



**JINHENG AUTOMOTIVE SAFETY  
TECHNOLOGY HOLDINGS LIMITED**

**錦恆汽車安全技術控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 872)



2010

Interim Report

The board of directors (the “Board”) of Jinheng Automotive Safety Technology Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2010, together with the unaudited comparative figures for the corresponding periods in 2009 as follows:

## CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Note	Six months ended 30 June	
		2010 HK\$	2009 HK\$
<b>Turnover</b>	2	<b>606,398,714</b>	393,506,744
<b>Cost of sales</b>		<b>(474,966,839)</b>	(306,277,636)
<b>Gross profit</b>		<b>131,431,875</b>	87,229,108
<b>Other revenue</b>		<b>9,201,668</b>	1,222,421
<b>Other net loss</b>		<b>(5,617,786)</b>	(2,584,756)
<b>Research and development expenses</b>		<b>(22,837,818)</b>	(9,811,498)
<b>Distribution costs</b>		<b>(20,022,748)</b>	(10,759,206)
<b>Administrative expenses</b>		<b>(38,529,737)</b>	(29,903,593)
<b>Profit from operations</b>		<b>53,625,454</b>	35,392,476
<b>Finance costs</b>	3(a)	<b>(10,503,194)</b>	(13,343,202)
<b>Share of losses of jointly controlled entity</b>		<b>(560,676)</b>	(955,949)
<b>Profit before taxation</b>	3	<b>42,561,584</b>	21,093,325
<b>Income tax</b>	4	<b>(10,234,520)</b>	(5,725,190)
<b>Profit for the period</b>		<b>32,327,064</b>	15,368,135
<b>Attributable to:</b>			
Owners of the Company		<b>31,775,814</b>	11,024,340
Non-controlling interests		<b>551,250</b>	4,343,795
<b>Profit for the period</b>		<b>32,327,064</b>	15,368,135
<b>Earnings per share</b>			
– Basic	6(a)	<b>HK7.00 cents</b>	HK2.49 cents
– Diluted	6(b)	<b>HK6.85 cents</b>	HK2.49 cents

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010 HK\$	2009 HK\$
<b>Profit for the period</b>	<b>32,327,064</b>	15,368,135
<b>Other comprehensive income for the period:</b>		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	<b>4,020</b>	–
<b>Total comprehensive income for the period</b>	<b>32,331,084</b>	15,368,135
<b>Attributable to:</b>		
Owners of the Company	<b>31,779,834</b>	11,024,340
Non-controlling interests	<b>551,250</b>	4,343,795
<b>Total comprehensive income for the period</b>	<b>32,331,084</b>	15,368,135

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

AT 30 JUNE 2010

	Note	30 June 2010 HK\$	31 December 2009 HK\$
<b>Non-current assets</b>			
Fixed asset			
– Property, plant and equipment	7	284,145,629	272,408,818
– Interest in leasehold land held for own use under operating leases	7	43,625,077	44,596,662
Deposit paid for acquisition of fixed assets		36,993,240	39,256,762
Construction in progress		57,179,489	39,099,757
Intangible assets		142,654,427	160,111,681
Goodwill		5,085,367	5,085,367
Interests in a jointly controlled entity		54,108,246	54,668,922
Other non-current financial assets		56,818	125,000
Deferred tax assets		27,417	27,417
		<b>623,875,710</b>	<b>615,380,386</b>
<b>Current assets</b>			
Inventories		234,481,179	179,948,688
Trade receivables, prepayments and other receivables	8	688,583,998	694,435,415
Loan receivable		11,000,400	11,000,400
Current tax recoverable		–	2,544,478
Pledged bank deposits		25,646,865	33,713,067
Cash and cash equivalents	9	45,838,800	39,982,603
		<b>1,005,551,242</b>	<b>961,624,651</b>
<b>Current liabilities</b>			
Trade and other payables	10	491,483,373	501,972,594
Bank loans	11	423,358,803	324,897,186
Other loans		2,761,364	2,761,363
Current tax payable		1,362,975	–
Convertible notes	12	–	45,578,375
Convertible preferred shares		85,851,891	85,851,891
		<b>1,004,818,406</b>	<b>961,061,409</b>
<b>Net current assets</b>		<b>732,836</b>	<b>563,242</b>
<b>Total assets less current liabilities</b>		<b>624,608,546</b>	<b>615,943,628</b>
<b>Non-current liabilities</b>			
Bank loans	11	17,400,000	67,054,545
Deferred tax liabilities		35,368,157	30,791,121
		<b>52,768,157</b>	<b>97,845,666</b>
<b>NET ASSETS</b>		<b>571,840,389</b>	<b>518,097,962</b>
<b>Capital and Reserves</b>			
Share capital	13	4,765,489	4,435,000
Reserves		493,946,478	441,085,790
Total equity attributable to owners of the Company		498,711,967	445,520,790
Non-controlling interests		73,128,422	72,577,172
<b>TOTAL EQUITY</b>		<b>571,840,389</b>	<b>518,097,962</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 2010

	Attributable to owners of the Company										Non-controlling interests	Total	
	Share Capital	Share Premium	Merger Reserve	Statutory Reserve				Other Reserve	Retained profits	Sub-total			interests
				Surplus Reserve	Capital Reserve	Exchange Reserve	Reserve						
				HK\$	HK\$	HK\$	HK\$						
At 1 January 2009	4,435,000	166,680,213	36,341,236	36,849,018	17,290,956	54,097,178	(24,786,281)	138,929,682	429,837,002	61,474,670	491,311,672		
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	-	11,024,340	11,024,340	4,343,795	15,368,135		
Equity settled share-based transactions	-	-	-	-	518,816	-	-	-	518,816	-	518,816		
Dividends approved in respect of prior year	-	-	-	-	-	-	-	(6,652,500)	(6,652,500)	-	(6,652,500)		
Capital contribution from a minority shareholder	-	-	-	-	-	-	-	-	-	568,183	568,183		
At 30 June 2009	4,435,000	166,680,213	36,341,236	36,849,018	17,809,772	54,097,178	(24,786,281)	143,301,522	434,727,658	66,386,648	501,114,306		
At 1 January 2010	4,435,000	166,680,213	36,341,236	42,658,453	16,410,461	54,168,656	(24,786,281)	149,613,052	445,520,790	72,577,172	518,097,962		
<b>Total comprehensive income for the period</b>	-	-	-	-	-	4,020	-	31,775,814	31,779,834	551,250	32,331,084		
Equity settled share-based transactions	-	-	-	-	101,734	-	-	-	101,734	-	101,734		
Dividends approved in respect of prior year	-	-	-	-	-	-	-	(6,860,833)	(6,860,833)	-	(6,860,833)		
Shares issued due to conversion of convertible notes	330,489	29,757,858	-	-	(1,917,905)	-	-	-	28,170,442	-	28,170,442		
Release on early redemption of convertible notes	-	-	-	-	(1,240,587)	-	-	1,240,587	-	-	-		
At 30 June 2010	4,765,489	196,438,071	36,341,236	42,658,453	13,353,703	54,172,676	(24,786,281)	175,768,620	498,711,967	73,128,422	571,840,389		

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 2010

		Six months ended 30 June	
	Note	2010 HK\$	2009 HK\$
Net cash generated from operating activities		40,584,478	69,891,687
Net cash used in investing activities		(56,171,824)	(39,073,984)
Net cash generated from/(used in) financing activities		21,443,543	(23,142,208)
Net increase in cash and cash equivalents		5,856,197	7,675,495
Cash and cash equivalents at 1 January		39,982,603	56,919,885
Cash and cash equivalents at 30 June	9	45,838,800	64,595,380

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

Notes:

## 1. Basis of preparation

This interim report has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

This interim report contains consolidated financial results 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 2009 annual financial statements. This consolidated interim financial results 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”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies and methods of computation used in the preparation of this interim report are consistent with those adopted by the Group in the 2009 annual accounts, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2010. The effect of the adoption of these standards, amendments and interpretations was not material to the Group’s results of operations or financial position.

The financial information relating to the financial year ended 31 December 2009 included in this interim 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 2009 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 April 2010.

## 2. Turnover

The principal activities of the Group are production and sales of automotive safety products and other automotive components in the People’s Republic of China (“PRC”).

Turnover represents the sales value of goods to customers net of sales tax and value added tax.

Turnover recognised during the period may be analysed as follows:

	Six months ended 30 June	
	2010 HK\$	2009 HK\$
Sales of mechanical airbag systems	16,694,986	3,318,568
Sales of electronic airbag systems	421,102,132	256,831,879
Sales of automotive safety system components and other automotive components	168,601,596	133,356,297
	<b>606,398,714</b>	393,506,744

## 2. Turnover (continued)

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

### *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:

	Six months ended 30 June	
	2010 HK\$	2009 HK\$
PRC	599,773,053	375,139,737
Iran	4,161,337	9,448,461
Korea	1,677,980	7,830,532
Others	786,344	1,088,014
	<b>606,398,714</b>	<b>393,506,744</b>

## 3. Profit before taxation

Profit before taxation is arrived at after charging:

### (a) Finance costs:

	Six months ended 30 June	
	2010 HK\$	2009 HK\$
Interest expense on bank advances wholly repayable within five years	7,746,766	8,317,981
Interest expense on convertible notes	1,157,922	3,461,108
Interest expense on other loans	–	123,963
Discounting charges on discounted bills	1,598,506	1,440,150
Total borrowing costs	<b>10,503,194</b>	<b>13,343,202</b>



### 3. Profit before taxation (continued)

(b) Other items:

	Six months ended 30 June	
	2010 HK\$	2009 HK\$
Cost of inventories	474,966,839	306,277,636
Depreciation	18,793,840	15,976,169
Amortisation of land lease premium	971,585	828,165
Amortisation of intangible assets		
– Acquired technology	576,057	1,573,747
– Development costs	24,579,747	9,359,392
– Patent	2,082,587	2,082,587

### 4. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2010 HK\$	2009 HK\$
<b>Current tax</b>		
PRC income tax for the period	5,657,484	2,751,473
	5,657,484	2,751,473
<b>Deferred tax</b>		
Origination of temporary differences	4,577,036	2,973,717
Total income tax expense	10,234,520	5,725,190

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, Shenyang Jinbei Jinheng Automotive Safety System Co., Ltd. (“Jinbei Jinheng”), Shanxi Winner Auto-Parts Ltd. (“Shanxi Winner”), Beijing Jinheng Great Idea Automotive Electronic Systems Co., Ltd. (“Beijing Great Idea”) and Troitec Automotive Electronics Co., Ltd. (“Beijing Troitec”), subsidiaries of the Company, are entitled to a tax concession in which they are fully exempted from PRC income tax for 2 years starting from their first profit-making year after net off accumulated tax losses, followed by a 50% reduction in the PRC income tax for the next 3 years (“Tax Holidays”). Pursuant to the Corporate Income Tax Law of the PRC promulgated on 16 March 2007, even the entity was not yet turning to a profit after net off its accumulated tax losses, the tax holidays commenced mandatorily on 1 January 2008. Jinbei Jinheng, Shanxi Winner, Beijing Great Idea and Beijing Troitec are in the fourth year, fifth year, third year and third year respectively.

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.

## 5. Dividends

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

	Six months ended 30 June	
	2010 HK\$	2009 HK\$
Final dividend in respect of the financial year ended 31 December 2009 approved and paid during the following interim period of 1.5 HK cents per share (year ended 31 December 2008: 1.5 HK cents per share)	<b>6,860,833</b>	6,652,500

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: HK\$Nil).

## 6. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2010 are based on the profit attributable to ordinary equity shareholders of the Company HK\$31,775,814 (for the six months ended 30 June 2009: HK\$11,024,340) and the weighted average of 453,817,053 (for the six months ended 30 June 2009: 443,500,000) ordinary shares in issue during the period, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares Six months ended 30 June	
	2010	2009
Issued ordinary shares at 1 January	<b>443,500,000</b>	443,500,000
Effect of shares issued pursuant to the conversion of convertible notes	<b>10,317,053</b>	–
Weighted average number of ordinary shares (basic) at 30 June	<b>453,817,053</b>	443,500,000

## 6. Earnings per share (continued)

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2010 are based on the profit attributable to ordinary equity shareholders of the Company HK\$31,775,814 (for the six months ended 30 June 2009: HK\$11,024,340) and the weighted average of 463,883,316 (for the six months ended 30 June 2009: 443,500,000) ordinary shares in issue during the period, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Number of shares	
	Six months ended 30 June	
	2010	2009
Weighted average number of ordinary shares at 30 June	453,817,053	443,500,000
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	10,066,263	–
Weighted average number of ordinary shares (diluted) at 30 June	463,883,316	443,500,000

## 7. Fixed assets

### (a) Acquisitions and disposals

During the six months ended 30 June 2010, the Group acquired items of property, plant and equipment with a cost of HK\$31,046,154 (six months ended 30 June 2009: HK\$17,871,017). During the six months ended 30 June 2010, there were disposal of property, plant and equipment with net book value HK\$384,406 (six months ended 30 June 2009: HK\$60,164).

(b) The Group's interest in leasehold land and buildings for own use is held by the subsidiaries in the PRC. The interest in leasehold land and buildings represents the land use rights together with the buildings thereon situated in Beijing, Shanxi, Shenyang and Jinzhou, the PRC. The applications for the property ownership certificates of the leasehold land and building situated in Jinzhou with net book value of HK\$8,522,862 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 end of the reporting period. Notwithstanding this, the directors are of the opinion that the Group has acquired the beneficial titles to these leasehold land and buildings as at 30 June 2010 and, the property ownership certificates can be obtained when the administrative procedures are completed.

(c) As at 30 June 2010, leasehold land and buildings with carrying value totalling HK\$24,218,305 (31 December 2009: HK\$44,596,662) are mortgaged to banks for certain banking facilities granted to the Group.

## 8. Trade receivables, prepayments and other receivables

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Trade receivables	<b>513,957,790</b>	480,745,740
Bills receivable	<b>141,840,265</b>	145,607,853
	<b>655,798,055</b>	626,353,593
Prepayments	<b>24,683,365</b>	53,076,558
Other receivables	<b>8,102,578</b>	15,005,264
	<b>688,583,998</b>	694,435,415

Included in trade receivables are amounts due from related companies of HK\$96,570,002 (31 December 2009: HK\$113,894,027) (see note 16(b)).

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

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Within 3 months	<b>412,552,193</b>	433,999,266
Over 3 months but less than 6 months	<b>236,647,711</b>	184,096,939
Over 6 months but less than 12 months	<b>6,598,151</b>	8,257,388
	<b>655,798,055</b>	626,353,593

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.

## 9. Cash and cash equivalents

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Cash and cash equivalents in the statement of financial position and cash flow statement	<b>45,838,800</b>	39,982,603

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:

	<b>30 June 2010</b>	31 December 2009
United States Dollars	<b>USD33,242</b>	USD117,991
Euros	<b>EUR537,674</b>	EUR2,734

Other than disclosed above, cash and cash equivalents of HK\$30,299,438 (31 December 2009: HK\$15,522,189) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

## 10. Trade and other payables

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Trade payables	<b>302,639,041</b>	284,163,359
Bills payables	<b>82,318,182</b>	109,846,176
Other payables	<b>384,957,223</b>	394,009,535
	<b>106,526,150</b>	107,963,059
	<b>471,483,373</b>	501,972,594

Included in trade and other payables are amounts to from related companies of HK\$15,244,443 (31 December 2009: HK\$25,634,379)(see note 16(c)).

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

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Within 3 months	<b>313,288,044</b>	339,690,385
Over 3 months but less than 6 months	<b>64,155,358</b>	47,710,099
Over 6 months but less than 12 months	<b>4,526,185</b>	3,668,498
Over 1 year	<b>2,987,636</b>	2,940,553
	<b>384,957,223</b>	394,009,535

## 11. Bank loans

The bank loans are repayable as follows:

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Within 1 year or on demand	<b>423,358,803</b>	324,897,186
After 1 year but within 2 years	<b>8,400,000</b>	49,354,545
After 2 years but within 5 years	<b>9,000,000</b>	17,700,000
	<b>440,758,803</b>	391,951,731
Representing:		
Secured bank loans	<b>126,845,167</b>	129,679,004
Unsecured bank loans	<b>313,913,636</b>	262,272,727
	<b>440,758,803</b>	391,951,731

At 30 June 2009, terms of bank loans were as follows:

- (a) Short-term secured loans of HK\$16,988,636(31 December 2009: HK\$24,943,182) which carry interest at rates ranging from 4.86% to 6.90%(31 December 2009: 4.86% to 6.90%)per annum are secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of HK\$24,218,305(31 December 2009: HK\$43,082,771).
- (b) Included in short-term secured bank loans are discounted bills with recourse totaling HK\$109,856,530 (31 December 2009: HK\$104,735,822) are secured by the related bills receivables.
- (c) Short-term unsecured bank loan of HK\$3,409,091(31 December 2009: HK\$3,409,091) which carries interest at 6.36% (31 December 2009: 6.36%) per annum are guaranteed by a third party. Other unsecured bank loan of HK\$11,363,636(31 December 2009: HK\$11,363,636)carries interest at 5.28%(31 December 2009: 5.31%) per annum is guaranteed by a minority shareholder of a subsidiary. Other unsecured bank loans of HK\$26,704,545(31 December 2009: HK\$Nil) which carry interest at rates ranging from 5.83% to 6.00%(31 December 2009: Nil) per annum are guaranteed by directors of the Company.
- (d) Other unsecured bank loans totaling HK\$255,036,365 (31 December 2009: HK\$177,045,455 ) carry interest at rates ranging from 2.14% to 5.83% (31 December 2009: 2.14% to 4.86%) per annum.
- (e) Long-term unsecured bank loans of HK\$17,400,000 (31 December 2009: HK\$70,454,545) carry interest at 3.50%(31 December 2009: 3.50% to 5.40%) per annum.

## 12. Convertible notes

On 26 May 2006, the Company issued convertible notes with a nominal value of HK\$46,000,000 to Value Partners Limited, an independent investor. The notes bear interest at 7% per annum with a maturity date of 25 May 2011. The convertible notes are, at the option of the holder, convertible on or after 26 November 2007 up to and including 25 May 2011, into ordinary shares of the Company at an initial conversion price of HK\$0.90 per share, subject to adjustment under certain events. Upon full conversion, the notes shall be converted into 51,111,111 ordinary shares of HK\$0.01 each of the Company. Both the Company and holders of the convertible notes could redeem the convertible note at par at any time between 26 May 2009 (the third anniversary of the date of issue of the convertible notes) and the maturity date. On 7 October 2009, the holders of the convertible notes have redeemed the convertible notes with a nominal value of HK\$23,000,000. In June 2010, the holders of the convertible notes have redeemed the convertible notes with a nominal value of HK\$5,756,000, and converted the convertible notes with a nominal value of HK\$17,244,000 into 19,260,000 ordinary shares of the Company.

On 14 July 2006, the Company issued convertible notes with a nominal value of HK\$25,000,000, HK\$3,000,000 and HK\$3,000,000 to three independent investors, Sagemore Assets Limited, Blue Water Ventures International Ltd. and Synergy Capital Co., Ltd. respectively. The notes bear interest at 7% per annum with a maturity date of 13 July 2011. The convertible notes are, at the option of the holders, convertible on or after 14 January 2008 up to and including 13 July 2011, into ordinary shares of the Company at an initial conversion price of HK\$0.90 per share, subject to adjustment under certain events. Upon full conversion, the notes shall be converted into 34,444,444 ordinary shares of HK\$0.01 each of the Company. Both the Company and holders of the convertible notes could redeem the convertible note at par at any time between 14 July 2009 (the third anniversary of the date of issue of the convertible notes) and the maturity date. On 30 September 2009, the holders of the convertible notes have redeemed the convertible notes with a nominal value of HK\$6,000,000. In March 2010, the holders of the convertible notes have redeemed the convertible notes with a nominal value of HK\$12,500,000, and converted the convertible notes with a nominal value of HK\$12,500,000 into 13,888,888 ordinary shares of the Company.

The convertible notes were split into liability, derivative and equity components of HK\$70,544,443, HK\$1,305,431 and HK\$5,150,126 respectively upon initial recognition by recognising the liability component and derivative components at their fair value and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost while the derivative component is carried at fair value to be remeasured at the end of each reporting period. The equity component is recognised in the capital reserve.

## 12. Convertible notes (continued)

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

	Liability component HK\$	Derivative component HK\$	Total HK\$
At 1 January 2009	72,896,991	(4,121,378)	68,775,613
Interest charged during the period	3,461,108	–	3,461,108
Interest paid during the period	(2,672,849)	–	(2,672,849)
Change in fair value	–	2,846,610	2,846,610
At 30 June 2009	73,685,250	(1,274,768)	72,410,482
At 1 January 2010	<b>46,271,866</b>	<b>(693,491)</b>	<b>45,578,375</b>
Interest charged during the period	<b>1,157,922</b>	–	<b>1,157,922</b>
Interest paid during the period	<b>(1,035,808)</b>	–	<b>(1,035,808)</b>
Derecognition on redemption or conversion	<b>(46,393,980)</b>	<b>693,491</b>	<b>(45,700,489)</b>
At 30 June 2010	–	–	–

## 13. Share capital

	30 June 2010		31 December 2009	
	Number of shares	Amount HK\$	Number of shares	Amount HK\$
<b>Authorised:</b>				
Ordinary shares of HK\$0.01 each	<b>10,000,000,000</b>	<b>100,000,000</b>	10,000,000,000	100,000,000
<b>Issued:</b>				
At 1 January	<b>443,500,000</b>	<b>4,435,000</b>	443,500,000	4,435,000
Shares issued due to conversion of convertible notes	<b>33,048,888</b>	<b>330,489</b>	–	–
<b>At 30 June 2010/31 December 2009</b>	<b>476,548,888</b>	<b>4,765,489</b>	443,500,000	4,435,000



#### 14. Commitments

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

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Contracted for	<b>9,816,906</b>	9,870,572

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

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Properties		
Within 1 year	<b>261,417</b>	1,853,937
After 1 year but within 5 years	<b>196,970</b>	4,047,410
After 5 years	<b>906,891</b>	931,503
	<b>1,365,278</b>	6,832,850
Others		
Within 1 year	–	27,273

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.

## 15. Material related party transactions

Name of party	Relationship
Hafei Motor Co., Ltd. ("Hafei Motor")	Minority shareholder (10%) of Harbin Hafei Jinheng Automotive Safety System Co., Limited
Shenyang Jinbei Automotive Company Limited ("Jinbei Automotive")	Minority shareholder (14.81%) Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")
Shenyang Brilliance Jinbei Automobile Company Limited ("Brilliance Jinbei")	An associate (39.1%) of Jinbei Automotive
Taiyuan Aero Instruments Company Limited ("Taiyuan Aero")	Minority shareholder (40%) of Shanxi Winner
Freemind Technology Limited ("Freemind Technology")	Minority shareholder (48.8%) of Honest Bright
Li Feng ("Mr Li")	Director of the Company

### (a) Recurring

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$</b>	<b>HK\$</b>
Rental expenses paid to		
– Mr. Li	<b>49,091</b>	409,091
Sales of airbag systems and other automotive components to:		
– Hafei Motor	<b>14,322,026</b>	24,413,877
– Brilliance Jinbei	<b>83,318,997</b>	44,538,720
– Taiyuan Aero	<b>11,746,892</b>	–
Purchases of raw materials from:		
– Taiyuan Aero	<b>12,687,754</b>	–

The directors of the Company are of the opinion that the sales of airbag systems and other automotive components to and rental expenses paid to the above related parties were conducted in the normal course of business.

15. **Material related party transactions** (continued)

(b) *Amounts due from related companies*

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Hafei Motor	<b>7,056,868</b>	17,757,566
Brilliance Jinbei	<b>89,513,134</b>	80,468,301
Taiyuan Aero	–	15,668,160
	<b>96,570,002</b>	113,894,027

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 statement of financial position (see note 8).

(c) *Amounts due to related companies*

	<b>30 June 2010 HK\$</b>	31 December 2009 HK\$
Freemind Technology	<b>10,000,000</b>	10,000,000
Taiyuan Aero	<b>5,244,443</b>	15,634,379
	<b>15,244,443</b>	25,634,379

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

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

These amounts are included in “Trade and other payables” in the consolidated statement of financial position (see note 9).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30 June 2010, the Group recorded turnover amount of approximately HK\$606.4 million, representing an increase of approximately 54.1% in compared with the same period of last year. The increment of the turnover amount was mainly due to continuous growth of the PRC automobile market and our automobile spare parts have launched commercial production during the current period and provide positive contribution to the Group. As a result of the substantial increase in turnover, the profit attributable to the shareholders of the Company also increased by approximately 188.2% to approximately HK\$31.8 million.

The directors of the Company (the “Directors”) are please to announce that our EMS has entered into the new stage. As the sole local manufacturer which can mass produce engine management system (“EMS”) in PRC, we have commenced the mass production for another major customer in the second quarter of the current year. Also we are developing certain new EMS models for a few car manufacturers and are expected to launch commercial production in the coming future. Given our target customers are mainly economic car manufacturers and they are very price-sensitive to the spare parts, and our products have price advantages over other imported products, the management believes that our EMS business will have a bright future.

During the first half of the current year, our automobile safety airbag business is benefited from the continuous growth of the PRC automobile markets and thus recorded significant improvement. Due to the change of product mix, the average gross profit margin of the automobile safety airbag business recorded a slightly decrease in compared with the same period of last year.

On 10 July 2010, the Company has entered into a disposal agreement, in which the Company will sell the entire equity interests of Jinheng (BVI) Limited at a consideration of HK\$1,130,000,000 (the “Disposal”), in which it and its subsidiaries are principally engaged in the sale and manufacture of automobile safety airbag system and safety seat belts. The Directors consider that it is a reasonable move for the Company to take this opportunity to capture and realize the gain from its past investment, and focus more on our EMS businesses which are of a higher potential and to optimize the Group’s resources. Furthermore, a special dividend of HK\$1.00 per share of the Company (“Special Dividend”) may be proposed in the upcoming extraordinary general meeting. After the approval of the Disposal and the Special Dividend, the Group will have a more solid financial foundation to further develop our businesses such as expansion of production capacities for EMS to 500,000 sets per annum in order to satisfy the expected growing demand of our products and also provide sufficient resources to further develop higher growth potential markets in order to provide more return to the shareholders of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Financial Review

During the six months period ended 30 June 2010, the turnover amount of the Group were approximately HK\$606.4 million, which were increased by approximately 54.1% as compared with the same period of last year. Such increment was mainly due to continuous growth of the PRC automobile market. Also our automotive spare parts business recorded an increase of approximately 26.4% in compared with last year.

For the first half of 2010, the average gross profit margin of the Group was increased by 1.7% to 21.7% as compared with the annual result of 2009. The increase was mainly due to the contribution from the automotive spare parts business. Owing to the change of product mix, the average gross profit margin of both mechanical and electronic airbag systems was approximately 18.8% while it was 21.2% in 2009.

The other revenue of the Group during the period under review was increased by approximately HK\$8.0 million to approximately HK\$9.2 million as compared with the same period of 2009. The increment was mainly due to the income from certain research projects undertaken for automobile manufacturers.

During the current reporting period, the research and development expenses of the Group were approximately HK\$22.8 million while it was approximately HK\$9.8 million in the same period of last year. This is mainly due to the continuous development of new products such as automobile wiring systems, automotive safety spare parts and new EMS. It is the business strategy of the Group to develop these new products in order to capture the business opportunities available in the rapid growth PRC automobile market.

Distribution costs of the Group recorded in the first half of 2010 were increased by approximately HK\$9.3 million to approximately HK\$20.0 million as in comparison with the same period of last year. Such increment was mainly due to the growth of turnover amount, in which the increment rate during the current period is over 50%.

During the six months period ended 30 June 2010, the administrative expenses were approximately HK\$38.5 million, which represent a increment of approximately HK\$8.6 million as compared with the first half of 2009. The increase was mainly resulted from the enlarged scale of the Group to cope with the growth of our various businesses.

The finance costs during the current six-month period under review were decreased by approximately 21.3% to approximately HK\$10.5 million as compared with the same period of 2009. The reduction was mainly due to the restructuring of bank loans and the repayment and conversion of convertible notes during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Financial Review *(continued)*

For the six months ended 30 June 2010, the profit attributable to owners of the Company was increased by approximately 188% to approximately HK\$31.8 million in compared with the same period of last year. The substantial increment was mainly due to the rapid growth of the turnover amount and the positive contribution provided by automobile spare parts business.

### Outlook and Future Prospects

An extraordinary general meeting of the Company will be held on 6 September 2010 to consider and if thought fit, to approve the Disposal and other resolutions to be proposed. After completion of the Disposal, the Group may have strong and solid financial foundation for further development of our businesses including the phase one expansion of the EMS production capacities to 500,000 sets per annum to satisfy the existing orders, and also further establish advanced research facilities in order to cope with the requirements from customers.

Apart from the EMS business, the Group will also invest in the development of automobile safety spare parts business and the automobile wiring systems business. Given that the quality of our products were proved in the past years and have a competitive price, and also we have strong marketing networks gifted by over 10 years of experience and presence in the PRC automobile spare parts markets, the Directors believe that such extensive experience allows the Group to gain edge over other competitors in the electronic control units and the automobile safety spare parts businesses in the PRC.

Facilitated by the solid financial position after the completion of the Disposal, the Directors can develop the EMS business and other automobile spare parts products in a more effective manner to capture the huge business opportunities available in the PRC automobile market and provide fruitful returns to the shareholders of the Company.

### Liquidity, Financial Resources and Capital Structure

As at 30 June 2010, the Group had bank and cash balances of approximately HK\$45.8 million (31 December 2009: approximately HK\$40.0 million) and net current assets of approximately HK\$0.7 million while it was approximately HK\$0.6 million in the last fiscal year. As a result of the expansion in production and research capacities, the total non-current assets of the Group increased by approximately HK\$8.5 million to approximately HK\$623.9 million in the first half of 2010.

As at 30 June 2010, the Group had non-current liabilities of approximately HK\$52.8 million, which represent the deferred tax liabilities and long term bank loans amounted to approximately HK\$17.4 million.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Liquidity, Financial Resources and Capital Structure *(continued)*

The Group also had short-term bank loans of approximately HK\$423.4 million which included bank loans with an aggregate amount of approximately HK\$313.5 million (equivalent to approximately RMB275.9 million) with fixed interest rates ranging from 2.14% to 6.90% per annum, and discounted bills of approximately HK\$109.9 million (equivalent to approximately RMB96.7 million) which were not yet matured at the period end date. The short-term bank loans were primarily used to 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 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 Renminbi, Hong Kong dollars, US dollars or, to a lesser extent, Euro. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 30 June 2010, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

### Charges on Group Assets

As at 30 June 2010, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK\$24.2 million for certain bank loans totalling approximately RMB15.0 million (equivalent to approximately HK\$17.0 million).

In additions, discounted bills with recourse totaling approximately HK\$109.9 million were secured by the related bills receivable and were repayable with one year.

### Gearing Ratio

The Group's gearing ratio, which was derived from the total liabilities to total assets, decreased to 64.9% from 67.1% as at 31 December 2009.

### Future Plans for Material Investments

As at 30 June 2010, the Group had the contracted but not provided for capital commitments of approximately HK\$9.8 million in respect of acquisition of fixed assets.

### Material Acquisitions and Disposals

During the six months period ended 30 June 2010, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Significant Investment

There was no significant investment during the period under review.

### Contingent Liabilities

As at 30 June 2010, the directors of the Company were not aware of any contingent liabilities.

### Subsequent Events

On 10 July 2010, the Company has entered into a disposal agreement with Vital Glee Development Limited (the "Purchaser"), pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the entire issued share capital of the Jinheng (BVI) Limited at a consideration of HK\$1,130,000,000. Jinheng (BVI) Limited and its subsidiaries are principally engaged in the sale and manufacturing of safety systems used in automobiles. The disposal agreement and the transactions contemplated thereunder are subject to the approval from the shareholders of the Company in the extraordinary general meeting of the Company to be convened and held by the Company on 6 September 2010.

### 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 30 June 2010, the Group employed approximately 1,504 staff in the PRC and Hong Kong, representing an increase of 54 staff from 31 December 2009 and an increase of 194 staff from 30 June 2009. The decrease in staff was mainly from the PRC operations. Remuneration of employees, including directors' emoluments was approximately HK\$33.4 million for the six months period under review as compared with that of approximately HK\$26.5 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 of the Company and depending upon the financial performance of the Group.



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

As at 30 June 2010, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

### (a) Long positions in issued shares

Director	Capacity	Number of Shares	Percentage of interests
Li Feng	Beneficial owner Interest of a controlled corporation (Note)	720,000 (Note)	0.15% (Note)
Xing Zhanwu	Beneficial owner Interest of a controlled corporation (Note)	1,184,000 (Note)	0.25% (Note)
Li Hong	Interest of a controlled corporation (Note)	(Note)	(Note)
Yang Donglin	Interest of a controlled corporation (Note)	(Note)	(Note)
Zhao Qingjie	Interest of a controlled corporation (Note)	(Note)	(Note)
Foo Tin Chung, Victor	Beneficial owner	800,000	0.17%

Note: Save as disclosed above, as at 30 June 2010, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited ("Applaud Group") which held approximately 48.58% in the Company:

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

### (a) Long positions in issued shares *(continued)*

Shareholder	Number of shares held in Applaud Group		%
The controlling group	5,896		56.33
Li Feng	2,978	28.45	
Li Hong	852	8.14	
Xu Jianzhong	750	7.17	
Xing Zhanwu	726	6.94	
Yang Donglin	590	5.63	
Wonder Auto Limited	2,188		20.90
Yearcity Limited	1,827		17.46
Zhao Jiyu	417		3.98
Cao Feng	139		1.33
Total	10,467		100

Wonder Auto Limited and Yearcity Limited are wholly-owned subsidiaries of Wonder Auto Technology Inc., and Mr Zhao Qingjie is interested in approximately 19% of the issued share capital of Wonder Auto Technology Inc.

### (b) Interests in underlying shares

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

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



## SHARE OPTION SCHEMES

The Company has a share option scheme which was adopted on 19 June 2009 (“2009 Share Option Scheme”). A summary of principal terms of the 2009 Share Option Scheme was disclosed in the circular of the Company published on 29 April 2009. The Company also had a share option scheme which was adopted on 22 November 2004 (“2004 Share Option Scheme”). A summary of principal terms of the 2004 Share Option Scheme was disclosed in the appendix VI of the prospectus of the Company published on 30 November 2004. The 2004 Share Option Scheme was terminated with effect from the adoption of the 2009 Share Option Scheme. After its termination, no further options would be offered under the 2004 Share Option Scheme but outstanding options granted pursuant to the 2004 Share Option Scheme which entitle the holders thereof to subscribe for a total of 37,300,000 shares of the Company will remain valid and exercisable in accordance with their terms of issue.

The total number of securities available for issue under the share option schemes as at 30 June 2010 was 81,650,000 shares (including options for 37,300,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 17.13% of the issued share capital of the Company as at 30 June 2010.

As at 30 June 2010, 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 2010 is HK\$1.78) 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.

## SHARE OPTION SCHEMES (continued)

On 23 August 2007, the Company granted options to subscribe for a total of 20,200,000 Shares under the 2004 Share Option Scheme to four directors and two employees of the Group, with the following details:

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 30 June 2010	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the period	Exercise price per share	Market value per share before the date on which the options were granted	Market value per share on exercise of options
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Zeng Qingdong (曾慶東)	Non-executive director of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Li Hong (李宏)	Non-executive director of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Hao Dianqing (郝殿卿)	Employee, vice president of the Group	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Wong Wah Wai (黃華威) (Note)	Employee, senior accountant of the Company	200,000	200,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
		20,200,000	20,200,000			-			

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

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

## SHARE OPTION SCHEMES *(continued)*

The weighted average value per option granted on 23 August 2007 using binomial lattice pricing model was HK\$0.426. The calculation of the weighted average value per option granted during the period does not take into account options granted and forfeited during the period. The weighted average assumptions used are as follows:

	2010
Risk-free interest rate	4.03%
Expected life (in years)	5 years
Volatility	50.0%
Expected dividend per share	4.0%

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

## SHARE OPTION SCHEMES (continued)

On 11 November 2008, the Company offered options to subscribe for a total of 17,100,000 Shares under the 2004 Share Option Scheme to 6 employees of the Group, with the following details:

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 30 June 2010	Date offered	Period during which options exercisable	No. of shares acquired on exercise of options during the period	Exercise price per share	Market value per share before the date on which the options were granted	Market value per share on exercise of options
Mr. Dong Zhongjiang (董眾江)	Employee, deputy general manager of the Shanxi Winner	3,100,000	3,100,000	11 November 2008	11 November 2008 to 10 November 2011	-	HK\$0.59	HK\$0.5	N/A
Ms. Shi Li (石莉)	Employee, accounting manager of the Company	1,800,000	1,800,000	11 November 2008	11 November 2008 to 10 November 2011	-	HK\$0.59	HK\$0.5	N/A
Mr. Wong Wah Wai (黃華威)	Employee, senior accountant of the Company	4,200,000	4,200,000	11 November 2008	11 November 2008 to 10 November 2011	-	HK\$0.59	HK\$0.5	N/A
Mr. Xing Zhanwen (邢占文)	Employee, general manager of the Shanxi Winner	3,000,000	3,000,000	11 November 2008	11 November 2008 to 10 November 2011	-	HK\$0.59	HK\$0.5	N/A
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	3,000,000	3,000,000	11 November 2008	11 November 2008 to 10 November 2011	-	HK\$0.59	HK\$0.5	N/A
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	2,000,000	2,000,000	11 November 2008	11 November 2008 to 10 November 2011	-	HK\$0.59	HK\$0.5	N/A
		17,100,000	17,100,000			-			

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

## SHARE OPTION SCHEMES *(continued)*

The weighted average value per option granted on 11 November 2008 using trinomial model was HK\$0.098. The calculation of the weighted average value per option granted during the period does not take into account options granted and forfeited during the period. The weighted average assumptions used are as follows:

	2010
Risk-free interest rate	1.09%
Expected life (in years)	3 years
Volatility	49.70%
Expected dividend per share	4.00%

The trinomial model involves the construction of a trinomial lattice which represents different possible paths that might be followed by the stock price over the life of the options. In developing the trinomial lattice, the life of the option is divided into various time steps. In each time step, there is a binomial stock movement. The fair value of the options would then be calculated by making use of the trinomial lattice.

Apart from the foregoing, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2010, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Name of shareholders	Capacity	Number of shares of the Company held	Approximate percentage
Applaud Group	Beneficial owner	231,530,000	48.58%
Wonder Auto Limited (Note 1)	Held by controlled operation	231,530,000	48.58%
Wonder Auto Technology Inc. (Note 2)	Held by controlled operation	231,530,000	48.58%

Notes:

1. These Shares are held by Applaud Group. The issued share capital of Applaud Group is beneficially owned as to 38.36% by Wonder Auto Limited. Accordingly, Wonder Auto Limited will be deemed to be interested in 231,530,000 shares of the Company.
2. These Shares are held by Applaud Group. The issued share capital of Applaud Group is beneficially owned as to 38.36% by Wonder Auto Limited and the entire issued share capital of Wonder Auto Limited is beneficially owned by Wonder Auto Technology Inc. Accordingly, Wonder Auto Technology Inc. will be deemed to be interested in 231,530,000 shares of the Company.



## **SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY**

*(continued)*

### **Short positions in shares**

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

### **Short positions in underlying shares**

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

Save as disclosed above, as at 30 June 2010, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **COMPETING INTERESTS**

None of the directors or management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the businesses of the Group as at 30 June 2010.

## **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, the announcement published on 18 July 2008, 14 July 2009 and 11 July 2010, and the circular published on 4 August 2008, 30 July 2009 and 19 August 2010.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 30 June 2010, 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 has complied with all the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2010.

The Company established an audit committee with written terms of reference in compliance with Rules 3.21 to 3.23 of the 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. Hui Hung Kwan, Mr. Huang Shilin and Mr. Zhu Tong.

The audit committee had reviewed the Group's unaudited results for the six months ended 30 June 2010 and had provided advice and recommendation to the Board.

The Company established a remuneration committee in November 2005. The primary duties of the remuneration committee are to assist 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 of the Company. The remuneration committee comprises executive director Mr. Xing Zhanwu and independent non-executive directors Mr. Zhu Tong and Mr. Huang Shilin.

The Company also established a nomination committee in November 2005. The primary duties of the nomination committee are to assist 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. The nomination committee comprises executive director Mr. Xing Zhanwu and independent non-executive directors Mr. Zhu Tong and Mr. Hui Hung Kwan.

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors of the Company adopted by the Company throughout the six months ended 30 June 2010.



## **THE CODE OF CORPORATE GOVERNANCE PRACTICES** *(continued)*

The Company has complied with the requirement to appoint a sufficient number of independent non-executive director as set out in Rule 3.10(1) of the Listing Rules. Throughout the six months ended 30 June 2010, the Company has appointed three independent non-executive directors, namely Mr. Hui Hung Kwan, Mr. Huang Shilin and Mr. Zhu Tong.

Mr. Li Hong and Mr Zeng Qingdong, being the non-executive directors of the Company, are appointed for a fixed term of three years. Mr. Hui Hung Kwan, Mr. Huang Shilin and Mr. Zhu Tong, being the independent non-executive directors of the Company, are also appointed for a fixed term of three years. All the non-executive directors and independent non-executive directors of the Company are subject to normal retirement and re-election by shareholders of the Company pursuant to the Articles of Association of the Company at the annual general meeting of the Company.

By order of the Board

**Jinheng Automotive Safety Technology Holdings Limited**

**Li Feng**

*Chairman*

Hong Kong, 27 August 2010