raised approximately HK$80.5 million from the issue of 81,000,000 new shares of the Company at HK$1.18 per share in December 2004. The Company's shares were successfully listed on GEM with effect from 9 December 2004. Up to the date of this report, the Group has applied all the proceeds for the following purposes:

(i) approximately HK$19.3 million for the expansion of production capacity;

(ii) approximately HK$27.7 million for the localization and self-production of key components;

(iii) approximately HK$9.9 million for the enhancement of research and development capabilities;

(iv) approximately HK$17.7 million for formulating strategic alliances; and

(v) approximately HK$5.9 million as additional working capital of the group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Li Feng, aged 45, is the chairman of the Company. Mr. Li, joined the Group in 1997 and is responsible for the overall general management of the Group. Mr. Li graduated from the Beijing University of Aeronautics and Astronautics in 1983 with a bachelor's degree in missile designing. From 1983 to 1996, Mr. Li was employed at Taiyuan Aero-Instruments Co., Ltd. ("Taiyuan Aero") as engineer. There is a service agreement between the Company and Mr. Li whereby Mr. Li was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Mr. Li was entitled to an annual remuneration of HK$700,008.

Mr. Xing Zhanwu, aged 43, is the chief executive officer of the Company. Mr. Xing joined the Group in 1997 and is responsible for the Group's sales and marketing as well as the Group's overall business development. Mr. Xing graduated from Northwestern Polytechnical University with a bachelor's degree in machinery manufacture engineering in 1984. From July 1984 to August 1996, Mr. Xing had worked at Taiyuan Aero as engineer. In January 1997, Mr. Xing joined the Group as general manager and led the Group to succeed in two pioneering airbag system development projects with FAW Car Company Limited ("FAW") and Dongtong Peugeot Citro'n. There is a service agreement between the Company and Mr. Xing whereby Mr. Xing was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Mr. Xing was initially entitled to an annual remuneration of HK$500,004 but was raised to HK$660,000 per annum with effect from 1 September 2006.

Mr. Zhao Qingjie, aged 49, joined the Group in October 1997. Mr. Zhao has extensive experience and knowledge in the automobile industry in the PRC and is responsible for strategic development and corporate development of the Group. In 1982, Mr. Zhao graduated from the Jinzhou Institute of Technology with a bachelor's degree in tractor. Mr. Zhao is the chairman of Wonder Auto Group Limited and Jinzhou Halla Electrical Equipment Company Limited. Mr. Zhao is also the chief executive and a director of China Wonder Limited, a company listed in the Alternative Investment Market (AIM) of the London Stock Exchange in United Kingdom, and is the chief executive officer and chairman of Wonder Auto Technology Inc., a company listed in the OTC Bulletin Board in United States. There is a service agreement between the Company and Mr. Zhao whereby Mr. Zhao was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Mr. Zhao was entitled to an annual remuneration of HK$500,004.

Mr. Yang Donglin, aged 41, is the general manager of Jinheng Automotive. Mr. Yang is responsible for the overall technical and research and development of the Group. Mr. Yang graduated from Northwestern Polytechnical University in 1985 with a bachelor's degree in aircrafts designing. Mr. Yang had worked at Taiyuan Aero as engineer from 1985 to 1999. In 1997, Mr. Yang joined the Group and represented the Group in technical exchange programmes with overseas experts. Mr. Yang held the position of senior technician in a number of Group's airbag system development projects. There is a service agreement between the Company and Mr. Yang whereby Mr. Yang was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Mr. Yang was initially entitled to an annual remuneration of HK$180,000 but was raised to HK$228,000 per annum with effect from 1 September 2006.

Mr. Foo Tin Chung, Victor, aged 38, has over ten years' experience in the finance and accounting fields. Mr. Foo is the financial controller, qualified accountant, company secretary and compliance officer of the Company. Mr. Foo holds a bachelor's degree in accounting and information system in the University of New South Wales in Australia and completed his master degree in business administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is primarily responsible for the development of the Group's financial strategies, accounting and financial reporting and internal control procedures. He held management position at subsidiaries of listed companies in Hong Kong and was an auditor of an international audit firm. He joined the Group in July 2004 as the full time qualified accountant. There is a service agreement between the Company and Mr. Foo whereby Mr. Foo was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. Mr. Foo was initially entitled to an annual remuneration of HK$624,000 but was raised to HK$715,000 per annum with effect from 1 September 2006. Mr. Foo is currently an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited, a company Listed in GEM.

NON-EXECUTIVE DIRECTORS

Mr. Li Hong, aged 43, joined the Group in 2001. Mr. Li graduated from the Beijing University of Aeronautics and Astronautics with a bachelor's degree in metal materials in 1983. In 1994, Mr. Li graduated from the Beijing University of Aeronautics and Astronautics with a master's degree in corrosion and protection. From 1983 to 1996, Mr. Li was employed at Taiyuan Aero. Mr. Li is also a director of Taiyuan Daheng General Electric Appliance Manufacturing Company Limited. There is no service agreement between the Company and Mr. Li. The emoluments payable to Mr. Li is HK$100,008 per annum. Mr. Li was not appointed for a fixed term 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. Zeng Qingdong, aged 43, is the brother-in-law of Mr. Gao Xiangdong who is a significant shareholder of the Company (has the meaning ascribed to it in the GEM Listing Rules). He joined the Group in August 2002. Mr. Zeng graduated from the Liaoning Institute of Technology in 1985 with a bachelor's degree in science and in 1988 from the Jilin Institute of Technology with a master's degree in science. Mr. Zeng joined Jinzhou Wonder Enterprises (Group) Co, Ltd. ("Jinzhou Wonder") in April 1997 and is currently a deputy general manager of Jinzhou Wonder. There is no service agreement between the Company and Mr. Zeng. The emoluments payable to Mr. Zeng is HK$100,008 per annum. Mr. Zeng was not appointed for a fixed term 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wai Dune, aged 54, is a fellow member of the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Certified Public Accountants. Mr. Chan is the managing director of CCIF CPA Limited, a firm of certified public accountants in Hong Kong. Mr. Chan is currently a member of CPPCC of Guangzhou Municipal Committee and a member of the Executive Council of China Overseas Friendship Association. Mr. Chan was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region. Mr. Chan currently serves as an independent non-executive director of the Company, Chuang's China Investments Limited, Chuang's Consortium International Limited, Hualing Holdings Limited, Hunan Nonferrous Metals Corporation Limited, Mexan Limited, Minmetals Resources Limited, Sam Woo Holdings Limited and Sino Union Petroleum & Chemical International Limited, all are listed on the Stock Exchange. In the past three years, Mr. Chan has had, at different times, held directorships at China Treasure (Greater China) Investments Limited, EVA Precision Industrial Holdings Limited, IIN International Limited and Zhongda International Holdings Limited but has resigned from them. Mr. Chan was appointed as independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Chan. The emoluments payable to Mr. Chan is HK$150,000 per annum. Mr. Chan was not appointed for a fixed term 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. Huang Shilin, aged 73, 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. Mr. Huang was not appointed for a fixed term 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. Zhu Tong, aged 34, is currently the assistant general manger of 興業証券股份有限公司(Xing Ye Securities Co., Ltd.) Mr. Zhu graduated from the Research Institute of the People's Bank of China in 1998 with a master's degree in international finance. Mr. Zhu was appointed as an independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Zhu. The emoluments payable to Mr. Zhu is HK$80,004 per annum. Mr. Zhu was not appointed for a fixed term 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.

SENIOR MANAGEMENT

Mr. Hao Dianqing, aged 55, is the general manager of Jinheng Automotive. He joined the Group in May 2003. Mr. Hao is responsible for the overall operation of Jinheng Automotive. In 1985, Mr. Hao graduated from Beijing Institute of Aeronautics with an associate's degree in system and management engineering. In 2000, Mr. Hao graduated from the Zheng Zhou Institute of Aernoautic Technology with a bachelor's degree in accounting.

Mr. Xing Zhanwen, aged 47, brother of Mr. Xing Zhanwu, is currently the general manager of the Jinheng Sega. Mr. Xing joined the Group in April 1998 and is responsible for the Group's sales and marketing. From 1980 to 1998, Mr. Xing was employed at Datong Dong Jiao Water Treatment Plant firstly as the branch team lender and later as the vice plant manager before joining the Group in 1998.

Mr. Zhang Qiming, aged 42, joined the Group in July 1999 and is currently the deputy general manager of Jinheng Automotive. Mr. Zhang graduated from the Liaoning Institute of Technology in 1988. Prior to joining the Group, Mr. Zhang was employed at Jinzhou Wonder as a sales manager.

Mr. Zhu Jiangbin, aged 48, joined the Group in October 1999 and is currently the deputy general manager of Beijing Great Idea. Mr. Zhu graduated from Northwestern Polytechnical University with a bachelor's degree in 1981. Prior to joining the Group, Mr. Zhu was employed at Taiyuan Aero.

Ms. Zhang Liping, aged 44, joined the Group in April 1998 as the head of the finance department of Jinheng Automotive. Ms. Zhang graduated from 錦州師範學院分校化學系 (Jinzhou Teacher College Branch Campus – Chemistry Faculty) in 1982. Prior to joining the Group, Ms. Zhang was employed by Jinzhou Wonder as deputy department head in the finance department.

Mr. Cao Feng, aged 33, joined the Group in 1999 and is the assistant to chief executive officer of the Company. Mr. Cao is responsible for the coordination of the sales and marketing functions of the Group. Mr. Cao graduated from Taiyuan University of Technology with a bachelor's degree in industrial electrical automation in 1997. Mr. Cao successfully assisted the Group in establishing business relationship with a number of domestic automobile manufacturers.

CONSULTANT

Mr. Zhu Xichan, aged 44, has been a consultant to the Group since January 2002 regarding the overall technical development and regulatory compliance. Mr. Zhu graduated from Tsinghua University in 1995 with a Doctor of Philosophy (PhD) degree in Automotive Engineering. Mr. Zhu is one of the experts in the development of automobile safety standards in the PRC. Mr. Zhu joined China Automotive Technical Research Centre in 1996. In 2001, Mr. Zhu was appointed as Specialist of China Automotive Engineer Association and team member of the National Automotive Standardisation and Technical Committee's Automotive Safety Airbag Standard Working Team.

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 2006.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 22 November 2004, to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company becomes the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation and the basis of preparation of the financial statements are set out in note 1 to the financial statements and in the Company's prospectus dated 30 November 2004 (the "Prospectus").

The Company's shares were listed on GEM on 9 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in production and sales of automotive safety products in the People's Republic of China ("the PRC"). The principal activities and other particulars of its subsidiaries are set out in note 20 on the financial statements.

The Group's turnover for the year is principally attributable to the sales of automotive safety products to customers net of sales tax and value added tax. An analysis of the turnover from the principal activities during the financial year is set out in note 3 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2006 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 35 to 95.

DIVIDENDS

Pursuant to a resolution passed at a directors' meeting on 13 March 2007, a final dividend of 3.5 HK cents per share totalling HK$13,494,600 was recommended to be paid to shareholders of the Company, subject to shareholders' approval at the forthcoming annual general meeting.

CHARITABLE DONATIONS

No donation was made by the Group during the year (2005: HK$Nil).

FIXED ASSETS

Details of movements in fixed assets are set out in note 16 on the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 34 on the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 33 on the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2006 are set out in note 29 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	16.6%	
Five largest customers in aggregate	63.4%	
The largest supplier		23.5%
Five largest suppliers in aggregate		62.7%

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.

DIRECTORS

The directors during the financial year and up to the date of this report were:

Executive directors

Mr. Li Feng
Mr. Xing Zhanwu
Mr. Zhao Qingjie
Mr. Yang Donglin
Mr. Foo Tin Chung, Victor

Non-executive directors

Mr. Li Hong
Mr. Zeng Qingdong

Independent non-executive directors

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

In accordance with Articles 87(1) of the Articles of Association of the Company, 4 of the directors, namely, Messrs. Li Feng, Yang Donglin, Li Hong and Zhu Tong will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, would offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

On 22 November 2004, all the executive directors entered into a service contract with the Company for an initial term of three years effective from 9 December 2004. Each executive director is committed by the respective service contracts to devote himself exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of his conduct of business affairs, among other commitments. All executive directors are also entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the Group attributable to shareholders of the Company. The percentage shall be determined by the board of directors but in any case the aggregate amount payable for each financial year to all the executive directors of the Company shall not exceed 4% of such profit.

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

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

As at 31 December 2006, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 the GEM Listing Rules were as follows:

(a) Long positions in issued shares

Name of director	Capacity	Number of shares	Approximate percentage of shareholding
Li Feng	Beneficial owner	1,040,000	0.27%
	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Xing Zhanwu	Beneficial owner	800,000	0.21%
	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Li Hong	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Yang Donglin	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Zhao Qingjie	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Foo Tin Chung, Victor	Beneficial owner	320,000	0.08%

Note: As at 31 December 2006, 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 59.30% in the Company:

Shareholder		Number of shares held in Applaud Group Limited		%
The controlling group		5,269		52.69
Li Feng	2,386		23.86	
Xing Zhanwu	900		9.00	
Xu Jianzhong	750		7.50	
Li Hong	643		6.43	
Yang Donglin	590		5.90	
Zhao Qingjie		1,827		18.27
Gao Xiangdong		1,566		15.66
Zhao Jiyu		417		4.17
Lin Qing		233		2.33
Zhou Yuquan		223		2.23
Cao Feng		139		1.39
Zhang Chengyu		134		1.34
Zhang Chenye		104		1.04
Zhang Meina		88		0.88
Total		10,000		100

(b) Interests in underlying shares

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

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or Rules 5.46 to 5.67 of the GEM Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

SHARE OPTION SCHEMES

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

The total number of securities available for issue under the share option schemes as at 31 December 2006 was 44,940,000 shares (including options for 6,840,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 11.66% of the issued share capital of the Company as at 31 December 2006.

On 15 January 2007, 4,560,000 share options were exercised to subscribe for 4,560,000 ordinary shares in the Company. The total number of securities available for issue under the share option schemes then becomes 40,380,000 shares (including options for 2,280,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 10.35% of the issued share capital of the Company as at the report date.

As at 31 December 2006, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2006 is HK$1.00) granted for at a consideration of HK$1 under the share option schemes of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 each of the Company.

(a) Pre-IPO Employee Share Option Scheme

On 22 November 2004, the Company granted options to subscribe for a total of 11,400,000 Shares under the Pre-IPO Employee Share Option Scheme to three Directors and seven other employees of the Group, with the following details:

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options are exercisable	No. of share acquired on exercise of options during the year	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Mr. Li Feng (李峰)	Executive director and chairman of the Company	2,600,000	1,560,000	22 November 2004	9 December 2005 to 9 December 2008	1,040,000	HK$0.38	HK$0.788	N/A
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	2,000,000	1,200,000	22 November 2004	9 December 2005 to 9 December 2008	800,000	HK$0.38	HK$0.788	N/A
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	800,000	480,000	22 November 2004	9 December 2005 to 9 December 2008	320,000	HK$0.38	HK$0.788	N/A
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	1,080,000	648,000	22 November 2004	9 December 2005 to 9 December 2008	432,000	HK$0.38	HK$0.788	N/A
Mr. Xing Zhanwen (邢占文)	Employee, general manager of Jinheng Sega	880,000	528,000	22 November 2004	9 December 2005 to 9 December 2008	352,000	HK$0.38	HK$0.788	N/A
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	1,000,000	600,000	22 November 2004	9 December 2005 to 9 December 2008	400,000	HK$0.38	HK$0.788	N/A
Mr. Zhu Jiangbin (朱江濱)	Employee, deputy general manager of Beijing Great Idea	880,000	528,000	22 November 2004	9 December 2005 to 9 December 2008	352,000	HK$0.38	HK$0.788	N/A
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	840,000	504,000	22 November 2004	9 December 2005 to 9 December 2008	336,000	HK$0.38	HK$0.788	N/A
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	720,000	432,000	22 November 2004	9 December 2005 to 9 December 2008	288,000	HK$0.38	HK$0.788	N/A
Mr. Chen Lixin (沈立新)	Employee, general manager of Hafei Jinheng	600,000	360,000	22 November 2004	9 December 2005 to 9 December 2008	240,000	HK$0.38	HK$0.788	N/A
		11,400,000	6,840,000			4,560,000			

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

* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

The weighted average value per option granted on 22 November 2004 and had not vested at 1 January 2005 using binomial lattice pricing model was HK$0.788. The calculation of the weighted average value per option granted during the period does not take into account options granted and forfeited during the period. The weighted average assumptions used are as follows:

	2006
Risk-free interest rate	**2.1%**
Expected life (in years)	**4 years**
Volatility	**50.0%**
Expected dividend per share	**2.3%**

The binomial lattice pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the binomial lattice pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Apart from the foregoing, at no time during the year 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.

(b) Share Option Scheme

As at 31 December 2006, no option has been granted under the Share Option Scheme.

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2006, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

	Capacity	Number of ordinary shares of the Company held	Number of the underlying shares of the Company held under equity derivatives	Approximately percentage of the total issued shares of the Company before full conversion of all convertible notes	Approximately percentage of the total issued shares of the Company after full conversion of all convertible notes
Applaud Group Limited	Beneficial owner	228,620,000	–	59.30%	48.53%
Value Partners Limited *(Note 1)*	Investment manager	–	51,111,111	13.26%	10.85%
Mr. Cheah Cheng Hye *(Note 1)*	Interests of controlled corporation	–	51,111,111	13.26%	10.85%
Sagemore Assets Limited *(Note 2)*	Beneficial Owner	–	27,777,778	7.20%	5.90%
CDS International Limited *(Note 2)*	Interest of controlled corporation	–	27,777,778	7.20%	5.90%
TNS Services Limited *(Note 2)*	Nominee shareholder of beneficial owner	–	27,777,778	7.20%	5.90%

Note 1: Mr. Cheah Cheng Hye is the beneficial owner of 32.77% of the total issued share capital of Value Partners Limited and therefore is deemed to be interested in the underlying shares to be held by Value Partners Limited pursuant to the SFO.

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

Short positions in shares

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

Short positions in underlying shares

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

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 2006, 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 2006, the Company has adopted the code set out in the Rules 5.46 to 5.68 of the GEM Listing Rules for securities transactions by Directors. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the adopted code regarding securities transactions by directors.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive Directors an annual confirmation for independence pursuant to Rule 5.09 of the GEM Listing Rules. The independent non-executive Directors have confirmed that they are independent.

PURCHASE, SALE OR REDEMPTION OF SHARES

Since the listing of the Company's shares on GEM on 9 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CONTINUING CONNECTED TRANSACTIONS

The Hafei Supply Agreement under the Hafei JV Agreement — Continuing Connected Transactions

On 17 September 2003, the Group entered into a joint venture agreement with Hafei Motor Co. Ltd. ("Hafei Motor"). Pursuant to the Hafei JV Agreement, Harbin Hafei Jinheng Automotive Safety System Co. Ltd. ("Hafei Jinheng") was established and owned as to 90% by the Group and 10% by Hafei Motor and the products to be manufactured by Hafei Jinheng will be safety airbag systems which are suitable for different models of automobiles of Hafei Motor. It is the intention of the Group and Hafei Motor that all products of Hafei Jinheng will be sold to Hafei Motor.

Hafei Motor is a substantial shareholder holding 10% equity interest in Hafei Jinheng and therefore a connected person of the Group under the GEM Listing Rules.

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

The Directors expect that the aggregate orders from Hafei Motor for the three financial years ending 31 December 2008 will exceed HK$10,000,000 in each of the corresponding year under Rules 20.34 of the GEM Listing Rules. As such, the transactions under the Hafei Supply Agreement will constitute non-exempt continuing connected transactions under Rule 20.35 of the GEM Listing Rules.

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

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

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

The Directors expect that the aggregate orders from Jinbei Automotive for the three financial years ending 31 December 2008 will exceed HK$10,000,000 in each of the corresponding year under Rules 20.34 of the GEM Listing Rules. As such, the transactions under the Jinbei Supply Agreement will constitute non-exempt continuing connected transactions under Rule 20.35 of the GEM Listing Rules.

Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the continuing connected transaction requirements pursuant to Rule 20.42(3) of the GEM Listing Rules in respect of the Hafei Supply Agreement and Jinbei Supply Agreement for the three financial years ending 31 December 2008.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions are entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the Hafei Supply Agreement and Jinbei Supply Agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange) confirming that the continuing connected transactions:

(i) have received the approval of the Board;

(ii) have been entered into in accordance with the Hafei Supply Agreement and Jinbei Supply Agreement governing the continuing connected transactions; and

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

AUDITORS

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

By order of the board

Li Feng
Chairman

Hong Kong, 15 March 2007

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

On 8 December 2004, the Stock Exchange, in its note to subscribers for the amendments to the GEM Listing Rules — Update No. 20, issued the draft Code on Corporate Governance Practices (the "Code'') and Rules on the Corporate Governance Report, which require inclusion by issuers of corporate governance reports in their annual reports. The rules became applicable to accounting periods commencing on or after 1 January 2005. The Board has already noted such changes and applied them to the Company.

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

Pursuant to GEM Listing Rules 18.81 and 18.44, this report is to be incorporated in the Company's summary financial report and annual report, respectively, to disclose its corporate governance practices adopted in the year under review together with the prospective practices under development to the shareholders.

THE BOARD

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

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

The Board comprises 10 Directors, including 5 executive Directors and 5 non-executive Directors, three of whom being independent non-executive Directors, in compliance with the requirement of GEM Listing Rules which states that "every board of directors of an issuer must include at least 3 independent non-executive directors".

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;

- being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;

- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to quarterly, interim and annual reports of the Company, other price sensitive announcements published according to the GEM Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information disclosable under statutory requirements;

- whilst executive Directors/chief executives, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy;

- the management is well informed of its power with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company; and

- regularly reviewing its own functions and the powers conferred upon executive Directors/chief executives to ensure appropriate arrangements are in place.

COMMITMENTS

The full Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the non-executive Directors, including independent non-executive Directors, are actively sought by the Company if they are unable to attend the meeting in person.

EXPERIENCE

Executive and non-executive Directors possess administrative leadership, diversified expertise and extensive industrial management experience. Independent non-executive Directors possess extensive expertise, experience and judging capability in various fields, in particular the appropriate accounting qualifications possessed by Mr. Chan Wai Dune. During its decision-making process, the Board holds in high regard the views of the independent non-executive Directors, which serve as the effective direction of the Group's operations.

BOARD MEETING

Members of the Board, who are well-informed of their duties and responsibilities, held a total of 20 meetings during the year 2006. The Directors are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

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

- financial performance and results of each period as well as review of corporate governance measures;
- a proposal to seek approval from shareholders in general meeting for distribution of final dividends to shareholders;
- a proposal to seek approval from shareholders in general meeting for re-election and re-appointment of Directors;
- a proposal to seek approval from shareholders in general meeting for re-appointment the Company's auditors and fixing their remuneration;
- a proposal to seek approval from shareholders in general meeting for issuance new shares and repurchases shares;
- allotment and issuance of new shares due to the exercise of share options under Pre-IPO Employee Share Option Scheme;
- issuance of convertible notes for principal totally HK$77 million;
- approval of Hafei Supply Agreement and Jinbei Supply Agreement of which constitute connected transactions;
- revise remunerations of Directors; and
- other material acquisitions, increase in equity stakes in subsidiary and joint venture and capital expenditure.

Details of Directors' attendance at Board meetings held in 2006 are set out as follows:

	Attendance
Executive Directors	
Mr. Li Feng	19/20
Mr. Xing Zhanwu	19/20
Mr. Zhao Qingjie	16/20
Mr. Yang Donglin	17/20
Mr. Foo Tin Chung, Victor	18/20
Non-Executive Directors	
Mr. Li Hong	18/20
Mr. Zeng Qingdong	16/20
Independent Non-Executive Directors	
Mr. Chan Wai Dune	17/20
Mr. Huang Shilin	20/20
Mr. Zhu Tong	20/20

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 GEM Listing Rules, complied with the relevant requirements, strictly implemented resolutions of general meetings, promoted the continuous and healthy development of the Company's operations, pressed for the improvement of the governance standard of the Company and exerted the decision-making function of the Board in its full swing. In this regard, on the annual general meeting held on 2 May 2006, Mr. Xing Zhanwu, 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/her independence under Rule 5.09 of the GEM Listing Rules.

Names and biography of the Directors are set out on pages 12 to 14 of this annual report and also made available on the Company's website.

AUDIT COMMITTEE

The audit committee of the Company is primarily responsible for reviewing the financial reporting process, internal control system and the completeness of financial reports of the Company. The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong, with Mr. Chan Wai Dune as the chairman. During the year, the Company convened six meetings of the audit committee in compliance with GEM Listing Rules 5.28, 5.29 and 5.33. The audit committee of the Company, together with the senior management of the Company and external auditors, has reviewed the accounting principles and methods adopted by the Group and discussed, inter alia, matters relating to internal control and financial statements of the Company (i.e. quarterly, half-yearly and annual results) prepared in accordance with the generally accepted accounting principles of Hong Kong and has also made relevant recommendations.

Details of attendance of members at meetings of the audit committee held in 2006 are set out as follows:

	Attendance
Mr. Chan Wai Dune	6/6
Mr. Huang Shilin	6/6
Mr. Zhu Tong	6/6

INTERNAL CONTROLS

The Directors have conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries, which has covered major and material controls in areas of financial, operations, compliance and risk management of the Company.

REMUNERATION COMMITTEE

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

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

Details of attendance of members at meetings of the remuneration committee held in 2006 are set out as follows:

	Attendance
Mr. Zhu Tong	3/3
Mr. Huang Shilin	3/3
Mr. Xing Zhanwu	3/3

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

NOMINATION COMMITTEE

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

Details of attendance of members at meetings of the nomination committee held in 2006 are set out as follows:

	Attendance
Mr. Chan Wai Dune	1/1
Mr. Zhu Tong	1/1
Mr. Xing Zhanwu	1/1

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts for each financial period by the management. Subsequent to each reporting period, quarterly, interim or annual financial highlights and business review are published as soon as possible (or in accordance with the GEM Listing Rules, as the case may be) to disclose all information that are necessary for shareholders to assess the performance, financial conditions and prospects of the Company.

The Board has the responsibility to regularly review the internal control and risk management systems of the Company to ensure their effectiveness and efficiency. With the support of the internal audit team, the practices, processes, expenses and internal control of the Company and its subsidiaries are reviewed on a regularly basis. Matters of importance reported by the internal audit team are monitored regularly by the management to ensure remedial measures are implemented as appropriate. The Board and senior management may also require the internal audit team to conduct auditing procedures on special scopes of importance and report significant findings to the Board and the audit committee.

During the period under review, the performance and remuneration of external auditors were reviewed. Auditors' remuneration payable to external auditors by the Group amounted to HK$1.3 million.

INVESTOR RELATIONS

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

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

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

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

REPORT OF THE AUDITORS

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

We have audited the consolidated financial statements of Jinheng Automotive Safety Technology Holdings Limited (the "Company") set out on pages 35 to 95, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY OF THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
15 March 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 $	2005 $
Turnover	3	**352,541,854**	195,668,737
Cost of sales		**(253,000,149)**	(133,133,369)
Gross profit		**99,541,705**	62,535,368
Other revenue	4	**3,688,855**	818,879
Other net income	5	**1,248,878**	22,100
Research and development expenses	6	**(3,938,196)**	(2,492,694)
Distribution costs		**(7,616,919)**	(3,931,847)
Administrative expenses		**(35,532,095)**	(21,415,827)
Profit from operations		**57,392,228**	35,535,979
Finance costs	8(a)	**(7,774,742)**	(2,797,426)
Share of profits of associates	21(b)	**951,286**	–
Share of profits/(losses) of jointly controlled entities	22	**2,728,827**	(269,165)
Profit before taxation	8	**53,297,599**	32,469,388
Income tax	9(a)	**(5,516,560)**	(446,043)
Profit for the year		**47,781,039**	32,023,345
Attributable to:			
Equity shareholders of the Company		**45,608,257**	32,016,170
Minority interests		**2,172,782**	7,175
Profit for the year		**47,781,039**	32,023,345
Dividends payable to equity shareholders of the Company attributable to the year	13		
Final dividends proposed after the balance sheet date		**13,494,600**	12,573,000
Earnings per share	14		
– Basic		**11.86 HK cents**	8.40 HK cents
– Diluted		**11.27 HK cents**	8.25 HK cents

The notes on pages 42 to 95 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 $	2005 $
Non-current assets			
Fixed assets			
– Property, plant and equipment	*16*	**101,440,543**	64,988,078
– Interests in leasehold land held for own use under operating leases	*16*	**17,119,072**	8,775,732
Deposits paid for acquisition of fixed assets		**37,697,259**	8,671,894
Construction in progress	*17*	**17,901,153**	5,483,039
Intangible assets	*18*	**30,916,164**	12,293,322
Goodwill	*19*	**184,189**	–
Interests in associates	*21*	**28,631,461**	–
Interest in jointly controlled entities	*22*	**13,099,491**	18,203,923
Other non-current financial assets	*23*	**50,000**	48,077
Deferred tax assets	*24(b)*	**24,127**	57,533
		247,063,459	118,521,598
Current assets			
Inventories	*25*	**78,687,811**	41,127,946
Trade receivables, prepayments and other receivables	*26*	**235,074,584**	110,895,525
Current tax recoverable	*24(a)*	**1,182,749**	48,320
Pledged bank deposits		**–**	4,624
Cash and cash equivalents	*27*	**65,734,351**	44,376,663
		380,679,495	196,453,078
Current liabilities			
Trade and other payables	*28*	**152,949,496**	34,541,781
Bank loans	*29*	**93,927,000**	43,037,023
Current tax payable	*24(a)*	**–**	24,460
		246,876,496	77,603,264
Net current assets		**133,802,999**	118,849,814
Total assets less current liabilities		**380,866,458**	237,371,412

CONSOLIDATED BALANCE SHEET

At 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 $	2005 $
Non-current liabilities			
Bank loans	*29*	**24,000,000**	26,923,077
Convertible notes	*30*	**71,254,320**	–
Deferred tax liabilities	*24(b)*	**4,290,784**	461,406
		99,545,104	27,384,483
NET ASSETS		**281,321,354**	209,986,929
Capital and reserves			
Share capital	*33*	**3,855,600**	3,810,000
Reserves	*34*	**247,067,839**	195,536,665
Total equity attributable to equity shareholders of the Company		**250,923,439**	199,346,665
Minority interests	*34*	**30,397,915**	10,640,264
TOTAL EQUITY		**281,321,354**	209,986,929

Approved and authorised for issue by the board of directors on 15 March 2007

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 42 to 95 form part of these financial statements.

BALANCE SHEET

At 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 $	2005 $
Non-current assets			
Investments in subsidiaries	20	8,840,874	100
Interests in associates	21	9,060,167	–
		17,901,041	100
Current assets			
Trade receivables, prepayments and other receivables	26	161,274,513	80,836,705
Cash and cash equivalents	27	960,043	4,453,906
		162,234,556	85,290,611
Current liabilities			
Trade and other payables	28	20,972,508	972,449
Net current assets		141,262,048	84,318,162
Total assets less current liabilities		159,163,089	84,318,262
Non-current liability			
Convertible notes	30	71,254,320	–
NET ASSETS		87,908,769	84,318,262
Capital and reserves			
Share capital	33	3,855,600	3,810,000
Reserves	34	84,053,169	80,508,262
TOTAL EQUITY		87,908,769	84,318,262

Approved and authorised for issue by the board of directors on 15 March 2007

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 42 to 95 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 $	2006 $	2005 $	2005 $
Total equity at 1 January			**209,986,929**		181,318,027
Net income recognised directly in equity:					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	*34*		**8,271,768**		2,380,480
Profit for the year			**47,781,039**		32,023,345
Total recognised income and expense for the year			**56,052,807**		34,403,825
Attributable to:					
– Equity shareholders of the Company		**53,067,771**		34,373,820	
– Minority interests		**2,985,036**		30,005	
		56,052,807		34,403,825	
Dividends approved during the year	*13(b)*		**(12,723,480)**		(20,955,000)
Movements in equity arising from capital transactions					
Equity settled share-based transactions	*32 & 34*	**2,282,000**		5,797,000	
Capital contribution from minority shareholders	*34*	**13,534,000**		9,423,077	
Equity component of convertible notes	*30 & 34*	**5,076,618**		–	
Acquisition of additional equity interest in a subsidiary	*34*	**(7,989,217)**		–	
Acquisition of a subsidiary	*34*	**13,368,897**		–	
Shares issued under share option scheme	*33 & 34*	**1,732,800**		–	
			28,005,098		15,220,077
Total equity at 31 December			**281,321,354**		209,986,929

The notes on pages 42 to 95 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 $	2005 $
Operating activities			
Profit before taxation		**53,297,599**	32,469,388
Adjustments for:			
– Depreciation		**9,384,206**	5,766,099
– Amortisation of intangible assets		**9,379,578**	1,895,439
– Amortisation of land lease premium for property held for own use		**510,984**	95,295
– Finance costs		**8,479,725**	2,797,426
– Interest income		**(1,560,482)**	(683,589)
– Share of profits of associates		**(951,286)**	–
– Share of (profits)/losses of jointly controlled entities		**(2,728,827)**	269,165
– Loss on disposal of fixed assets		**721,439**	–
– Impairment losses for bad debts made/(written back)		**487,063**	(141,339)
– Provision for obsolete inventories		**871,540**	–
– Equity settled share-based payment expenses		**2,282,000**	5,797,000
– Negative goodwill		**(600,590)**	–
– Foreign exchange loss		**5,879,528**	1,536,065
Operating profit before changes in working capital		**85,452,477**	49,800,949
Increase in inventories		**(37,798,213)**	(1,942,954)
Increase in trade receivables, prepayments and other receivables		**(119,849,711)**	(43,804,539)
Increase/(decrease) in net amounts due to jointly controlled entities		**16,863,680**	(5,031,389)
Increase in trade and other payables		**93,055,683**	9,963,970
Cash generated from operations		**37,723,916**	8,986,037
PRC income tax paid		**(4,235,063)**	(66,030)
Net cash generated from operating activities		**33,488,853**	8,920,007
Investing activities			
Payment for purchase of property, plant and equipment		**(31,957,172)**	(17,530,334)
Net cash outflow upon acquisition of subsidiaries	*35(a)*	**(12,526,860)**	–
Payment for investment in associates	*21*	**(9,060,167)**	–
Payment for acquisition of additional equity interest in a subsidiary	*35(b)*	**(9,760,000)**	–
Payment for the construction in progress		**(17,801,032)**	(7,587,513)
Payment for purchase of intangible assets		**(17,560,274)**	(6,890,903)
Increase in deposits for fixed assets		**(27,112,096)**	(1,414,773)
Proceeds from disposal of fixed assets		**96,078**	–
Proceeds from disposal of non-current financial assets		–	4,807,692
Interest received		**1,560,482**	683,589
Net cash used in investing activities		**(124,121,041)**	(27,932,242)

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	**2006** **$**	2005 $
Financing activities			
Decrease/(increase) in pledged bank deposits		**4,624**	(129)
Repayment of bank loans		**(43,880,886)**	(35,480,769)
Bank loan interest paid		**(4,970,195)**	(2,639,739)
Proceeds from new bank loans		**88,163,725**	27,556,253
Proceeds from convertible notes		**77,000,000**	–
Capital contribution from minority interests		**9,034,000**	1,564,231
Other borrowing costs paid		**(3,079,566)**	(157,687)
Proceeds from shares issued under share option scheme		**1,732,800**	–
Dividend paid		**(12,723,480)**	(21,022,018)
Net cash generated from/(used in) financing activities		**111,281,022**	(30,179,858)
Net increase/(decrease) in cash and cash equivalents		**20,648,834**	(49,192,093)
Effect of foreign exchange rate difference		**708,854**	744,961
Cash and cash equivalents at 1 January		**44,376,663**	92,823,795
Cash and cash equivalents at 31 December	*27*	**65,734,351**	44,376,663

The notes on pages 42 to 95 form part of these financial statements.

1. BACKGROUND

The Company was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. These new and revised HKFRSs have no significant impact on the results or the financial position of the Group and the Company for current and previous accounting periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period *(see note 43)*.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the ("Group")) and the Group's interest in jointly controlled entities and associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis. The functional currencies of the Company and its subsidiaries in the PRC are Hong Kong dollars and Renminbi ("RMB") respectively. For the purposes of presenting the consolidated financial statements, the Group adopted Hong Kong dollars as its presentation currency.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 42.

(c) Subsidiaries and minority interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements, from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed by any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority interest in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently report profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

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

(d) Associates and jointly controlled entities

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

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

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

(e) Goodwill

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Other investments in equity securities

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

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

Investments in securities which do not fall into any of the above categories are classified as available-for-sales securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired *(see note 2(j))*, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

(g) Property, plant and equipment

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.

Plant and machinery	3-10 years
Motor vehicles	10 years
Office, computer and other equipment	5 years

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Construction in progress

Construction in progress represents buildings under construction and equipment pending installation, and is stated at cost less impairment losses *(see note 2(j))*. Cost comprises direct costs of construction as well as interest charges during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the People's Republic of China (the "PRC").

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable *(see note 2(w))*. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses *(see note 2(j))*. Other development expenditure is recognised as an expense in the period in which it is incurred.

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

Amortisation of capitalised development cost is charged to profit or loss over the estimated life cycle (not more than 5 years) of the relevant products. Amortisation of other intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives as follows:

Acquired technology	5 years
Patent	10 years

Both the period and method of amortisation are reviewed annually.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets

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

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

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

– goodwill.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– *Calculation of recoverable amount*

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

– *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.

(k) Leased assets

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

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(ii) Operating lease charges

Where the Group has the use of assets 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 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.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised costs less impairment losses for bad and doubtful debts *(see note 2(j))*, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts *(see note 2(j))*.

(n) Convertible notes

Convertible notes that can be converted to 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.

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. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Convertible notes *(Continued)*

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 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 amount of the liability component at the time of conversion, is 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.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

Bills discounted with recourse are not derecognised from the balance sheet until actual settlement on maturity, and the related advances from banks in respect of discounted bills are classified as secured bank loans.

(p) Trade and other payables

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

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee benefits

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

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits *(Continued)*

(ii) Share-based payments (Continued)

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.

(s) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit 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 profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Provisions and contingent liabilities

(i) Contingent liabilities acquired in business combinations

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

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the title to the goods and the related risks and rewards of ownership are passed to customers, the Group will not execute the right of supervision and control over the goods, either the proceeds are received or entitlement of proceeds is evidenced and the cost of sale of goods can be estimated reliably. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(iii) Interest income

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which related to that foreign operation is included in the calculation of the profit or loss on disposal.

(w) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(x) Related parties

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

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

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

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

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

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

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

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

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

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

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

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

(Expressed in Hong Kong dollars)

3. TURNOVER

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

Turnover represents the sales value of automotive safety products to customers net of sales tax and value added tax.

Turnover recognised during the year may be analysed as follows:

	2006	2005
	$	$
Sales of mechanical airbag systems	**82,409,345**	68,186,371
Sales of electronic airbag systems	**218,198,005**	75,799,105
Sales of automotive safety system components and other automotive safety products	**51,934,504**	51,683,261
	352,541,854	195,668,737

4. OTHER REVENUE

	2006	2005
	$	$
Interest income	**1,560,482**	683,589
Experiment fee	**722,946**	132,926
Subsidy income	**1,291,176**	–
Sundry income	**114,251**	2,364
	3,688,855	818,879

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

5. OTHER NET INCOME

	2006	2005
	$	$
Exchange gain	**1,369,727**	22,100
Loss on disposal of fixed assets	**(721,439)**	–
Negative goodwill	**600,590**	–
	1,248,878	22,100

(Expressed in Hong Kong dollars)

6. RESEARCH AND DEVELOPMENT EXPENSES

	2006	2005
	$	$
Research and development costs incurred during the year	**16,929,170**	9,381,496
Less: Development costs capitalised during the year *(note 18)*	**(12,990,974)**	(6,888,802)
Amounts charged to consolidated income statement	**3,938,196**	2,492,694

7. STAFF COSTS

	2006	2005
	$	$
Salaries, wages and bonuses	**14,559,933**	4,607,298
Equity settled share-based payment expenses	**2,282,000**	5,797,000
Staff welfare	**1,894,372**	518,780
Contributions to retirement benefit schemes	**597,245**	280,022
	19,333,550	11,203,100

8. PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2006	2005
	$	$
Interest expense on bank advances wholly repayable within five years	**4,586,182**	2,639,739
Interest expense on convertible notes	**3,509,530**	–
Discounting charges on discounted bills	**384,013**	157,687
	8,479,725	2,797,426
Less: borrowing costs capitalised into properties under development#	**(704,983)**	–
	7,774,742	2,797,426

The borrowing costs have been capitalised at a rate of 6.2% per annum (2005: Nil).

(Expressed in Hong Kong dollars)

8. PROFIT BEFORE TAXATION *(Continued)*

(b) Other items:

	2006	2005
	$	$
Depreciation	**9,384,206**	5,766,099
Auditors' remuneration	**1,328,529**	1,096,346
Amortisation of land lease premium	**510,984**	95,295
Impairment losses for bad and doubtful debts made/(written back)	**487,063**	(141,339)
Amortisation of intangible assets *(note 18)*		
– Acquired technology	**1,043,065**	810,692
– Development costs	**8,334,127**	1,082,558
– Patents	**2,386**	2,189
Royalty expenses	**646,485**	399,913

9. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006	2005
	$	$
Current tax		
PRC income tax for the year *(note 24(a))*	**3,052,314**	42,170
Deferred tax		
Origination and reversal of temporary differences *(note 24(b))*	**2,464,246**	403,873
Total income tax expense	**5,516,560**	446,043

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 income tax rules and regulations of the PRC, Jinzhou Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"), a subsidiary of the Company, which is being a wholly owned foreign enterprise, is entitled to a tax concession period in which it is fully exempted from PRC income tax for 2 years starting from its first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years. Jinheng Automotive is in the third year following the first profit-making year.

Pursuant to the income tax rules and regulations of the PRC, Harbin Hafei Jinheng Automotive Safety System Co., Ltd. ("Hafei Jinheng") and Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega"), subsidiaries of the Company, are liable to enterprise income tax at a rate of 27% for the year.

Income tax for other subsidiaries established and operating in the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC

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.

On 29 December 2006, the Standing Committee of the Tenth NPC passed a resolution to submit the draft corporate income tax law to the Tenth NPC plenary session for voting. If the draft tax law is passed, the income tax rates that are applicable to the subsidiaries of the Group may need to be revised.

(Expressed in Hong Kong dollars)

9. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

	2006	2005
	$	$
Profit before tax	**53,297,599**	32,469,388
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**16,376,803**	12,047,646
Tax effect of non-deductible expenses	**4,085,900**	2,330,064
Temporary differences not recognised	**–**	(108,930)
Tax effect of non-taxable revenue	**(1,106,999)**	(1,084,717)
Tax effect of tax concessions	**(9,962,206)**	(12,738,020)
Tax credit	**(3,876,938)**	–
Tax expense	**5,516,560**	446,043

The applicable tax rates for PRC income tax range from 27% to 33% (2005: 27% to 33%) depending on the locations where the PRC subsidiaries are situated.

Pursuant to the relevant approval document dated 17 January 2007 issued by the tax authorities in the PRC, Jinheng Automotive is entitled to a tax credit in relation to the purchase of fixed assets in the PRC. The tax credit represents 40% on amount of fixed assets purchased in the PRC from 2004 to 2006.

10. DIRECTORS' REMUNERATION

Year ended 31 December 2006

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Share-based payments	Contributions to retirement benefit schemes	Total
	$	$	$	$	$	$
Executive directors						
Mr. Li Feng	–	700,008	–	520,456	–	1,220,464
Mr. Xing Zhanwu	–	553,336	–	400,351	–	953,687
Mr. Zhao Qingjie	–	500,004	–	–	–	500,004
Mr. Yang Donglin	–	196,000	–	–	–	196,000
Mr. Foo Tin Chung, Victor	–	652,000	–	160,140	12,000	824,140
Non-executive directors						
Mr. Li Hong	–	100,008	–	–	–	100,008
Mr. Zeng Qingdong	–	100,008	–	–	–	100,008
Independent non-executive directors						
Mr. Chan Wai Dune	–	150,000	–	–	–	150,000
Mr. Huang Shilin	–	80,004	–	–	–	80,004
Mr. Zhu Tong	–	80,004	–	–	–	80,004
Total	–	3,111,372	–	1,080,947	12,000	4,204,319

(Expressed in Hong Kong dollars)

10. DIRECTORS' REMUNERATION *(Continued)*

Year ended 31 December 2005

	Directors' fees $	Salaries, allowances and benefits in kind $	Discretionary bonuses $	Share-based payments $	Contributions to retirement benefit schemes $	Total $
Executive directors						
Mr. Li Feng	–	700,008	–	1,322,123	–	2,022,131
Mr. Xing Zhanwu	–	500,004	–	1,017,018	–	1,517,022
Mr. Zhao Qingjie	–	500,004	–	–	–	500,004
Mr. Yang Donglin	–	180,000	–	–	–	180,000
Mr. Foo Tin Chung, Victor	–	624,000	–	406,807	12,000	1,042,807
Non-executive directors						
Mr. Li Hong	–	100,008	–	–	–	100,008
Mr. Zeng Qingdong	–	100,008	–	–	–	100,008
Independent non-executive directors						
Mr. Chan Wai Dune	–	150,000	–	–	–	150,000
Mr. Huang Shilin	–	13,334	–	–	–	13,334
Mr. Zhong Zhihua	–	66,670	–	–	–	66,670
Mr. Zhu Tong	–	80,004	–	–	–	80,004
Total	–	3,014,040	–	2,745,948	12,000	5,771,988

The above emoluments include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. Details of these benefits in kind are disclosed under the paragraph "share options scheme" in the report of the directors and note 32.

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

	Number of directors 2006	2005
$Nil to $1,000,000	**10**	11
	10	11

There were no amounts paid during the year to the directors in connection with their retirement from employment with the Group, or inducement to join. There was no any arrangement under which a director waived or agreed to waive any remuneration during the year.

(Expressed in Hong Kong dollars)

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments four (2005: five) are directors whose emoluments are disclosed in note 10 and their individuals' emoluments are within the band of $Nil to $1,000.000.

The aggregate of the emoluments in respect of the other individual is as follows:

	2006 $	2005 $
Salaries and other emoluments	168,477	–
Discretionary bonuses	160,000	–
Share-based payments	216,189	–
Contribution to retirement benefit scheme	5,177	–
	549,843	–
Number of senior management	1	Nil

The above individual's emoluments are within the band of $Nil to $1,000,000.

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

12. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of $14,777,431 (2005: $6,242,815) 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:

	2006 $	2005 $
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	(14,777,431)	(6,242,815)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	22,000,000	24,000,000
Company's profit for the year	7,222,569	17,757,185

13. DIVIDENDS

(a) Dividends attributable to the year

	2006 $	2005 $
Final dividend proposed after the balance sheet date of 3.5 HK cents per share (2005: 3.3 HK cents per share)	13,494,600	12,573,000

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

(Expressed in Hong Kong dollars)

13. DIVIDENDS *(Continued)*

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

	2006	2005
	$	$
Final dividend in respect of the previous financial year, approved and paid during the year of 3.3 HK cents per share (2005: 5.5 HK cents per share)	**12,723,480**	20,955,000

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $45,608,257 (2005: $32,016,170) and the weighted average of 384,473,096 (2005: 381,000,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares	
	2006	2005
Issued ordinary shares at 1 January	**381,000,000**	381,000,000
Effect of share options exercised *(note 33(a))*	**3,473,096**	–
Weighted average number of ordinary shares (basic) at 31 December	**384,473,096**	381,000,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $49,117,787 (2005: $32,016,170) and the weighted average number of 435,916,762 (2005: 388,024,242) ordinary shares, calculated as follows:

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

	2006	2005
	$	$
Profit attributable to ordinary equity shareholders	**45,608,257**	32,016,170
After tax effect of effective interest on the liability component of convertible notes	**3,509,530**	–
Profit attributable to ordinary equity shareholders (diluted)	**49,117,787**	32,016,170

(Expressed in Hong Kong dollars)

14. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share *(Continued)*

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

	Number of shares	
	2006	2005
Weighted average number of ordinary shares at 31 December	**384,473,096**	381,000,000
Effect of conversion of convertible notes	**46,943,683**	–
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration *(note 32)*	**4,499,983**	7,024,242
Weighted average number of ordinary shares (diluted) at 31 December	**435,916,762**	388,024,242

15. SEGMENT REPORTING

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

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

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

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

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

	2006	2005
	$	$
PRC	**317,115,257**	188,048,080
Malaysia	**26,652,245**	28,180
Italy	**7,628,108**	2,012,788
Others	**1,146,244**	5,579,689
	352,541,854	195,668,737

(Expressed in Hong Kong dollars)

16. FIXED ASSETS

The Group

	Buildings held for own use $	Machinery and equipment $	Motor vehicles $	Office equipment $	Sub-total $	Interests in leasehold land held for own use under operating leases $	Total $
Cost:							
At 1 January 2005	10,814,994	24,830,852	3,037,118	8,584,874	47,267,838	3,098,073	50,365,911
Exchange adjustments	207,979	477,517	58,406	163,790	907,692	59,582	967,274
Additions	998,670	15,883,696	1,248,061	1,301,061	19,431,488	5,957,692	25,389,180
Transfer from construction in progress *(note 17)*	5,869,620	5,746,885	–	884,108	12,500,613	–	12,500,613
At 31 December 2005	17,891,263	46,938,950	4,343,585	10,933,833	80,107,631	9,115,347	89,222,978
As at 1 January 2006	**17,891,263**	**46,938,950**	**4,343,585**	**10,933,833**	**80,107,631**	**9,115,347**	**89,222,978**
Exchange adjustments	**934,289**	**1,864,923**	**192,520**	**438,479**	**3,430,211**	**509,792**	**3,940,003**
Additions	**6,564,020**	**14,507,621**	**649,335**	**10,140,568**	**31,861,544**	**95,628**	**31,957,172**
Acquisition of subsidiary	**5,664,993**	**238,607**	**381,195**	**88,493**	**6,373,288**	**5,430,734**	**11,804,022**
Fair value adjustments upon acquisition of additional equity interest in a subsidiary	**(179,706)**	**(658,039)**	**–**	**–**	**(837,745)**	**2,835,294**	**1,997,549**
Transfer from construction in progress *(note 17)*	**6,434,855**	**–**	**–**	**–**	**6,434,855**	**–**	**6,434,855**
Disposals	**–**	**(453,381)**	**(794,043)**	**(402,706)**	**(1,650,130)**	**–**	**(1,650,130)**
As at 31 December 2006	**37,309,714**	**62,438,681**	**4,772,592**	**21,198,667**	**125,719,654**	**17,986,795**	**143,706,449**
Accumulated depreciation:							
At 1 January 2005	1,235,663	3,759,447	668,845	3,513,107	9,177,062	239,710	9,416,772
Exchange adjustments	23,763	72,297	12,862	67,470	176,392	4,610	181,002
Charge for the year	559,975	2,939,697	293,785	1,972,642	5,766,099	95,295	5,861,394
At 31 December 2005	1,819,401	6,771,441	975,492	5,553,219	15,119,553	339,615	15,459,168
As at 1 January 2006	**1,819,401**	**6,771,441**	**975,492**	**5,553,219**	**15,119,553**	**339,615**	**15,459,168**
Exchange adjustments	**72,776**	**270,871**	**42,548**	**221,770**	**607,965**	**17,124**	**625,089**
Charge for the year	**1,353,827**	**4,679,874**	**509,819**	**2,840,686**	**9,384,206**	**510,984**	**9,895,190**
Written back on disposal	**–**	**(41,724)**	**(434,537)**	**(356,352)**	**(832,613)**	**–**	**(832,613)**
As at 31 December 2006	**3,246,004**	**11,680,462**	**1,093,322**	**8,259,323**	**24,279,111**	**867,723**	**25,146,834**
Carrying amount:							
At 31 December 2005	16,071,862	40,167,509	3,368,093	5,380,614	64,988,078	8,775,732	73,763,810
At 31 December 2006	**34,063,710**	**50,758,219**	**3,679,270**	**12,939,344**	**101,440,543**	**17,119,072**	**118,559,615**

(Expressed in Hong Kong dollars)

16. FIXED ASSETS *(Continued)*

(a) The Group's interests in leasehold land and buildings for own use is held by the subsidiaries in the PRC, which represents the land use rights together with the buildings thereon situated in Beijing, Shenyang and Jinzhou, the PRC. The applications for the property ownership certificates of the leasehold land and building situated in Shenyang and Jinzhou with net book value of $5,455,084 and $6,000,000 respectively are still in progress and the property ownership certificates have not yet been issued to the Group by the relevant offices of the State-owned Land Bureau in the PRC as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has acquired the beneficial titles to these leasehold land and buildings as at 31 December 2006 and, the property ownership certificates can be obtained by June 2007.

(b) Leasehold land and buildings with carrying value totalling $15,742,242 (2005: $7,448,830) are mortgaged to banks for certain banking facilities granted to the Group as disclosed in note 29.

17. CONSTRUCTION IN PROGRESS

The Group

	2006	2005
	$	$
Cost:		
At 1 January	**5,483,039**	10,199,985
Exchange adjustments	**251,745**	196,154
Additions	**17,801,032**	7,587,513
Acquisition of a subsidiary	**800,192**	–
Transfer to property, plant and equipment *(note 16)*	**(6,434,855)**	(12,500,613)
At 31 December	**17,901,153**	5,483,039

(Expressed in Hong Kong dollars)

18. INTANGIBLE ASSETS

	Acquired technology $	Development costs $	Patents $	Total $
Cost:				
At 1 January 2005	3,749,705	6,836,129	18,865	10,604,699
Exchange adjustments	60,598	131,463	361	192,422
Additions	–	6,888,802	2,101	6,890,903
At 31 December 2005	3,810,303	13,856,394	21,327	17,688,024
At 1 January 2006	**3,810,303**	**13,856,394**	**21,327**	**17,688,024**
Exchange adjustments	**166,923**	**913,395**	**853**	**1,081,171**
Additions	**4,569,300**	**12,990,974**	**–**	**17,560,274**
Acquisition of subsidiary	**576,923**	**8,978,480**	**–**	**9,555,403**
At 31 December 2006	**9,123,449**	**36,739,243**	**22,180**	**45,884,872**
Accumulated amortisation:				
At 1 January 2005	1,463,729	1,977,027	3,567	3,444,323
Exchange adjustments	16,851	38,020	69	54,940
Charge for the year	810,692	1,082,558	2,189	1,895,439
At 31 December 2005	2,291,272	3,097,605	5,825	5,394,702
At 1 January 2006	**2,291,272**	**3,097,605**	**5,825**	**5,394,702**
Exchange adjustments	**70,291**	**123,904**	**233**	**194,428**
Charge for the year	**1,043,065**	**8,334,127**	**2,386**	**9,379,578**
At 31 December 2006	**3,404,628**	**11,555,636**	**8,444**	**14,968,708**
Carrying amount:				
At 31 December 2005	1,519,031	10,758,789	15,502	12,293,322
At 31 December 2006	**5,718,821**	**25,183,607**	**13,736**	**30,916,164**

Acquired technology comprises the following:

i A non-refundable licence fee was paid to Key Safety Systems, Inc. ("KSS") in accordance with the License and Technical Assistance Agreement signed in November 2000, pursuant to which KSS agreed to supply technical services and granted a license to Jinheng Automotive for use of the know-how relating to the processes, methods, techniques, constructions, equipment specifications, materials and product specifications for the production of airbags in the PRC. Acquired technology is amortised over the directors' estimated useful life of five years from December 2002, when the commercial production commenced.

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

Patents represent the registration fee of technologies developed by the Group. The directors consider that the estimated useful life of the patent to be 10 years.

(Expressed in Hong Kong dollars)

19. GOODWILL

The Group

	2006	2005
	$	$
Cost:		
At 1 January	–	–
Addition on acquisition of additional equity interest in a subsidiary *(note 35(b))*	180,577	–
Exchange adjustments	3,612	–
At 31 December	184,189	–

Impairment test for cash-generating units containing goodwill

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

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

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

Key assumptions used for value-in-use calculations:

Gross profit margin	20.3%
Growth rate	4.0%
Discount rate	13.0%

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

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

(Expressed in Hong Kong dollars)

20. INVESTMENTS IN SUBSIDIARIES

The Company

	2006 $	2005 $
Unlisted shares, at cost	**8,840,874**	100

Details of the subsidiaries as at 31 December 2006 are as follows:

Name of company	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest %	Proportion of ownership interest: Held by the Company %	Proportion of ownership interest: Held by subsidiary %	Principal activities and place of operation
Jinheng (BVI) Limited ("Jinheng (BVI)")	British Virgin Islands, limited liability company	$100	100	100	–	Investment holding in Hong Kong
Jinheng (Hong Kong) Limited ("Jinheng (Hong Kong)")	Hong Kong, limited liability company	$70	100	–	100	Investment holding in Hong Kong
Jinzhou Jinheng Automotive Safety System Co., Limited ("Jinheng Automotive")	The PRC, limited liability company	$100,000,000	100	–	100	Production and sales of automotive safety products in the PRC
Harbin Hafei Jinheng Automotive Safety System Co., Limited ("Hafei Jinheng")	The PRC, limited liability company	RMB13,000,000	90	–	90	Production and sales of automotive safety products in the PRC
Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega")	The PRC, limited liability company	RMB20,000,000	100	–	100	Production and sales of automotive safety parts in the PRC
Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")#	The PRC, limited liability company	RMB27,000,000	55.56	–	55.56	Production and sales of automotive safety products in the PRC

(Expressed in Hong Kong dollars)

20. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by subsidiary %	Principal activities and place of operation
Jinheng Automotive Electronic (BVI) Limited ("Jinheng Electronic BVI")*	British Virgin Islands, limited liability company	US$1	100	100	–	Investment holding in Hong Kong
Jinheng Automotive Electronic (Hong Kong) Limited ("Jinheng Electronic HK")#	Hong Kong, limited liability company	$100	100	–	100	Investment holding in Hong Kong
Great Idea Group Limited ("Great Idea")#	Hong Kong, limited liability company	$1	100	–	100	Investment holding in Hong Kong
Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd. ("Jinheng Jinsida")*	The PRC, limited liability company	$30,000,000	55	–	55	Production and sales of automotive electronic parts in the PRC
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Ltd. ("Beijing Great Idea")*	The PRC, limited liability company	$10,000,000	100	–	100	Production and sales of automotive electronic parts in the PRC
Jay Trumps Investments Limited ("Jay Trumps")#	British Virgin Islands, limited liability company	US$100	100	100	–	Investment holding in Hong Kong
Jinheng Engine Limited ("Jinheng Engine")#	British Virgin Islands, limited liability company	US$1	100	100	–	Investment holding in Hong Kong
Auto Full International Limited ("Auto Full")#	Hong Kong, limited liability company	$100	100	–	100	Investment holding in Hong Kong
Jinheng EMS (BVI) Limited ("Jinheng EMS (BVI)")*	British Virgin Islands, limited liability company	US$1	100	–	100	Investment holding in Hong Kong

These subsidiaries are newly acquired by the Group in 2006.

* These subsidiaries are newly set up by the Group in 2006.

(Expressed in Hong Kong dollars)

21. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2006	2005	2006	2005
	$	$	$	$
Unlisted shares, at cost	–	–	6,224,497	–
Share of net assets	15,402,989	–	–	–
Amount due from associates	2,835,670	–	2,835,670	–
Goodwill	10,392,802	–	–	–
	28,631,461	–	9,060,167	–

On 27 September 2006, the Group acquired 100% equity interest in Jay Trumps and 100% equity interest in Jinheng Engine (formerly Devon Fair Investments Limited), and 33.33% equity interest in Tai Tong Investments Limited ("the Acquisition") at an aggregate consideration of $27,180,500.

Jay Trumps and Jinheng Engine are investment holding companies and their principal assets are their indirect interest of a 20% equity interest in YanTai Vast Co., Limited ("YanTai Vast"). Tai Tong Investments Limited is an investment holding Limited and its principal assets are its indirect interest of a 30% equity interest in YanTai Vast.

Upon completion of the Acquisition, the Group has acquired a 30% equity interest in YanTai Vast.

Details of the Group's interest in the associates are as follows:

Name of associate	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
Tai Tong Investments Limited ("Tai Tong")	British Virgin Islands, limited liability company	US$3	33.3	33.3	–	Investment holding in Hong Kong
Harvest Full International Limited ("Harvest Full")	Hong Kong, limited liability company	$1	33.3	–	33.3	Investment holding in Hong Kong
YanTai Vast Co., Ltd. ("YanTai Vast")	The PRC, limited liability company	RMB40,000,000	30.0	–	30.0	Production and sales of cylinder liners and spare parts of automobile engines in the PRC

(Expressed in Hong Kong dollars)

21. INTERESTS IN ASSOCIATES *(Continued)*

(a) Impairment tests on goodwill arising from acquisition associates

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

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

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

Key assumptions used for value-in-use calculations:

Gross profit margin	27.1%
Growth rate	4.0%
Discount rate	13.0%

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

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

(b) Summary financial information on associates

	Assets *$*	Liabilities *$*	Equity *$*	Revenues *$*	Profit *$*
2006					
100 per cent	180,746,300	(128,470,522)	52,275,778	31,528,463	3,106,783
Group's effective interest	54,227,741	(38,824,752)	15,402,989	9,648,629	951,286
2005					
100 per cent	–	–	–	–	–
Group's effective interest	–	–	–	–	–

(Expressed in Hong Kong dollars)

22. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2006	2005
	$	$
Share of net assets	**13,099,491**	18,203,923

Details of the Group's interest in the jointly controlled entities are as follows:

Name of joint venture	Place of incorporation and kind of legal entity	Particulars of registered and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Principal activities and place of operation
Shanxi Jinheng Automotive Spare Parts Co., Ltd. ("Jinhang Parts")	The PRC, limited liability company	RMB20,040,000	35%	–	35%	Manufacture and sale of automotive safety parts in the PRC

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

	2006	2005
	$	$
Non-current assets	**10,276,825**	19,967,095
Current assets	**13,863,536**	10,290,972
Non-current liabilities	**(105,000)**	(134,615)
Current liabilities	**(10,935,870)**	(11,919,529)
Net assets	**13,099,491**	18,203,923
Income	**16,842,383**	14,228,949
Expenses	**(14,113,556)**	(14,498,114)
Profit/(loss) for the year	**2,728,827**	(269,165)

23. OTHER NON-CURRENT FINANCIAL ASSETS

	2006	2005
	$	$
Unlisted equity securities in the PRC available for sale, at cost	**50,000**	48,077

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

(Expressed in Hong Kong dollars)

24. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

The Group

	2006	2005
	$	$
Provision for PRC income tax for the year	**3,052,314**	42,170
PRC income tax paid	**(4,235,063)**	(66,030)
	(1,182,749)	(23,860)
Representing:		
Current tax recoverable	**(1,182,749)**	(48,320)
Current tax payable	**–**	24,460
	(1,182,749)	(23,860)

(b) Deferred tax assets and liabilities recognised

The Group

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

	Provisions	Development costs	Others	Total
	$	$	$	$
At 1 January 2005	–	–	–	–
(Credited)/charged to consolidated income statement *(note 9(a))*	(108,930)	–	512,803	403,873
At 31 December 2005	(108,930)	–	512,803	403,873
At 1 January 2006	**(108,930)**	**–**	**512,803**	**403,873**
(Credited)/charged to consolidated income statement *(note 9(a))*	**(163,218)**	**1,643,495**	**983,969**	**2,464,246**
Acquisition of a subsidiary *(note 35(a))*	**–**	**–**	**785,745**	**785,745**
Acquisition of additional equity interest in a subsidiary *(note 35(b))*	**–**	**–**	**539,304**	**539,304**
Exchange adjustments	**(7,621)**	**32,870**	**48,240**	**73,489**
At 31 December 2006	**(279,769)**	**1,676,365**	**2,870,061**	**4,266,657**

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

(Expressed in Hong Kong dollars)

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

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

	The Group		The Company	
	2006	2005	**2006**	2005
	$	*$*	***$***	*$*
Net deferred tax assets recognised on the balance sheet	**(24,127)**	(57,533)	**–**	–
Net deferred tax liabilities recognised on the balance sheet	**4,290,784**	461,406	**–**	–
	4,266,657	403,873	**–**	–

25. INVENTORIES

	The Group	
	2006	2005
	$	*$*
Raw materials	**49,826,124**	27,610,566
Work-in-progress	**7,631,030**	5,450,619
Finished goods	**21,068,250**	7,761,602
Spare parts and consumables	**162,407**	305,159
	78,687,811	41,127,946

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

	The Group	
	2006	2005
	$	*$*
Carrying amount of inventories sold	**253,871,689**	133,133,369
Write down of inventories	**(871,540)**	–
	253,000,149	133,133,369

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

(Expressed in Hong Kong dollars)

26. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$	$	**$**	$
Trade receivables	**174,328,189**	82,337,134	**–**	–
Bills receivable	**35,906,894**	12,700,913	**–**	–
	210,235,083	95,038,047	**–**	–
Amounts due from subsidiaries	**–**	–	**159,230,835**	74,018,790
Prepayments	**12,924,237**	7,917,102	**601,185**	3,033,333
Other receivables	**11,915,264**	7,940,376	**1,442,493**	3,784,582
	235,074,584	110,895,525	**161,274,513**	80,836,705

Included in trade receivables are amounts due from related companies of $22,628,728 (2005: $20,476,920) *(see note 38(b))*.

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

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

An ageing analysis of trade receivables and bills receivable (net of impairment losses for bad and doubtful debts) is as follows:

	The Group	
	2006	2005
	$	$
Current	**205,762,456**	79,710,439
1 to 3 months overdue	**3,856,878**	14,269,882
More than 3 months overdue but less than 12 months overdue	**615,749**	655,844
More than 1 year overdue but less than 2 years overdue	**–**	401,882
	210,235,083	95,038,047

The Group's credit policy is set out in note 36(a).

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

Included in trade receivables, prepayments and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
United States Dollars	**USD 116,559**	USD 4,806	**USD –**	USD –
Sterling	**GBP 3,705**	GBP –	**GBP –**	GBP –
Euros	**EUR 722,160**	EUR 17,500	**EUR –**	EUR –

27. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	$	$	**$**	$
Cash and cash equivalents in the balance sheet and cash flow statement	**65,734,351**	44,376,663	**960,043**	4,453,906

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
United States Dollars	**USD 18,596**	USD 1,773,748	**USD 15,004**	USD 270,808
Euros	**EUR 156**	EUR –	**EUR –**	EUR –

Other than disclosed above, cash and cash equivalents of $17,776,132 (2005: $17,698,545) 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.

28. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$	$	**$**	$
Trade payables	**108,596,664**	28,896,906	**–**	–
Other payables	**44,352,832**	5,644,875	**20,972,508**	972,449
	152,949,496	34,541,781	**20,972,508**	972,449

Included in trade and other payables are amounts due to related parties of $25,614,610 (2005: $8,285,390) *(see note 38(c))*.

28. TRADE AND OTHER PAYABLES *(Continued)*

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	
	2006	2005
	$	$
Within 3 months	**80,938,618**	26,758,843
Over 3 months but less than 6 months	**27,658,046**	2,138,063
	108,596,664	28,896,906

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group				The Company			
		2006		2005		**2006**		2005
United States Dollars	**USD**	**33,320**	USD	–	**USD**	**–**	USD	–
Sterling	**GBP**	**286,149**	GBP	–	**GBP**	**–**	GBP	–
Euros	**EUR**	**31,528**	EUR	–	**EUR**	**–**	EUR	–

29. BANK LOANS

The bank loans are repayable as follows:

	The Group	
	2006	2005
	$	$
Within 1 year or on demand	**93,927,000**	43,037,023
After 1 year but within 2 years	**24,000,000**	26,923,077
	117,927,000	69,960,100
Representing:		
Secured bank loans	**27,927,000**	19,960,100
Unsecured bank loans	**90,000,000**	50,000,000
	117,927,000	69,960,100

All the bank loans are with PRC commercial banks denominated in RMB. There were no unutilised banking facilities as at 31 December 2006 (2005: $Nil).

29. BANK LOANS *(Continued)*

At 31 December 2006, terms of bank loans were as follows:

(a) A bank loan of $5,800,000 (2005: $Nil), which carried interest at 7.61% (2005: Nil) per annum with final maturity on 20 April 2007, was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of $6,005,634 (2005: $Nil).

(b) A bank loan of $4,000,000 (2005: $Nil), which carried interest at 7.84% (2005: Nil) per annum with final maturity on 30 July 2008, was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of $6,836,110 (2005: $Nil).

(c) A bank loan of $12,000,000 (2005: $15,480,769), which carried interest at 7.02% (2005: 5.49%) per annum with final maturity on 27 September 2007 (2005: 24 July 2006), was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of $2,900,498 (2005: $7,448,830).

(d) Discounted bills with recourse totalling $6,127,000 (2005: $4,479,331) were secured by the related bills receivable and were repayable within one year.

(e) Certain unsecured bank loans totalling $70,000,000 (2005: $23,076,923) carried interest at rates ranging from 5.58% to 7.02% (2005: from 5.58% to 6.24%) per annum and were repayable within one year.

(f) An unsecured bank loan of $20,000,000 (2005: $26,923,077) carried interest at 5.47% (2005: 5.58%) per annum with final maturity on 19 March 2008 (2005: 25 July 2007).

30. CONVERTIBLE NOTES

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

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

The convertible notes were split into liability and equity components of $71,849,874 and $5,150,126 respectively upon initial recognition by recognising the liability component at its fair value and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost and the equity component is recognised in the capital reserve.

(Expressed in Hong Kong dollars)

30. CONVERTIBLE NOTES *(Continued)*

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

	2006	2005
	$	$
At 1 January	–	–
Liability component of convertible notes issued during the year, net of issuing costs	70,702,242	–
Interest expense recognised in profit of loss	552,078	–
At 31 December	71,254,320	–

31. EMPLOYEE RETIREMENT BENEFITS

(a) Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Jinzhou, Harbin, Shenyang and Beijing, whereby the Group is required to make contributions to the Schemes at a rate ranging from 19% to 22% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

(b) The Group also operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

32. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme as defined in the Prospectus, which were adopted on 22 November 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company to a maximum of 49,500,000 shares. The share option schemes shall be valid and effective for a period of 10 years ending on 22 November 2014 after which no further options will be granted. The exercise price of options may be determined by the board at its absolute discretion but in any event will not be less than the higher of:

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

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

(iii) the nominal value of a share.

(Expressed in Hong Kong dollars)

32. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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

Pre-IPO Employee Share Option Scheme

	Number of instruments	Vesting conditions and exercisable percentage condition	*Up to* %	Contractual life of options
Options granted to directors				
– on 22 November 2004	5,400,000	First anniversary of the listed date	40	4 years
		Second anniversary of the listed date	80	
		Third anniversary of the listed date	100	
Options granted to employees				
– on 22 November 2004	6,000,000	First anniversary of the listed date	40	4 years
		Second anniversary of the listed date	80	
		Third anniversary of the listed date	100	
Total share options	11,400,000			

(Expressed in Hong Kong dollars)

32. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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

	2006		2005	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	$		$	
Outstanding at the beginning of the year	**0.38**	**11,400,000**	0.38	11,400,000
Exercised during the year	**0.38**	**(4,560,000)**	–	–
Outstanding at the end of the year	**0.38**	**6,840,000**	0.38	11,400,000
Exercisable at the end of the year	**0.38**	**4,560,000**	0.38	4,560,000

The weighted average share price at the date of exercise for shares options exercised during the year was $0.77 (2005: not applicable).

The options outstanding at 31 December 2006 had an exercise price of $0.38 (2005: $0.38) and a weighted average remaining contractual life of 1.9 years (2005: 2.9 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

	2006	2005
Fair value at measurement date	**$0.788**	$0.788
Share price	**$1.18**	$1.18
Exercise price	**$0.38**	$0.38
Expected volatility (expressed at weighted average volatility used in the modelling under the binomial lattice model)	**50%**	50%
Option life (expressed as weighted average life used in the modelling under the binomial lattice model)	**4 years**	4 years
Expected dividends	**2.3%**	2.3%
Risk-free interest rate (based on Exchange Fund Notes)	**2.1%**	2.1%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(Expressed in Hong Kong dollars)

33. SHARE CAPITAL

	Note	2006 Number of shares	2006 $	2005 Number of shares	2005 $
Authorised:					
Ordinary shares of $0.01 each		**10,000,000,000**	**100,000,000**	10,000,000,000	100,000,000
Issued:					
At 1 January		**381,000,000**	**3,810,000**	381,000,000	3,810,000
Shares issued under share option scheme	*(a)*	**4,560,000**	**45,600**	–	–
As 31 December		**385,560,000**	**3,855,600**	381,000,000	3,810,000

(a) During the year, share options were exercised to subscribe for 4,560,000 (2005: Nil) ordinary shares in the Company at a consideration of $1,732,800 (2005: $Nil) of which $45,600 (2005: $Nil) was credited to share capital and the balance of $1,687,200 (2005: $Nil) was credited to the share premium account. $3,592,400 (2005: $Nil) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 2(r)(ii).

(Expressed in Hong Kong dollars)

34. RESERVES

The Group

	Attributable to equity shareholders of the Company										
	Share Premium $	Merger reserve $	Statutory surplus reserve $	Statutory public welfare fund $	Capital reserve $	Exchange reserve $	Other reserve $	Retained profits $	Sub-total $	Minority interests $	Total $
At 1 January 2005	80,168,124	36,341,236	8,749,449	4,374,723	3,748,757	–	–	42,938,556	176,320,845	1,187,182	177,508,027
Equity settled share-based transactions	–	–	–	–	5,797,000	–	–	–	5,797,000	–	5,797,000
Dividend approved in respect of prior year	–	–	–	–	–	–	–	(20,955,000)	(20,955,000)	–	(20,955,000)
Profit for the year	–	–	–	–	–	–	–	32,016,170	32,016,170	7,175	32,023,345
Appropriations to statutory reserves	–	–	3,866,734	1,933,366	–	–	–	(5,800,100)	–	–	–
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	–	–	–	–	–	2,357,650	–	–	2,357,650	22,830	2,380,480
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	9,423,077	9,423,077
At 31 December 2005	80,168,124	36,341,236	12,616,183	6,308,089	9,545,757	2,357,650	–	48,199,626	195,536,665	10,640,264	206,176,929
At 1 January 2006	80,168,124	36,341,236	12,616,183	6,308,089	9,545,757	2,357,650	–	48,199,626	195,536,665	10,640,264	206,176,929
Equity settled share-based transactions	–	–	–	–	2,282,000	–	–	–	2,282,000	–	2,282,000
Dividend approved in respect of prior years	–	–	–	–	–	–	–	(12,723,480)	(12,723,480)	–	(12,723,480)
Profit for the year	–	–	–	–	–	–	–	45,608,257	45,608,257	2,172,782	47,781,039
Appropriations to statutory reserves	–	–	5,070,221	2,535,112	–	–	–	(7,605,333)	–	–	–
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	–	–	–	–	–	7,459,514	–	–	7,459,514	812,254	8,271,768
Shares issued under share option scheme	5,279,600	–	–	–	(3,592,400)	–	–	–	1,687,200	–	1,687,200
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	13,534,000	13,534,000
Equity component of convertible notes	–	–	–	–	5,076,618	–	–	–	5,076,618	–	5,076,618
Acquisition of additional equity interest in a subsidiary	–	–	–	–	–	–	811,005	–	811,005	(8,800,222)	(7,989,217)
Acquisition of subsidiaries	–	–	–	–	–	–	1,330,060	–	1,330,060	12,038,837	13,368,897
At 31 December 2006	85,447,724	36,341,236	17,686,404	8,843,201	13,311,975	9,817,164	2,141,065	73,479,070	247,067,839	30,397,915	277,465,754

(Expressed in Hong Kong dollars)

34. RESERVES *(Continued)*

The Company

	Share premium $	Capital reserve $	Accumulated losses $	Total $
At 1 January 2005	80,168,124	345,000	(2,604,047)	77,909,077
Profit for the year	–	–	17,757,185	17,757,185
Dividends approved in respect of prior year	–	–	(20,955,000)	(20,955,000)
Equity settled share-based transactions	–	5,797,000	–	5,797,000
At 31 December 2005	80,168,124	6,142,000	(5,801,862)	80,508,262
At 1 January 2006	80,168,124	6,142,000	(5,801,862)	80,508,262
Profit for the year	–	–	7,222,569	7,222,569
Dividends approved in respect of prior year	–	–	(12,723,480)	(12,723,480)
Equity settled share-based transactions	–	2,282,000	–	2,282,000
Share issued under share option scheme	5,279,600	(3,592,400)	–	1,687,200
Equity component of convertible notes	–	5,076,618	–	5,076,618
At 31 December 2006	85,447,724	9,908,218	(11,302,773)	84,053,169

(a) Share premium

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

(b) 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.

34. RESERVES *(Continued)*

(c) PRC statutory reserves

Transfers from retained profits to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

(i) 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.

(ii) Statutory public welfare fund

The subsidiaries in the PRC are required to transfer 5% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the subsidiaries' employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

(d) Distributability of reserves

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the company was $73,479,070 (2005: $48,199,626). After the balance sheet date the directors proposed a final dividend of 3.5 HK cents per ordinary share (2005: 3.3 HK cents per share), amounting to $13,494,600 (2005: $12,573,000). This dividend has not been recognised as a liability at the balance sheet date.

(e) Capital reserve

The capital reserve comprises the following:

– the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 2(r)(ii);

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

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

(f) Other reserve

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

(Expressed in Hong Kong dollars)

35. ACQUISITION OF SUBSIDIARIES AND ADDITIONAL EQUITY INTEREST IN A SUBSIDIARY

(a) Acquisition of subsidiaries

(i) Jinbei Jinheng

On 24 January 2006, pursuant to the approval of the subscription agreement dated 26 August 2005, the Group injected additional capital of RMB5,000,000 (equivalent to $4,835,000) into Jinbei Jinheng. As a result of the subscription, the Group's equity interest in Jinbei Jinheng increased from 50% to 55.56% effective on the same date.

Jinbei Jinheng is engaged in designing, manufacturing and selling of automotive safety airbag system and related automotive spare parts in the PRC. Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisitions
	$	$	$
Fixed assets	8,270,849	3,533,173	11,804,022
Construction in progress	810,577	(10,385)	800,192
Deposits for acquisition of fixed assets	1,913,269	–	1,913,269
Intangible assets	9,555,403	–	9,555,403
Inventories	501,231	–	501,231
Trade receivables, prepayments and other receivables	1,414,549	–	1,414,549
Cash and cash equivalents	10,361,384	–	10,361,384
Trade and other payables	(8,397,289)	(76,923)	(8,474,212)
Deferred tax liabilities	–	(785,745)	(785,745)
Net identifiable assets	24,429,973	2,660,120	27,090,093
Share of net identifiable assets attributable to the Group (55.56%)			15,051,256
Less: share of net identifiable assets attributable to the Group's initial interest (50%)			(9,615,666)
Net assets acquired			5,435,590
Negative goodwill on acquisition			(600,590)
Consideration paid			4,835,000
Less: cash of subsidiary acquired			(10,361,384)
Net cash inflow in respect of purchase of a subsidiary			(5,526,384)

(Expressed in Hong Kong dollars)

35. ACQUISITION OF SUBSIDIARIES AND ADDITIONAL EQUITY INTEREST IN A SUBSIDIARY *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

(ii) Jay Trumps and Jinheng Engine

On 27 October 2006, pursuant to the approval of the sales and purchase agreement dated 27 September 2006, the Group acquired 100% equity interest in Jay Trumps and 100% equity interest in Jinheng Engine.

Jay Trumps and Jinheng Engine are investment holding companies and their principal assets are their direct interest of 51% and 49% equity interest in Auto Full respectively. Auto Full is an investment holding company and its principal asset is its direct interest of 20% equity interest in YanTai Vast. YanTai Vast is engaged in production and selling of cylinder lines and spare parts of automobile engines in the PRC.

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

	Pre-acquisition carrying amounts $	Fair value adjustments $	Recognised values on acquisitions $
Interest in associates	10,325,369	7,741,127	18,066,496
Other receivables	888	–	888
Cash and cash equivalents	67,089	–	67,089
Amount due to a shareholder	(9,279,567)	–	(9,279,567)
Other payables	(14,140)	–	(14,140)
Net identifiable assets acquired	1,099,639	7,741,127	8,840,766
Add: Amount due from Auto Full			9,279,567
Consideration paid			18,120,333
Less: cash of subsidiary acquired			(67,089)
Net cash outflow in respect of purchase of a subsidiary			18,053,244

(Expressed in Hong Kong dollars)

35. ACQUISITION OF SUBSIDIARIES AND ADDITIONAL EQUITY INTEREST IN A SUBSIDIARY *(Continued)*

(b) Acquisition of additional equity interest in a subsidiary

On 15 October 2006, pursuant to the approval of the sales and purchase agreement dated 27 September 2006, the Group acquired the entire equity interest held by the minority interest of Jinheng Sega. As a result of the acquisition, the Group's equity interest in Jinheng Sega increased from 51% to 100% effective on the same date.

Jinheng Sega is engaged in designing, manufacturing and selling of automotive spare parts in the PRC. Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts $	Fair value adjustments $	Recognised values on acquisitions $
Fixed assets	22,771,667	1,997,549	24,769,216
Construction in Progress	1,451,137	–	1,451,137
Inventories	8,543,865	131,961	8,675,826
Trade and other receivables	12,074,632	–	12,074,632
Cash and cash equivalents	1,992,060	–	1,992,060
Trade and other payables	(19,265,877)	–	(19,265,877)
Bank loan	(9,607,843)	–	(9,607,843)
Deferred tax liabilities	–	(539,304)	(539,304)
Net identifiable assets	17,959,641	1,590,206	19,549,847
Share of net identifiable assets attributable to the Group (100%)			19,549,847
Less: Share of net assets attributable to the Group's initial interest (51%)			(9,970,424)
Net assets acquired			9,579,423
Goodwill on acquisition *(note 19)*			180,577
Consideration paid			9,760,000

(Expressed in Hong Kong dollars)

36. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practises described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. The Group generally grants a credit period of not more than 90 days from date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and credit worthiness, extend the credit period upon customers' request. Debtors with balances that are more than 12 months overdue are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain level of concentrations of credit risk as 23.1% (2005: 19.3%) and 44.7% (2005: 56.1%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

(b) Interest rate risk

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2006					2005				
	Effective interest rate %	Total $	1 year or less $	1 - 2 years $	2 - 5 years $	Effective interest rate %	Total $	1 year or less $	1 - 2 years $	2 - 5 years $
Repricing dates for assets which reprice before maturity										
Cash and cash equivalents	2.73	65,734,351	65,734,351	–	–	1.43	44,376,663	44,376,663	–	–
Maturity dates for liabilities which do not reprice before maturity										
Bank loans	5.78	(117,927,000)	(93,927,000)	(24,000,000)	–	5.64	(69,960,100)	(43,037,023)	(26,923,077)	–
Convertible notes	9.12	(71,254,320)	–	–	(71,254,320)	–	–	–	–	–
		(189,181,320)	(93,927,000)	(24,000,000)	(71,254,320)		(69,960,100)	(43,037,023)	(26,923,077)	–

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Interest rate risk *(Continued)*

The Company

	2006					2005				
	Effective interest rate %	Total $	1 year or less $	1 - 2 years $	2 - 5 years $	Effective interest rate %	Total $	1 year or less $	1 - 2 years $	2 - 5 years $
Repricing dates for assets which reprice before maturity										
Cash and cash equivalents	0.53	960,042	960,042	–	–	2.63	4,453,906	4,453,906	–	–
Maturity dates for liabilities which do not reprice before maturity										
Convertible notes	9.12	(71,254,320)	–	–	(71,254,320)	–	–	–	–	–

(c) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in United States dollars ("USD") and Euros ("EUR"). As USD is pegged in Hong Kong dollars ("HKD"), the Group does not expect any significant investments in the USD/HKD exchange rate. For sales denominated in EUR the Group ensures that the net exposure is kept to an acceptable level by buying or selling EUR at spot rates where necessary to address short-term imbalances.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

37. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments, representing purchase of property, plant and equipment, not provided for in the consolidated financial statements were as follows:

	The Group	
	2006	2005
	$	$
Contracted for	**7,132,349**	11,167,890
Authorised but not contracted for	**–**	9,265,577
	7,132,349	20,433,467

(b) In respect of its interest in jointly controlled entities *(see note 22)*, the Group is committed to incur capital expenditure of $709,679 (2005: $3,788,512). The jointly controlled entities are themselves committed to incur capital expenditure of $2,027,653 (2005: $8,445,954).

(c) At 31 December 2006, the Company had a capital commitment of RMB7,000,000 (2005: RMB Nil) (equivalent to $7,000,000 (2005: $Nil)) representing capital contribution for setting up a subsidiary in the PRC.

(d) Pursuant to an acquisition agreement dated 17 November 2006, a wholly owned subsidiary of the Group, Jinheng EMS (BVI) undertook to acquire a 61.5% equity interest in 北京鋭意泰克汽車電子有限公司("鋭意泰克") at a consideration of $40,003,983 from an independent third party. The acquisition of 鋭意泰克was not completed at 31 December 2006.

(Expressed in Hong Kong dollars)

37. COMMITMENTS AND CONTINGENCIES *(Continued)*

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

	The Group		The Company	
	2006	2005	**2006**	2005
	$	$	**$**	$
Properties				
Within 1 year	**409,344**	107,257	**208,512**	65,590
After 1 year but within 5 years	**294,965**	166,667	**121,632**	–
After 5 years	**949,733**	954,864	**–**	–
	1,654,042	1,228,788	**330,144**	65,590
Others				
Within 1 year	**8,400**	8,400	**–**	–
After 1 year but within 5 years	**11,200**	19,600	**–**	–
	19,600	28,000	**–**	–

The Group leases a number of properties and office equipment under operating leases for a period of 1 to 30 years. The leases do not include contingent rentals.

38. MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
Jinheng Parts	35% owned jointly controlled entity of the Group
Jinbei Jinheng	50% owned jointly controlled entity of the Group in 2005
Hafei Motor Co., Ltd. ("Hafei Motor")	Minority shareholder (10%) of Hafei Jinheng
Shenyang Jinbei Automotive Company Limited ("Jinbei Automotive")	Minority shareholder (14.81%) Jinbei Jinheng
Shenyang Brilliance Jinbei Automobile Company Limited ("Brilliance Jinbei")	An associate (49%) of Jinbei Automotive
Li Feng ("Mr Li")	Director of the Company

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

(Expressed in Hong Kong dollars)

38. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Recurring

	The Group	
	2006	2005
	$	$
Rental expenses paid to		
– Mr. Li	**563,794**	–
Purchases of raw materials from:		
– Jinheng Parts	**47,596,710**	41,513,063
Sales of airbag systems or other automotive safety products to:		
– Hafei Motor	**19,541,371**	25,139,226
– Jinbei Jinheng	**–**	3,385,846
– Brilliance Jinbei	**37,513,111**	–
– Jinheng Parts	**536,822**	–

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

In addition, remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in *note 10* and certain of highest paid employee as disclosed in *note 11*, is as follows:

	The Group	
	2006	2005
	$	$
Short-term employee benefits	**3,912,193**	3,531,360
Post-employment benefits	**32,706**	14,880
Equity compensation benefits	**2,017,766**	5,125,769
	5,962,665	8,672,009

Total remuneration is included in "staff costs" *(see note 7)*.

(Expressed in Hong Kong dollars)

38. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Amounts due from related companies

	The Group	
	2006	2005
	$	$
Jinbei Jinheng	–	7,774,353
Brilliance Jinbei	**15,055,307**	–
Hafei Motor	**7,573,421**	12,702,567
	22,628,728	20,476,920

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

(c) Amount due to related parties

	The Group	
	2006	2005
	$	$
Jinheng Parts	**25,149,070**	8,285,390
Mr Li	**465,540**	–
	25,614,610	8,285,390

The amount due to Jinheng Parts is trade-related, unsecured, interest free and is expected to be repaid within one year.

The amount due to Mr. Li is non-trade related, unsecured, interest free and is expected to be repaid within one year.

These amounts are included in "Trade and other payables" in the consolidated balance sheet *(see note 28)*.

39. MAJOR NON-CASH TRANSACTIONS

In 2005, pursuant to the investment agreement in connection with the establishment of Jinheng Sega, Beijing Jin Chuang Li Technology Limited (the minority shareholder of Jinheng Sega) injected capital of RMB9,800,000 (equivalent to $9,423,077) to Jinheng Sega, which was partially satisfied by a transfer of the land use rights, buildings and equipment amounted to RMB6,196,000 (equivalent to $5,957,692), RMB1,020,400 (equivalent to $981,154) and RMB956,800 (equivalent to $920,000) respectively.

40. NON-ADJUSTING POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 13.

41. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2006, the directors consider the immediate parent and ultimate controlling party of the Group to be Applaud Group Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

42. ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. In addition to note 32 which contains information about the assumptions and the risk factors relating to fair value of share options granted, certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product-by-product basis at each year end date and assess the need for write down of inventories.

(c) Impairment losses for bad and doubtful debts

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

42. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Impairment losses for goodwill

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

(e) Capitalisation of development costs

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

43. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2006 and which have not been adopted in these financial statements.

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

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

FIVE YEARS SUMMARY

(Expressed in Hong Kong dollars)

	2002 $	2003 $	2004 $	2005 $	**2006** **$**
OPERATING RESULTS					
Turnover	93,161,961	189,731,187	182,285,188	195,668,737	**352,541,854**
Profit from operations	12,202,033	41,910,581	55,664,032	35,535,979	**57,392,228**
Finance costs	(2,253,144)	(4,337,876)	(3,503,497)	(2,797,426)	**(7,774,742)**
Share of profits of associates	–	–	–	–	**951,286**
Share of (losses)/profits of jointly controlled entities	–	(159,234)	(694,922)	(269,165)	**2,728,827**
Profit before taxation	9,948,889	37,413,471	51,465,613	32,469,388	**53,297,599**
Income tax	(2,032,825)	(9,945,979)	(47,684)	(446,043)	**(5,516,560)**
Profit for the year	7,916,064	27,467,492	51,417,929	32,023,345	**47,781,039**
Attributable to:					
Equity shareholders of the Company	7,916,064	27,467,492	51,457,162	32,016,170	**45,608,257**
Minority interests	–	–	(39,233)	7,175	**2,172,782**
Profit for the year	7,916,064	27,467,492	51,417,929	32,023,345	**47,781,039**
Earnings per share					
– Basic	2.64 cents	9.16 cents	16.88 cents	8.40 cents	**11.86 cents**
– Diluted	N/A	N/A	16.84 cents	8.25 cents	**11.27 cents**
Assets and liabilities					
Non-current assets	34,301,709	59,581,591	88,446,411	118,521,598	**247,063,459**
Net current assets	3,945,344	15,421,833	134,475,390	118,849,814	**133,802,999**
Total assets less current liabilities	38,247,053	75,003,424	222,921,801	237,371,412	**380,866,458**
Non-current liabilities	–	(52,830,189)	(41,603,774)	(27,384,483)	**(99,545,104)**
NET ASSETS	38,247,053	22,173,235	181,318,027	209,986,929	**281,321,354**
Capital and reserves					
Share capital	28,301,887	–	3,810,000	3,810,000	**3,855,600**
Reserves	9,945,166	20,946,820	176,320,845	195,536,665	**247,067,839**
Total equity attributable to equity shareholders of the Company	38,247,053	20,946,820	180,130,845	199,346,665	**250,923,439**
Minority interests	–	1,226,415	1,187,182	10,640,264	**30,397,915**
TOTAL EQUITY	38,247,053	22,173,235	181,318,027	209,986,929	**281,321,354**

Note: The Company was incorporated in Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (law 3 of 1961, as consolidated and revised) of the Cayman Islands, The Company became the holding company of the Group on 22 November 2004 through the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing group and has been accounted for on the basis of merger accounting. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 January 2002, rather than from 22 November 2004. Accordingly, the consolidated results of the Group for the five years ended 31 December 2006 have been prepared as if the Group structure immediately after the Reorganisation had been in existence since 1 January 2002. This financial summary includes the consolidated results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheets at 31 December 2002, 2003, 2004, 2005 and 2006 are the combination of the balance sheets of the Company and its subsidiaries at 31 December 2002, 2003, 2004, 2005 and 2006. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.