



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)*

Interim Report 2005

steady  
growth

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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*This report, for which the directors (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 GEM (“GEM Listing Rules”) for the purpose of giving information with regard to 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.*

*As at the date of this report, the Board comprises 5 executive Directors, namely Messrs. Li Feng, Xing Zhanwu, Zhao Qingjie, Yang Donglin and Foo Tin Chung, Victor; 2 non-executive Directors, namely Messrs. Li Hong and Zeng Qingdong; and 3 independent non-executive Directors, namely Messrs. Chan Wai Dune, Zhong Zhihua and Zhu Tong.*

The board of directors of the Company (the “Board”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for each of the three months and six months ended 30 June 2005, together with the unaudited comparative figures for the corresponding periods in 2004 as follows:

### CONSOLIDATED INCOME STATEMENT – UNAUDITED FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2005

	Note	Three months ended 30 June		Six months ended 30 June	
		2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
<b>Turnover</b>	4	53,754,626	49,276,449	94,630,028	100,280,794
<b>Cost of sales</b>		(37,996,633)	(31,178,590)	(65,794,895)	(63,169,937)
<b>Gross profit</b>		15,757,993	18,097,859	28,835,133	37,110,857
<b>Other revenue</b>		288,035	157,910	358,683	318,254
<b>Other net loss</b>		(106,569)	(21,296)	(126,098)	(49,349)
<b>Research and development expenses</b>		(661,432)	(995,408)	(1,594,560)	(1,974,412)
<b>Distribution costs</b>		(1,272,864)	(1,009,687)	(1,910,009)	(1,891,951)
<b>Administrative expenses</b>		(5,322,865)	(1,527,127)	(8,933,706)	(3,341,985)
<b>Profit from operations</b>		8,682,298	14,702,251	16,629,443	30,171,414
<b>Finance costs</b>	5(a)	(537,347)	(1,193,415)	(1,193,274)	(2,485,979)
<b>Share of profits/(losses) of jointly controlled entities</b>		54,121	(248,456)	15,300	(455,902)
<b>Profit before taxation</b>	5	8,199,072	13,260,380	15,451,469	27,229,533
<b>Income tax</b>	6	(47,797)	(47,684)	59,078	(47,684)
<b>Profit after taxation</b>		8,151,275	13,212,696	15,510,547	27,181,849
<b>Attributable to:</b>					
Equity holders of the Company		8,030,130	13,222,594	15,527,800	27,206,974
Minority interests		121,145	(9,898)	(17,253)	(25,125)
<b>Profit after taxation</b>		8,151,275	13,212,696	15,510,547	27,181,849
<b>Earnings per share</b>					
– Basic	8(a)	HK2.11 cents	HK4.41 cents	HK4.08 cents	HK9.07 cents
– Diluted	8(b)	HK2.07 cents	N/A	HK4.00 cents	N/A

The notes on pages 6 to 18 form part of this interim financial report.

**CONSOLIDATED BALANCE SHEET – UNAUDITED  
AT 30 JUNE 2005**

		<b>30 June</b>	31 December
		<b>2005</b>	2004
	<i>Note</i>	<b>HK\$</b>	<b>HK\$</b>
			(Restated)
<b>Non-current assets</b>			
Property, plant and equipment	9	48,271,802	38,090,776
Construction in progress		7,671,489	10,199,985
Interest in jointly controlled entities		14,727,182	14,711,882
Other non-current financial assets		4,764,151	4,764,151
Intangible assets		7,790,805	7,160,376
Lease prepayments		2,827,851	2,858,363
Deferred tax assets		106,875	—
		<b>86,160,155</b>	<b>77,785,533</b>
<b>Current assets</b>			
Inventories		39,567,533	39,184,992
Trade receivables, prepayments and other receivables	10	101,484,371	69,907,797
Pledged bank deposits		—	4,495
Cash and cash equivalents	11	78,394,159	92,823,795
		<b>219,446,063</b>	<b>201,921,079</b>
<b>Current liabilities</b>			
Trade and other payables	12	41,812,745	25,310,229
Bank loans	13	46,773,585	34,811,321
Current taxation		47,797	—
Dividend payables		—	67,018
		<b>88,634,127</b>	<b>60,188,568</b>
<b>Net current assets</b>		<b>130,811,936</b>	<b>141,732,511</b>
<b>Total assets less current liabilities</b>		<b>216,972,091</b>	<b>219,518,044</b>
<b>Non-current liabilities</b>			
Bank loans	13	41,603,774	41,603,774
<b>NET ASSETS</b>		<b>175,368,317</b>	<b>177,914,270</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	14	3,810,000	3,810,000
Reserves	15	170,388,388	172,917,088
Total equity attributable to equity holders of the Company		<b>174,198,388</b>	<b>176,727,088</b>
Minority interests	15	1,169,929	1,187,182
<b>TOTAL EQUITY</b>		<b>175,368,317</b>	<b>177,914,270</b>

The notes on pages 6 to 18 form part of this interim financial report.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED  
FOR THE SIX MONTHS ENDED 30 JUNE 2005**

	Note	Six months ended 30 June	
		2005 HK\$	2004 HK\$
<b>Shareholders' equity at 1 January:</b>			
Attributable to equity holders of the Company (as previously reported at 31 December)		176,727,088	20,946,820
Minority interests (as previously presented separately from liabilities and equity at 31 December)	15	1,187,182	1,226,415
Prior period adjustment arising from changes in accounting policies	3(a)(i), 15	—	—
<b>As restated</b>		<b>177,914,270</b>	<b>22,173,235</b>
<b>Net profit for the period:</b>			
Attributable to:			
Equity holders of the Company	15	15,527,800	27,206,974
Minority interests	15	(17,253)	(25,125)
		<b>15,510,547</b>	<b>27,181,849</b>
<b>Dividends approved in respect of prior year</b>	7	<b>(20,955,000)</b>	—
<b>Movements in shareholders' equity arising from capital transactions with equity holders of the Company:</b>			
Issuance of new shares		—	20,000,082
Equity settled share-based transactions	15	2,898,500	—
		<b>2,898,500</b>	<b>20,000,082</b>
<b>Shareholders' equity at 30 June</b>		<b>175,368,317</b>	<b>69,355,166</b>

The notes on pages 6 to 18 form part of this interim financial report.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED  
FOR THE SIX MONTHS ENDED 30 JUNE 2005**

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2005</b>	<b>2004</b>
		<b>HK\$</b>	<b>HK\$</b>
Net cash generated from operating activities		<b>7,172,221</b>	51,404,014
Net cash used in investing activities		<b>(11,353,324)</b>	(17,553,638)
Net cash used in financing activities		<b>(10,248,533)</b>	(60,473,896)
Net decrease in cash and cash equivalents		<b>(14,429,636)</b>	(26,623,520)
Cash and cash equivalents at 1 January		<b>92,823,795</b>	40,357,807
Cash and cash equivalents at 30 June	<i>11</i>	<b>78,394,159</b>	13,734,287

The notes on pages 6 to 18 form part of this interim financial report.

Notes:

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

Details of the Reorganisation are set out in the prospectus (the "Prospectus") dated 30 November 2004 issued by the Company.

2. Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 12 August 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policy are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Report Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included in page 19.

The financial information relating to the financial year ended 31 December 2004 included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2005.

### 3. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs (which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(a) *Summary of the effect of changes in the accounting policies*

(i) Effect on opening balance of total equity at 1 January 2005 (as adjusted)

The following table sets out the adjustment that has been made to the opening balance at 1 January 2005. This shows the effect of retrospective adjustment to the net assets as at 31 December 2004 and the opening balance adjustment made as at 1 January 2005.

<b>Effect of new policy (increase/(decrease))</b>	<i>Note</i>	<b>Retained profits</b> <i>HK\$</i>	<b>Capital reserve</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>	<b>Minority interests</b> <i>HK\$</i>	<b>Total equity</b> <i>HK\$</i>
<i>Prior period adjustment:</i>						
HKFRS 2						
Equity settled share-based transactions	<i>3(b)</i>	(345,000)	345,000	—	—	—
<b>Total effect at</b>						
1 January 2005		(345,000)	345,000	—	—	—

(ii) Effect on profit after taxation for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)

In respect of the six months ended 30 June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six months ended 30 June 2004, there are no adjustments required to be made to the profits as previously reported for that period.



### 3. Changes in accounting policies (Continued)

#### (a) Summary of the effect of changes in the accounting policies (Continued)

- (ii) Effect on profit after taxation for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted) (Continued)

Effect of new policy (increase/(decrease))	Note	Six months ended 30 June 2005			
		Equity holders		Minority	
		of the Company	Total	interests	Total equity
		HK\$	HK\$	HK\$	HK\$
HKFRS 2					
Equity settled share-based transactions	3(b)	(2,898,500)	(2,898,500)	—	(2,898,500)
<b>Total effect for the period</b>		<b>(2,898,500)</b>	<b>(2,898,500)</b>	<b>—</b>	<b>(2,898,500)</b>
Effect on earnings per share:					
— basic		HK(0.76) cents			
— diluted		HK(0.75) cents			

#### (b) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the consolidated income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise the options, the capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2.

The amount of prior period adjustments and the effect on the results for the six months ended 30 June 2005, and the reserves as of that date, are set out in note 3(a). The amount charged to the consolidated income statement as a result of the change of policy increased administrative expenses for the six months ended 30 June 2005 by HK\$2,898,500 (six months ended 30 June 2004: HK\$Nil), with the corresponding amounts credited to the capital reserve.

Details of the employee share option schemes can be found in "Share Option Schemes" and note 15 on this interim financial report.

### 3. Changes in accounting policies (*Continued*)

#### (c) *Leasehold land and buildings held for own use (HKAS 17, Leases)*

In prior years, leasehold land and buildings held for own use (including land use rights paid to the PRC government authorities) were stated at cost less accumulated depreciation and accumulated impairment losses.

With the adoption of HKAS 17 as from 1 January 2005, the paid land use right is reclassified as lease prepayment which is carried at cost and amortised on a straight-line basis over the land use right period of 20 years. Amortisation charge for the period is recognised in the consolidated income statement.

The adoption of this new accounting policy does not have a significant impact on the results of operations and financial position of the Group.

#### (d) *Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

#### (e) *Financial instruments (HKAS 39, Financial instruments: Recognition and measurement)*

In prior years, unlisted investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less any provision for diminution in value. With effect from 1 January 2005, and in accordance with HKAS 39, all non-trading investments are classified as available-for-sales securities and carried at fair value, except that if investments in equity instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured, the investments are measured at cost less impairment losses.

The adoption of this new accounting policy does not have a significant impact on the results of operations and financial position of the Group.

#### 4. 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 period may be analysed as follows:

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Sales of mechanical airbag systems	16,501,404	34,223,015	32,525,244	68,501,920
Sales of electronic airbag systems	19,574,238	14,753,257	29,550,353	31,199,712
Sales of automotive safety system components and other safety products	17,678,984	300,177	32,554,431	579,162
	<b>53,754,626</b>	49,276,449	<b>94,630,028</b>	100,280,794

The Group's turnover and operating profit are almost entirely derived from the production and sales of automotive safety products in the PRC. Accordingly, no analysis by geographical and business segments has been presented.

#### 5. Profit before taxation

Profit before taxation is arrived at after charging:

##### (a) Finance costs:

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Interest expense on bank advances wholly repayable within five years	507,812	929,037	1,163,739	1,870,343
Discounting charges on discounted bills	29,535	60,629	29,535	151,573
Other borrowing costs	—	203,749	—	464,063
Total borrowing costs	<b>537,347</b>	1,193,415	<b>1,193,274</b>	2,485,979

##### (b) Other items:

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Cost of inventories	37,996,663	31,178,590	65,794,895	63,169,937
Depreciation	1,422,528	948,410	2,597,725	1,900,790
Amortisation of intangible assets				
— Acquired technology	193,029	185,770	397,695	384,620
— Development costs	252,148	323,494	362,758	748,054
— Patent	521	511	1,038	1,022
Operating lease charges in respect of properties	40,430	10,220	80,860	20,440

## 6. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
<b>Current tax</b>				
PRC income tax for the period	(47,797)	—	(47,797)	—
Under-provision in respect of prior period	—	(47,684)	—	(47,684)
	(47,797)	(47,684)	(47,797)	(47,684)
<b>Deferred tax</b>				
Origination and reversal of temporary differences	—	—	106,875	—
<b>Total income tax (expense)/credit</b>	<b>(47,797)</b>	<b>(47,684)</b>	<b>59,078</b>	<b>(47,684)</b>

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 period.

Pursuant to the income tax rules and regulations of the PRC, Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"), a subsidiary of the Company, was liable to enterprise income tax at a rate of 33% for the year ended 31 December 2003. Subsequent to the transformation into a wholly owned foreign enterprise on 23 December 2003, Jinheng Automotive is entitled to a tax concession period in which it is fully exempted from the 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 second 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"), a subsidiary of the Company, is liable to enterprise income tax at a rate of 33% for the period.

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.

## 7. Dividend

Dividends attributable to prior financial year, approved and paid during the interim period/year:

	Six months ended 30 June	
	2005	2004
	HK\$	HK\$
Final dividend in respect of the financial year ended		
31 December 2004 approved and paid during the following		
interim period of HK5.5 cents per share (year ended		
31 December 2003: HK\$Nil)	20,955,000	—

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: HK\$Nil).

## 8. Earnings per share

### (a) Basic earnings per share

The calculations of basic earnings per share for each of the three months and six months ended 30 June 2005 are based on the profit attributable to equity holders of the Company of HK\$8,030,130 and HK\$15,527,800 and on the weighted average of ordinary shares of 381,000,000 and 381,000,000 respectively. The calculations of basic earnings per share for each of the three months and six months ended 30 June 2004 were based on the profit attributable to equity holders of the Company of HK\$13,222,594 and HK\$27,206,974 respectively and on the 300,000,000 shares of the Company in issue as at the date of the prospectus, as if the shares were outstanding throughout the period ended 30 June 2004.

### (b) Diluted earnings per share

The calculations of diluted earnings per share for each of the three months and six months ended 30 June 2005 are based on the profit attributable to equity holders of the Company of HK\$8,030,130 and HK\$15,527,800 and on the weighted average number of ordinary shares of 388,313,208 and 388,152,941 respectively after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme. There were no potential dilutive ordinary shares in issue during the period ended 30 June 2004.

### (c) Reconciliation

	Three months ended 30 June 2005 Number of shares	Six months ended 30 June 2005 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	381,000,000	381,000,000
Deemed issue of ordinary shares for no consideration	7,313,208	7,152,941
Weighted average number of ordinary shares used in calculating diluted earnings per share	388,313,208	388,152,941

## 9. Property, plant and equipment

### (a) Acquisitions and disposals

During the six months ended 30 June 2005, the Group acquired items of machinery and equipment with a cost of HK\$5,990,909 (six months ended 30 June 2004: HK\$4,514,446). There was no disposal of property, plant and equipment during the six months ended 30 June 2004 and 2005.

### (b) Certain leasehold land and buildings with an aggregate carrying value of HK\$7,357,793 (31 December 2004: HK\$7,516,455) are mortgaged to banks for certain banking facilities granted to the Group as disclosed in note 13.

9. Property, plant and equipment (Continued)

- (c) The Group leases out a motor vehicle under an operating lease. The lease runs for an initial period of three years. The lease does not include any contingent rentals. The gross carrying amount of motor vehicle held for use in the operating lease at 30 June 2005 was HK\$329,749 (31 December 2004: HK\$350,042), and the related accumulated depreciation charges were HK\$121,194 (31 December 2004: HK\$100,901).

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	30 June 2005 HK\$	31 December 2004 HK\$
Within 1 year	5,503	38,522

10. Trade receivables, prepayments and other receivables

Trade receivables, prepayments and other receivables comprise:

	30 June 2005 HK\$	31 December 2004 HK\$
Trade receivables	76,068,392	30,950,263
Bills receivable	6,897,689	20,604,717
Prepayments	15,267,559	11,075,066
Other receivables	3,250,731	7,277,751
	<b>101,484,371</b>	<b>69,907,797</b>

Included in trade receivables are amounts due from related companies of HK\$16,094,431 (31 December 2004: HK\$7,682,452) (see note 17(b)).

An ageing analysis of trade receivables (net of provision for bad and doubtful debts) is as follows:

	30 June 2005 HK\$	31 December 2004 HK\$
Current	32,677,557	12,162,264
1 to 3 months overdue	35,631,388	12,085,694
More than 3 months overdue but less than 12 months overdue	7,560,449	6,695,948
More than 1 year overdue but less than 2 years overdue	198,998	6,357
	<b>76,068,392</b>	<b>30,950,263</b>

The Group generally grants credit periods with 0 to 90 days from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and credit worthiness, extend the credit period upon customers' request.

## 11. Cash and cash equivalents

Analysis of the balances of cash and cash equivalents is set out below:

	<b>30 June 2005 HK\$</b>	31 December 2004 HK\$
Cash and cash equivalents in the balance sheet and cash flow statement	<b>78,394,159</b>	92,823,795
Cash and cash equivalents are denominated in:		
– RMB	19,948,467	38,737,951
– HK\$	<b>58,445,692</b>	54,085,844
	<b>78,394,159</b>	92,823,795

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.

## 12. Trade and other payables

Trade and other payables comprise:

	<b>30 June 2005 HK\$</b>	31 December 2004 HK\$
Trade payables	<b>37,512,980</b>	20,000,812
Other payables	<b>4,299,765</b>	5,309,417
	<b>41,812,745</b>	25,310,229

Included in trade payables are amounts due to related company of HK\$12,930,005 (31 December 2004: HK\$9,017,808) (see note 17(c)).

An ageing analysis of trade payables is as follows:

	<b>30 June 2005 HK\$</b>	31 December 2004 HK\$
Within 3 months	<b>24,405,800</b>	19,192,393
Over 3 months but less than 6 months	<b>13,107,180</b>	808,419
	<b>37,512,980</b>	20,000,812

13. Bank loans

The bank loans are repayable as follows:

	30 June 2005 HK\$	31 December 2004 HK\$
Within 1 year or on demand	46,773,585	34,811,321
After 1 year but within 2 years	15,188,679	15,188,679
After 2 years but within 5 years	26,415,095	26,415,095
	41,603,774	41,603,774
	88,377,359	76,415,095
Representing:		
Secured bank loans	26,415,095	26,415,095
Unsecured bank loans	61,962,264	50,000,000
	88,377,359	76,415,095

At 30 June 2005, a bank loan of HK\$26,415,095 (31 December 2004: HK\$26,415,095) was secured by mortgages over the Group's leasehold land and buildings with aggregate carrying value of HK\$7,357,793 (31 December 2004: HK\$7,516,455).

14. Share capital

	30 June 2005		31 December 2004	
	Number of shares	Amount HK\$	Number of shares	Amount HK\$
<b>Authorised:</b>				
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000,000	10,000,000,000	100,000,000
<b>Issued:</b>				
At 1 January	381,000,000	3,810,000	3	—
Subdivision of shares pursuant to the Reorganisation	—	—	27	—
Issuance of new shares	—	—	9,970	100
Capital elimination on consolidation	—	—	(10,000)	(100)
Issuance of shares	—	—	10,000	100
Capitalisation issue	—	—	299,990,000	2,999,900
Shares issued under the placing and public offer	—	—	81,000,000	810,000
At 30 June 2005/31 December 2004	381,000,000	3,810,000	381,000,000	3,810,000



## 15. Reserves

	Attributable to equity holders of the Company									
	Share premium	Merger reserve	Statutory		Capital reserve	Retained profits	Total	Minority interests	Total	
			surplus	public						
			reserve	welfare						
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$		
At 1 January 2004	–	16,341,254	3,070,378	1,535,188	–	–	20,946,820	1,226,415	22,173,235	
Issue of new shares	19,999,982	–	–	–	–	–	19,999,982	–	19,999,982	
Profit for the period	–	–	–	–	–	27,206,974	27,206,974	(25,125)	27,181,849	
At 30 June 2004	19,999,982	16,341,254	3,070,378	1,535,188	–	27,206,974	68,153,776	1,201,290	69,355,066	
At 1 July 2004	19,999,982	16,341,254	3,070,378	1,535,188	–	27,206,974	68,153,776	1,201,290	69,355,066	
Arising on Reorganisation	(19,999,982)	19,999,982	–	–	–	–	–	–	–	
Profit for the period (as restated)	–	–	–	–	–	24,250,188	24,250,188	(14,108)	24,236,080	
Appropriations to statutory reserves	–	–	5,679,071	2,839,535	–	(8,518,606)	–	–	–	
Share premium from issuance of shares	94,770,000	–	–	–	–	–	94,770,000	–	94,770,000	
Share issuance expenses	(15,039,976)	–	–	–	–	–	(15,039,976)	–	(15,039,976)	
Capitalisation issue	438,100	–	–	–	–	–	438,100	–	438,100	
Equity settled share-based transactions	–	–	–	–	345,000	–	345,000	–	345,000	
At 31 December 2004 (as restated)	80,168,124	36,341,236	8,749,449	4,374,723	345,000	42,938,556	172,917,088	1,187,182	174,104,270	
At 1 January 2005										
– as previously report	80,168,124	36,341,236	8,749,449	4,374,723	–	43,283,556	172,917,088	1,187,182	174,104,270	
– prior period adjustment in respect of:										
– Equity settled share-based transactions	–	–	–	–	345,000	(345,000)	–	–	–	
As restated	80,168,124	36,341,236	8,749,449	4,374,723	345,000	42,938,556	172,917,088	1,187,182	174,104,270	
Equity settled share-based transactions	–	–	–	–	2,898,500	–	2,898,500	–	2,898,500	
Dividend approved in respect of prior year	–	–	–	–	–	(20,955,000)	(20,955,000)	–	(20,955,000)	
Profit/(loss) for the period	–	–	–	–	–	15,527,800	15,527,800	(17,253)	15,510,547	
At 30 June 2005	80,168,124	36,341,236	8,749,449	4,374,723	3,243,500	37,511,356	170,388,388	1,169,929	171,558,317	

15. Reserves (Continued)

On 22 November 2004, 11,400,000 share options were granted for nominal consideration to three directors and seven employees of the Company under the Company's Pre-IPO Employee Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK\$1 each of the Company. These share options will be vested on 9 December 2005, and then be exercisable until 9 December 2008. The exercise price is HK\$0.38.

No options were exercised during the six months ended 30 June 2005.

16. Commitments

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

	30 June 2005 HK\$	31 December 2004 HK\$
Contracted for	603,774	387,300
Authorised but not contracted for	28,236,000	10,900,000
	<b>28,839,774</b>	<b>11,287,300</b>

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

	30 June 2005 HK\$	31 December 2004 HK\$
<b>Properties</b>		
Within 1 year	153,321	153,321
After 1 year but within 5 years	172,894	229,114
After 5 years	960,700	981,141
	<b>1,286,915</b>	<b>1,363,576</b>
<b>Others</b>		
Within 1 year	8,400	8,400
After 1 year but within 5 years	23,800	28,000
	<b>32,200</b>	<b>36,400</b>

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

17. Material related party transactions

Name of party	Relationship
Shanxi Jinheng Automotive Spare Parts Co., Ltd. ("Jinheng Parts")	35% owned jointly controlled entity of the Group
Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")	50% owned jointly controlled entity of the Group
Taiyuan Aero-Instruments Co., Ltd. ("Taiyuan Aero")	40% owner of Jinheng Parts
Hafei Motor Co., Ltd. ("Hafei Motor")	Minority shareholder (10%) of Hafei Jinheng
Jinzhou Halla Electrical Equipment Company Limited	Controlled by former shareholders of Jinheng Automotive
Jinzhou Wonder Auto Suspension System Co., Ltd.	Controlled by former shareholders of Jinheng Automotive
Jinzhou Wonder Enterprises (Group) Co., Ltd.	Controlled by former shareholders of Jinheng Automotive

(a) *Recurring*

	Six months ended 30 June	
	2005 HK\$	2004 HK\$
Purchases of raw materials from:		
— Jinheng Parts	25,961,307	21,811,212
— Taiyuan Aero	—	2,364,743
Sales of airbag systems to:		
— Hafei Motor	13,362,873	18,128,073

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

(b) *Amounts due from related companies*

	30 June 2005 HK\$	31 December 2004 HK\$
Jinbei Jinheng	4,362,741	3,475,382
Hafei Motor	11,731,690	4,207,070
	16,094,431	7,682,452

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 10).

(c) *Amounts due to related company*

	30 June 2005 HK\$	31 December 2004 HK\$
Jinheng Parts	12,930,005	9,017,808

The amounts due to related company are trade-related, unsecured, interest free and are expected to be repaid within one year. These amounts are included in "Trade and other payables" in the consolidated balance sheet (see note 12).



**Independent review report to the board of directors of  
Jinheng Automotive Safety Technology Holdings Limited**

*(Incorporated in Cayman Islands with limited liability)*

**Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 2 to 18.

**Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the period ended 30 June 2005.

**KPMG**

*Certified Public Accountants*

Hong Kong, 12 August 2005

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group's income from sales for the six months ended 30 June 2005 was approximately HK\$94.6 million, representing a decrease of approximately 6% as compared to the corresponding period in 2004. This is attributable to the retarded growth in the automobile industry in the PRC in the second half of 2004. Although such growth failed to bounce back to the level of the same period of the previous year in the second quarter of 2005, the Group's income from sales increased by approximately 32% as compared to the first quarter of the year due to the commencement of large volume of sales of two new automobile safety airbag system models during the second quarter. As a result, the Group's sales has recorded an overall improvement.

For the three months ended 30 June 2005, profit after taxation was approximately HK\$8 million, representing a decrease of 38% as compared to the corresponding period in 2004, which was caused by a decrease in turnover and the adoption of new accounting policies. However, it represented an increase of approximately 11% as compared to the first quarter of 2005. The Group's gross profit margin for the quarter was approximately 29%, representing a decrease from 37% of the corresponding quarter last year.

The Group achieved relatively greater progress in overseas markets during this quarter, and successfully secured orders for safety airbags from a European company. The Group's first batch of export of more than 30,000 safety airbags was already accomplished, and it is expected that the Group will export more than 100,000 safety airbags this year. The Group is currently negotiating with several overseas automobile manufacturers in relation to the development and supply of safety systems, and more significant breakthroughs are expected in the third quarter during which the Group's automotive safety airbag systems will be sold overseas.

During this quarter, the Group has entered into 3 development contracts with 3 PRC automobile manufacturers in respect of 3 new models of automotive mechanical safety airbag system, and has engaged in the negotiation with several major automobile manufacturers in the PRC in relation to the development of new safety airbag system models. Among which, one internationally renowned automobile manufacturer has initially confirmed the development of localized safety airbag systems for its 2 automobile models by the Group. It is expected that the accumulated production volume of these two automobile models will exceed 350,000 by 2010.

The Directors believe that, the Group still maintains its leading position in the PRC market and will encounter ample development opportunities in the future.

During this quarter, the negotiation between the Group and a U.S. company regarding the business of joint production of electronic inflator was still in progress, in relation to which a joint venture would be established in the PRC. Under this, most of the products would be exported overseas while some were for the Group's own use, lowering the procurement cost of the Group substantially. Moreover, the Group has been negotiating with an automobile spare part supplier in the PRC in relation to the joint production of steering wheels, and such cooperation would significantly reduce the cost of the Group and increase its gross profit margin.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Business Review (Continued)

The Group has newly extended the area of manufacturing premises of Jinheng Automotive by 33,000 square metres to the north of the existing premises in Jinzhou Economic & Technical Development Zone, Liaoning Province during the quarter. Such expansion was designated for the construction of research and development center, which will have a state-of-the-art slope trial system installed, equipping the Group's research and development center with world-class research and development facilities.

The Directors believe that, in view of the gradual recovery of automobile industry in the PRC, the Group will double its effort on market exploration and reinforce localization of system spare parts with the objectives of reducing system cost and capitalizing the opportunities to optimize its own capabilities. The Group is definitely stepping into a rewarding period of rapid growth.

### Financial Review

For the three months ended 30 June 2005, the Group recorded a turnover of approximately HK\$53.8 million, representing an increase of 9% from the same period of last year and 32% increase from the last quarter period respectively. The increase was resulted from the gradual recovery from stock accumulation of major automobile manufacturers and slowdown in the growth in automotive industry since last year. Although turnover for the first quarter of this year was approximately HK\$10.1 million lower than the corresponding period of last year, the turnover for the six months ended 30 June 2005 was approximately HK\$94.6 million, representing only a slight decrease of approximately HK\$5.7 million or 6% from the same period of last year.

The Group managed to maintain the gross profit margin of both airbag systems in the current quarter of 2005 at a level similar to the last quarter. However, owing to changes in the sales mix of our mechanical airbag systems, the gross profit of both airbag systems for the six months ended 30 June 2005 recorded slight decrease of 3% to 36% in comparison with the average of last quarter. Sales of automotive safety components and other safety products for the three months and six months ended 30 June 2005 increased by approximately HK\$17.4 million or 58 times and approximately HK\$32.0 million or 55 times from the corresponding periods of last year. The increase was mainly due to new orders for components of airbag systems from an international renowned airbag supplier. In the view that components normally generate a relatively lower gross profit margin than airbag systems, the average gross profit margin of 29% for the three months ended 30 June 2005 was lower than 37% of the corresponding quarter of last year. The average gross profit for the six months ended 30 June 2005 decreased slightly by 2% to 30% in comparison with the average of last quarter.

Distribution costs were approximately HK\$1.3 million and HK\$1.9 million for the three months and six months ended 30 June 2005 in comparison with approximately HK\$1.0 million and HK\$1.9 million for the corresponding periods of last year. The increase was mainly due to the fact that more marketing activities were undertaken in the second quarter as two new models of airbag systems were commercially launched in the quarter.

Research and development expenses for the three months and six months ended 30 June 2005 decreased slightly by approximately HK\$0.3 million and HK\$0.4 million respectively in comparison with the corresponding periods of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### *Financial Review (Continued)*

Administrative expenses were approximately HK\$5.3 million and HK\$8.9 million for the three months and six months ended 30 June 2005 respectively. The increases of approximately HK\$3.8 million and approximately HK\$5.6 million in comparison with the corresponding periods of last year were mainly due to an increase in the headcount of administration personnel and the provision for pre-IPO share option for the current six months period of approximately HK\$2.9 million caused by the adoption of new accounting policy and approximately HK\$1.5 million for the directors' emoluments of the current six months period.

Finance costs for the three months and six months ended 30 June 2005 decreased by approximately HK\$0.7 million or 55% and approximately HK\$1.3 million or 52% for the corresponding periods of last year to approximately HK\$0.5 million and HK\$1.2 million. The decrease was mainly attributable to an interest expense subsidy, which was designated to cover the actual interest expenses on the loan of RMB28.0 million utilized for financing the technological reform project.

Share of profits of jointly controlled entities for the three months and six months ended 30 June 2005 were approximately HK\$0.05 million and HK\$0.02 million respectively in comparison with the losses of approximately HK\$0.2 million and HK\$0.5 million for the corresponding periods of last year. It was mainly due to the fact that Jinheng Parts has started to record a profit of approximately HK\$0.8 million for the current six months period.

Profits after taxation for the three months and six months ended 30 June 2005 were approximately HK\$8.2 million and HK\$15.5 million respectively. Although the Group has benefited from the gradual recovery from slowdown in growth in automotive industry and recorded a 32% increase in turnover as compared to the last quarter period, the increase in administrative expenses has led to a reduction in the profits after taxation for the three months and six months ended 30 June 2005 by approximately HK\$5.1 million and HK\$11.7 million respectively in comparison with the corresponding periods of last year.

### *Outlook and Future Prospects*

The Directors believe that, the automobile industry in the PRC will enter into a phase of stable growth in the second half of 2005. Service, quality and performance will replace price as the foci of competition among various automobile manufacturers. Therefore, enhancing the safety and comfort of automobiles is gradually becoming the trend. As for the Group, such a trend further opens up the room for the development of automobile safety airbag system and provides the Group with golden opportunities for development.

The Group will reinforce its customer restructuring work and devote to exploring customer groups with higher value. The Group will double its efforts in overseas market exploration and strive hard to become a system supplier for international automobile manufacturers.

The Group will strengthen its control over system cost. The level of localized production of spare parts will be increased to realize stringent cost control with the aim to maintain its edges in the forthcoming competition.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Outlook and Future Prospects (Continued)

The introduction of research and development equipment is of significant importance to the enhancement of the Group's capability of research and development. The Group will leverage on this opportunity to strengthen the training for research and development personnel and international exchange, which in turn will promote the Group's research and development center to top international standards.

In the second half of 2005, the Group's management will devote its best endeavor and efforts to bring fruitful return to its shareholders.

### Liquidity, Financial Resources and Capital Structure

As at 30 June 2005, the Group had cash and cash equivalents of approximately HK\$78.4 million in comparison with approximately HK\$92.8 million in fiscal year 2004 and non-current assets value increased by approximately HK\$8.4 million to approximately HK\$86.2 million as at 30 June 2005 mainly due to an increase in investment of property, plant and equipment by approximately HK\$10.2 million.

Net current assets as at 30 June 2005 was approximately HK\$130.8 million, including short term bank loans of approximately HK\$46.8 million, of which approximately HK\$28.0 million is denominated in Hong Kong dollars which bears interest rate of 4.0% per annum and repayable in July 2005. It was primarily used to finance short-term cash flows for our China operations. The Group also had current term loans of approximately HK\$18.8 million, of which approximately HK\$7.6 million (equivalent to RMB8.0 million) bears fixed interest rate of 5.22% per annum and repayable in October 2005, and approximately HK\$11.2 million (equivalent to RMB11.9 million) bears fixed interest rate of 5.49% per annum and repayable in July 2005.

As at 30 June 2005, the Group had non-current liabilities totaling approximately HK\$41.6 million for the expansion of the Group's production facilities. It includes a long-term bank loan of approximately HK\$26.4 million (equivalent to RMB28.0 million), which is repayable on July 2007 and bears fixed interest rate of 5.58% per annum, and another long-term bank loan of approximately HK\$15.2 million (equivalent to RMB16.1 million), which is repayable on July 2006 and bears fixed interest rate of 5.49% per annum.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources, balance of proceeds from our initial public offering and bank facilities. The Directors 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 substantial amount of 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 30 June 2005, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes. For the six months period ended 30 June 2005, there had been no change in the capital structure and issued capital of the Group.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Charges on Group Assets

As at 30 June 2005, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK\$7.4 million for a bank loan of RMB28.0 million (equivalent to HK\$26.4 million).

### Gearing Ratio

The Group's gearing ratio, which was derived from the total liabilities to total assets, increase to 42.6% from 36.4% as at 31 December 2004.

### Future Plans for Material Investments

As at 30 June 2005, the Group had an authorized but not contracted for capital expenditure commitments of approximately HK\$28.2 million in respect of the third phase of technical improvement for our Jinzhou factory. The Group also had a contracted but not provided for capital commitments of approximately HK\$0.6 million in respect of acquisition of fixed assets.

### Material Acquisitions and Disposals

During the six months period ended 30 June 2005, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

### Significant Investment

There was no significant investment during the period under review.

### Contingent Liabilities

As at 30 June 2005, the directors of the Company were not aware of any contingent liabilities.

### Subsequent Events

No subsequent events occurred after 30 June 2005, which may have a significant effect, on the assets and liabilities of future operations of the Group.

### Foreign Exchange Exposure

Since all transactions of the Group are denominated in Renminbi, Hong Kong dollars or US dollars, the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuation in currency exchange rates during the period under review.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Employees and Remuneration Policy

As at 30 June 2005, the Group employed approximately 286 staff in the PRC and Hong Kong, representing an increase of 46 staff from 31 December 2004 and an increase of 58 staff from 30 June 2004. The increase in staff was mainly from the PRC operations. Remuneration of employees, including directors' emoluments was approximately HK\$2.9 million for the six months period under review as compared with that of approximately HK\$2.4 million for the corresponding period of the preceding financial year.

The Group reviews employee remuneration from time to time and salary increment is normally approved or by special adjustment depending on length of service 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.

### 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 22 November 2004 to 30 June 2005 (the "Relevant Period").

#### Business Objectives for the Relevant Period as stated in the Prospectus

#### Actual Business Progress

##### Expansion of Production Capacity

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• Install DAB and PAB assembling machines to new production premises.</li></ul>   | Will be postponed to the fourth quarter of 2005 due to postponement of equipment ordering.              |
| <ul style="list-style-type: none"><li>• Install additional production facilities for textile airbags which are one of the spare parts of the airbag safety systems.</li></ul> | Installation of additional new production facilities for textile airbags was completed on 20 June 2005. |
| <ul style="list-style-type: none"><li>• Commence commercial operation.</li></ul>  | Hafei Jinheng started commercial operation on 22 April 2005 and profit was recorded for the quarter.    |

The factory of Jinbei Jinheng is under construction with the procurement of production facilities under negotiation. It is expected to be completed in the fourth quarter of 2005.

## COMPARISON OF THE BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

Business Objectives for the Relevant Period as stated in the Prospectus (Continued)      Actual Business Progress (Continued)

### *Localization and self-production of key components*

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Conduct studies on the localization of electronic DAB inflators.</li> </ul>                                   | <p>Study of electronic DAB inflators localization has been commenced.</p>  |
| <ul style="list-style-type: none"> <li>• Conduct studies on the localization of electronic PAB inflators.</li> </ul>                                   | <p>Study of electronic PAB inflators localization has been commenced.</p>  |
| <ul style="list-style-type: none"> <li>• Complete installation of production facilities for manufacturing electronic DAB and PAB inflators.</li> </ul> | <p>The Company has partially completed the installation of production facilities for manufacturing electronic DAB and PAB inflators.</p> |

### *Enhancement of research and development capability*

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Recruit 1 technical expert for research and development.</li> </ul>                            | <p>The Group has recruited 1 technical expert for research and development.</p>  |
| <ul style="list-style-type: none"> <li>• Purchase of new equipment for the enhancement of the crash test laboratory.</li> </ul>         | <p>The Group has ordered the relevant equipment for the crash laboratory from a renowned company in the U.S.</p>   |
| <ul style="list-style-type: none"> <li>• Commence research and development for the simulation system and software.</li> </ul>           | <p>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.</p> |
| <ul style="list-style-type: none"> <li>• Commence research and development of smart airbag system and curtain airbag system.</li> </ul> | <p>The Group has duly commenced the research of smart airbag system and curtain airbag system.</p>   |
| <ul style="list-style-type: none"> <li>• Commence research and development of seat belt pre-tension system.</li> </ul>                  | <p>The Group has duly commenced the research and development of seat belt pre-tension system.</p>  |

## COMPARISON OF THE BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

Business Objectives for the Relevant Period as stated in the Prospectus (Continued)      Actual Business Progress (Continued)

### Formulating strategic alliances

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Identify suitable major automobile manufacturers in the PRC for joint venture partnership.</li><li>• Form strategic alliance with major supplier in the PRC.</li><li>• Commence discussions with the identified international supplier of spare parts.</li></ul> | <p>The Group is undergoing formal communication to find a suitable automobile manufacturer.</p> <p>The Group has selected a suitable supplier in the PRC and is under negotiation for the formation of strategic alliance.</p> <p>The Group has commenced negotiation with the identified international suppliers of spare parts and selected an international supplier of spare parts for in-depth business discussion.</p> |
|--|--|

## 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 part of the proceeds totalling approximately HK\$25.6 million for the following purposes:

- (i) approximately HK\$14.7 million for the expansion of production capacity;
- (ii) approximately HK\$9.3 million for the localization and self-production of key components;
- (iii) approximately HK\$1.5 million for the enhancement of research and development capabilities; and
- (iv) approximately HK\$0.1 million as additional working capital of the group.

Consistent with the disclosure in the Prospectus, the Group intends to apply the remaining proceeds of approximately HK\$54.9 million for the following purposes:

- (i) as to approximately HK\$4.6 million for further expansion of production capacity;
- (ii) as to approximately HK\$18.4 million for further localization and self-production of key components;
- (iii) as to approximately HK\$8.4 million for the enhancement of research and development capabilities;
- (iv) as to approximately HK\$17.7 million for formulating strategic alliances; and
- (v) as to approximately HK\$5.8 million as additional working capital of the Group.

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

As at 30 June 2005, 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	Interest of a controlled corporation (Note)	(Note)	(Note)
Xing Zhanwu	Interest of a controlled corporation (Note)	(Note)	(Note)
Li Hong	Interest of a controlled corporation (Note)	(Note)	(Note)
Yang Donglin	Interest of a controlled corporation (Note)	(Note)	(Note)
Zhao Qingjie	Interest of a controlled corporation (Note)	(Note)	(Note)

Note: As at 30 June 2005, 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 62.63% in the Company:

Shareholder	Number of shares held in Applaud Group	%
The controlling group	5,467	54.67
Li Feng	2,286	22.86
Xing Zhanwu	1,281	12.81
Xu Jianzhong	719	7.19
Li Hong	616	6.16
Yang Donglin	565	5.65
Zhao Qingjie	1,750	17.50
Gao Xiangdong	1,500	15.00
Zhao Jiyu	400	4.00
Lin Qing	223	2.23
Zhou Yuquan	214	2.14
Cao Feng	133	1.33
Zhang Chengyu	128	1.28
Zhang Chenye	100	1.00
Zhang Meina	85	0.85
Total	10,000	100

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

### (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 headed "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 30 June 2005 was 49,500,000 shares (including options for 11,400,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 12.99% of the issued share capital of the Company as at 30 June 2005.

As at 30 June 2005, 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 30 June 2005 is HK\$1.07) 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 as at 30 June 2005	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the period	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	2,600,000	22 November 2004	9 December 2005 to 9 December 2008	—	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	2,000,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK\$0.38	HK\$0.788	N/A

## SHARE OPTION SCHEMES (Continued)

### (a) Pre-IPO Employee Share Option Scheme (Continued)

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 30 June 2005	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the period	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	800,000	800,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK\$0.38	HK\$0.788	N/A
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	1,080,000	1,080,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK\$0.38	HK\$0.788	N/A
Mr. Xing Zhanwen (邢占文)	Employee, deputy general manager of Jinheng Automotive	880,000	880,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK\$0.38	HK\$0.788	N/A
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	1,000,000	1,000,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK\$0.38	HK\$0.788	N/A
Mr. Zhu Jiangbin (朱江濱)	Employee, deputy general manager of Jinheng Automotive	880,000	880,000	22 November 2004	9 December 2005 to 9 December 2008	—	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	840,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK\$0.38	HK\$0.788	N/A
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	720,000	720,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK\$0.38	HK\$0.788	N/A
Mr. Chen Lixin (沈立新)	Employee, general manager of Hafei Jinheng	600,000	600,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK\$0.38	HK\$0.788	N/A
		11,400,000	11,400,000			—			

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.

## SHARE OPTION SCHEMES (Continued)

### (a) Pre-IPO Employee Share Option Scheme (Continued)

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:

	2005
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 period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### (b) Share Option Scheme

As at 30 June 2005, no option has been granted under the Share Option Scheme.



## SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2005, 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	Ordinary shares held	Approximate percentage of total issued shares
Applaud Group Limited	Beneficial owner	238,620,000	62.63%
Direct Sino Holdings Limited	Beneficial owner	37,410,000	9.82%

### Long positions in underlying shares

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

### Short positions in shares

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

### Short positions in underlying shares

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

Save as disclosed above, as at 30 June 2005, 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.

## COMPETING INTERESTS

None of the directors or 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 businesses of the Group as at 30 June 2005.

## SPONSOR'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.

As at 30 June 2005, VC Capital Limited had indirect interest in the shares of the Company held by VC Strategic Investments Limited through its interests in certain associated companies, both VC Capital Limited and VC Strategic Investments Limited are wholly-owned subsidiaries of Value Convergence Holdings Limited, a company listed on GEM. As at 30 June 2005, VC Strategic Investments Limited was beneficially interested in 11% of the issued capital of Top Growth Assets Limited, and Top Growth Assets Limited was beneficially interested in 27% of the issued capital of WAG (Greater China) Limited. WAG (Greater China) Limited is beneficially interested in 9,000,000 shares of the Company, representing approximately 2.36% of the total issued capital of 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 30 June 2005.

## 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 period or any time during the period save and except for the agreements as stated in section headed "Connected transactions" in the Prospectus.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## 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.

## THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company established an audit committee on 22 November 2004 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the three independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Zhong Zhihua and Mr. Zhu Tong.

The audit committee had reviewed the Group's unaudited results for the three months and six months ended 30 June 2005 and had provided advice and recommendation to the Board.

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 June 2005.

The Company has complied with the requirement to appoint a sufficient number of independent non-executive director as set out in Rule 5.05(1) of the GEM Listing Rules. Throughout the six months ended 30 June 2005, the Company has appointed three independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Zhong Zhihua and Mr. Zhu Tong.

All the non-executive directors and independent non-executive directors are not appointed for specific terms but are subject to rotation and re-election at annual general meeting of the Company in accordance with the Articles of Association of the Company.

The Company has been looking for several candidates to be the members of Remuneration Committee and Nomination Committee but now has not been identified yet. The Board estimates that it will take two or three months to identify and confirm the most suitable candidate and will ensure that such appointment will be completed within few months. Save as disclosed above, throughout the period, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

By order of the Board  
Jinheng Automotive Safety Technology Holdings Limited  
Li Feng  
Chairman

Hong Kong, 12 August 2005