

INTERIM REPORT 2011



JIN HENG

**JINHENG AUTOMOTIVE SAFETY
TECHNOLOGY HOLDINGS LIMITED**
錦恒汽車安全技術控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 872)



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 2011, together with the unaudited comparative figures for the corresponding periods in 2010 as follows:

CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Six months ended 30 June	
	Note	2011 HK\$	2010 HK\$
Turnover	2	161,903,069	606,398,714
Cost of sales		(125,322,356)	(474,966,839)
Gross profit		36,580,713	131,431,875
Other revenue		27,085,592	9,201,668
Other net loss		(164,146)	(5,617,786)
Research and development expenses		(20,587,488)	(22,837,818)
Distribution costs		(2,479,743)	(20,022,748)
Administrative expenses		(16,343,085)	(38,529,737)
Profit from operations		24,091,843	53,625,454
Finance costs	3	(4,667,006)	(10,503,194)
Share of losses of jointly controlled entity		(5,715,843)	(560,676)
Profit before taxation	4	13,708,994	42,561,584
Income tax	5	(2,165,882)	(10,234,520)
Profit for the period		11,543,112	32,327,064
Attributable to:			
Owners of the Company		10,039,849	31,775,814
Non-controlling interests		1,503,263	551,250
Profit for the period		11,543,112	32,327,064
Earnings per share			
– Basic	7(a)	HK1.95 cents	HK7.00 cents
– Diluted	7(b)	HK1.95 cents	HK6.85 cents

The notes on pages 6 to 15 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended 30 June	
	2011 HK\$	2010 HK\$
Profit for the period	11,543,112	32,327,064
Other comprehensive income for the period, net of income tax:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	7,563,453	4,020
Total comprehensive income for the period	19,106,565	32,331,084
Attributable to:		
Owners of the Company	15,388,647	31,779,834
Non-controlling interests	3,717,918	551,250
Total comprehensive income for the period	19,106,565	32,331,084

The notes on pages 6 to 15 form part of this interim financial report.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

AT 30 JUNE 2011

	Note	30 June 2011 HK\$	31 December 2010 HK\$
Non-current assets			
Fixed asset			
– Property, plant and equipment	8	61,740,818	61,708,667
– Interest in leasehold land held for own use under operating leases	8	22,523,585	22,493,719
Deposit paid for acquisition of fixed assets		20,661,173	20,650,298
Construction in progress		101,787	630,284
Intangible assets		81,586,210	85,026,226
Goodwill		5,169,800	5,048,158
Interests in a jointly controlled entity		47,652,299	53,374,038
		239,435,672	248,931,390
Current assets			
Inventories		23,558,053	30,967,325
Trade and other receivables	9	700,927,059	640,088,939
Loan receivable		11,000,400	11,000,400
Cash and cash equivalents	10	26,040,910	141,217,189
		761,526,422	823,273,853
Current liabilities			
Trade and other payables	11	192,717,858	202,252,051
Current tax payable		277,419	183,200
Bank loans	12	58,142,729	50,211,118
Other loans		10,253,012	13,676,709
Convertible preferred shares		–	80,572,775
		261,391,018	346,895,853
Net current assets		500,135,404	476,378,000
Total assets less current liabilities		739,571,076	725,309,390
Non-current liabilities			
Deferred tax liabilities		21,127,467	18,264,613
NET ASSETS		718,443,609	707,044,777
Capital and Reserves			
Share capital	13	5,138,489	5,138,489
Reserves		667,646,690	659,965,776
Total equity attributable to owners of the Company		672,785,179	665,104,265
Non-controlling interests		45,658,430	41,940,512
TOTAL EQUITY		718,443,609	707,044,777

The notes on pages 6 to 15 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Attributable to owners of the Company										
	Share Capital	Share Premium	Merger Reserve	Statutory		Exchange Reserve	Other Reserve	Retained profits	Sub-total	Non- controlling interests	Total
				Surplus Reserve	Capital Reserve						
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
At 1 January 2010	4,435,000	166,680,213	36,341,236	42,658,453	16,410,461	54,168,656	(24,786,281)	149,613,052	445,520,790	72,577,172	518,097,962
Total comprehensive											
income for the period	-	-	-	-	-	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 paid during the period	-	-	-	-	-	-	-	(6,860,833)	(6,860,833)	-	(6,860,833)
Release on 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	490,711,967	73,128,422	571,840,389
At 1 January 2011	5,138,489	249,722,557	-	4,358,331	-	16,781,453	(26,927,346)	416,030,781	665,104,265	41,940,512	707,044,777
Total comprehensive											
income for the period	-	-	-	-	-	5,348,798	-	10,039,849	15,388,647	3,717,918	19,106,565
Dividends paid during the period	-	-	-	-	-	-	-	(7,707,733)	(7,707,733)	-	(7,707,733)
At 30 June 2011	5,138,489	249,722,557	-	4,358,331	-	22,130,251	(26,927,346)	418,362,897	672,785,179	45,658,430	718,443,609

The notes on pages 6 to 15 form part of this interim financial report.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	<i>Note</i>	Six months ended 30 June	
		2011 <i>HK\$</i>	2010 <i>HK\$</i>
Net cash (used in)/generated from operating activities		(51,887,554)	40,584,478
Net cash generated from/(used in) investing activities		15,387,195	(56,171,824)
Net cash (used in)/generated from financing activities		(79,182,686)	21,443,543
Net (decrease)/increase in cash and cash equivalents		(115,683,045)	5,856,197
Effect of foreign exchange rate changes		506,766	–
Cash and cash equivalents at 1 January		141,217,189	39,982,603
Cash and cash equivalents at 30 June	<i>10</i>	26,040,910	45,838,800

The notes on pages 6 to 15 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 2010 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 2010 annual accounts, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2011. 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 2010 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 2010 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2011.

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	
	2011 HK\$	2010 HK\$
Sales of mechanical airbag systems	–	16,694,986
Sales of electronic airbag systems	–	421,102,132
Sales of automotive safety system components and other automotive components	161,903,069	168,601,596
	161,903,069	606,398,714



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 is one (2010: four) customer-based geographical segment. 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	
	2011 HK\$	2010 HK\$
PRC	161,903,069	599,773,053
Iran	–	4,161,337
Korea	–	1,677,980
Others	–	786,344
	161,903,069	606,398,714

3. Finance costs

	Six months ended 30 June	
	2011 HK\$	2010 HK\$
Interest expense on bank advances wholly repayable within five years	601,912	7,746,766
Interest expense on convertible notes	–	1,157,922
Interest expense on other loans	2,491,542	–
Discounting charges on discounted bills	1,573,552	1,598,506
	4,667,006	10,503,194

4. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2011 HK\$	2010 HK\$
Cost of inventories	125,322,356	474,966,839
Depreciation	4,426,219	18,793,840
Amortisation of land lease premium	402,122	971,585
Amortisation of intangible assets		
– Acquired technology	550,518	576,057
– Development costs	2,732,402	24,579,747
– Patent	2,205,920	2,082,587

5. Income tax in the consolidated income statement

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2011 HK\$	2010 HK\$
Current tax		
PRC income tax for the period	1,306,085	5,657,484
Deferred tax		
Origination of temporary differences	859,797	4,577,036
Total income tax expense	2,165,882	10,234,520

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 Jinheng Jinsida Automotive Electronic Co., Limited (“Jinheng Jinsida”), 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. Jinheng Jinsida, Beijing Great Idea and Beijing Troitec are all in the fourth year of their tax holidays.

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.



6. Dividends

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

	Six months ended 30 June	
	2011 HK\$	2010 HK\$
Final dividend in respect of the financial year ended 31 December 2010 approved and paid during the following interim period of 1.5 HK cents per share (year ended 31 December 2009: 1.5 HK cents per share)	7,707,733	6,860,833

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: HK\$Nil).

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2011 are based on the profit attributable to owners of the Company HK\$10,039,849 (for the six months ended 30 June 2010: HK\$31,775,814) and the weighted average of 513,848,888 (for the six months ended 30 June 2010: 453,817,053) 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	
	2011	2010
Issued ordinary shares at 1 January	513,848,888	443,500,000
Effect of shares issued for conversion of convertible notes	–	10,317,053
Weighted average number of ordinary shares for the purpose of basic earnings per share	513,848,888	453,817,053

7. Earnings per share (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2011 are based on the profit attributable to owners of the Company HK\$10,039,849 (for the six months ended 30 June 2010: HK\$31,775,814) and the weighted average of 513,848,888 (for the six months ended 30 June 2010: 463,883,316) 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	
	2011	2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	513,848,888	453,817,053
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 for the purpose of diluted earnings per share	513,848,888	463,883,316

8. Fixed assets

(a) Acquisitions and disposals

During the six months ended 30 June 2011, the Group acquired items of property, plant and equipment with a cost of HK\$3,137,727 (six months ended 30 June 2010: HK\$31,046,154). During the six months ended 30 June 2011, there were disposal of property, plant and equipment with net book value HK\$166,313 (six months ended 30 June 2010: HK\$384,406).

(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 and Shanxi in the PRC.

(c) As at 30 June 2011, leasehold land and buildings with carrying value totalling HK\$14,761,116 (31 December 2010: HK\$ Nil) are mortgaged to banks for certain banking facilities granted to the Group.

(d) As at 30 June 2011, leasehold lands with carrying amount of HK\$22,523,585 (31 December 2010: HK\$22,493,719) are situated outside Hong Kong under medium-term leases.



9. Trade and other receivables

	30 June 2011 HK\$	31 December 2010 HK\$
Trade receivables	162,441,100	122,395,203
Less: allowance for doubtful debts	(1,533,159)	(1,533,159)
	160,907,941	120,862,044
Bills receivable	65,473,300	36,902,523
	226,381,241	157,764,567
Prepayments	5,886,426	8,379,966
Promissory note receivables	445,100,000	452,000,000
Other receivables	23,559,392	21,944,406
	700,927,059	640,088,939

As at 31 December 2010, included in trade receivables are amounts due from related companies of HK\$5,624,913 (see note 15(b)).

As at 30 June 2011, promissory note receivables carried interest at 8% per annum and mature at 12 June 2012. As at 31 December 2010, promissory note receivables carried are non-interest bearing and mature at 180th day from the date of issue of the promissory note.

All of the trade and other receivables are expected to be recovered within one year.

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

	30 June 2011 HK\$	31 December 2010 HK\$
Within 3 months	145,211,907	116,445,351
Over 3 months but less than 6 months	71,068,700	40,914,513
Over 6 months but less than 12 months	10,100,634	404,703
	226,381,241	157,764,567

The Group generally grants credit periods with 90 to 180 days from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and credit worthiness, extend the credit period upon customers' request.

10. Cash and cash equivalents

	30 June 2011 HK\$	31 December 2010 HK\$
Cash and cash equivalents in the statement of financial position and cash flow statement	26,040,910	141,217,189

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:

	30 June 2011	31 December 2010
United States Dollars	USD31,480	USD17,049
Euros	EUR10,984	EUR10,983

Other than disclosed above, cash and cash equivalents of HK\$4,549,098 (31 December 2010: HK\$8,989,280) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

11. Trade and other payables

	30 June 2011 HK\$	31 December 2010 HK\$
Trade payables	86,824,601	73,315,406
Other payables	105,893,257	128,936,645
	192,717,858	202,252,051

Included in trade and other payables are amounts to from related companies of HK\$10,000,000 (31 December 2010: HK\$10,000,000)(see note 15(c)).

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

An ageing analysis of trade payables is as follows:

	30 June 2011 HK\$	31 December 2010 HK\$
Within 3 months	49,341,241	65,193,848
Over 3 months but less than 6 months	29,357,434	1,900,731
Over 6 months but less than 12 months	3,006,530	1,065,224
Over 1 year	5,119,396	5,155,603
	86,824,601	73,315,406



12. Bank loans

The bank loans are repayable as follows:

	30 June 2011 HK\$	31 December 2010 HK\$
Current		
Short term bank loans:		
– secured	42,480,078	34,328,765
– unsecured	15,662,651	15,882,353
	58,142,729	50,211,118

At 30 June 2011, terms of bank loans were as follows:

- (a) Short-term secured bank loan of HK\$3,614,458 (31 December 2010: HK\$5,882,353) which carry interest at 8.78% (31 December 2010: 5.61%) per annum and are secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of HK\$14,761,116 (31 December 2010: HK\$Nil).
- (b) Included in short-term secured bank loans are discounted with recourse of HK\$38,865,620 (31 December 2010: HK\$28,446,412) are secured by the related bills receivable.
- (c) Short-term unsecured bank loans of HK\$15,662,651 (31 December 2010: HK\$11,764,706) which carry interest at rates ranging from 5.56% to 6.97% (31 December 2010: 5.56%) per annum are guaranteed by a third party.
- (d) As at 31 December 2010, there were unsecured bank loans totaling HK\$4,117,647 carry interest at rate of 6.00% per annum.

13. Share capital

	30 June 2011		31 December 2010	
	Number of shares	HK\$	Number of shares	HK\$
Authorised:				
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000,000	10,000,000,000	100,000,000
Issued:				
At 1 January	513,848,888	5,138,489	443,500,000	4,435,000
Conversion of convertible notes	–	–	33,048,888	330,489
Exercise of share options	–	–	37,300,000	373,000
At 30 June 2011/31 December 2010	513,848,888	5,138,489	513,848,888	5,138,489

14. Commitments

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

	30 June 2011 HK\$	31 December 2010 HK\$
Contracted for	8,778,881	8,472,685

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

	30 June 2011 HK\$	31 December 2010 HK\$
Properties		
Within 1 year	1,856,862	1,344,003
After 1 year but within 5 years	2,305,153	3,780,290
	4,162,015	5,124,293

The Group leases a number of properties and office equipment under operating leases for a period of 1 to 5 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 of Harbin Hafei Jinheng Automotive Safety System Co., Limited, a subsidiary of the Group until September 2010
Shenyang Jinbei Automotive Company Limited ("Jinbei Automotive")	Minority shareholder of Shenyang Jinbei Jinheng Automotive Safety System Co., Limited, a subsidiary of the Group until September 2010
Shenyang Brilliance Jinbei Automobile Company Limited ("Brilliance Jinbei")	An associate of Jinbei Automotive
Taiyuan Aero Instruments Company Limited ("Taiyuan Aero")	Minority shareholder of Shanxi Winner
Ever Tech Holdings Limited ("Ever Tech")	Minority shareholder of Honest Bright Group Limited
Li Feng ("Mr Li")	Director of the Company


15. Material related party transactions (continued)
(a) Recurring

	Six months ended 30 June	
	2011	2010
	HK\$	HK\$
Rental expenses paid to		
– Mr. Li	–	49,091
Sales of airbag systems and other automotive components to:		
– Hafei Motor	–	14,322,026
– Brilliance Jinbei	–	83,318,997
– Taiyuan Aero	–	11,746,892
Purchases of raw materials from:		
– Taiyuan Aero	–	12,687,754

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

(b) Amounts due from related companies

	30 June	31 December
	2011	2010
	HK\$	HK\$
Taiyuan Aero	–	5,624,913

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 and other receivables” in the consolidated statement of financial position (see note 9).

(c) Amounts due to related companies

	30 June	31 December
	2011	2010
	HK\$	HK\$
Ever Tech	10,000,000	10,000,000

The amounts due to Ever Tech are 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 11).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2011, the Group recorded turnover and the profit attributable to the owners of the Company as approximately HK\$161.9 million and HK\$10.0 million respectively, while it was approximately HK\$606.4 million and HK\$31.8 million respectively in the same period of last year. The reduction was mainly due to the disposal of the automobile safety airbag system business, which was completed in the second half of 2010.

With the benefit from the disposal of the safety airbag system business, the Group has obtained sufficient resources to develop our automobile engine management system (“EMS”) and automotive electronic products business which are expected to have higher growth potential. During the first half of 2011, the Group has commenced several new research and development projects for new EMS models and technical upgrade for existing models. It is expected that these new projects may have positive contribution to the financial performance of the Group and enhance the quality of our products once completed.

During the period ended 30 June 2011, the Group has completed the acquisition of all Series A-1 Preferred Shares of Shiny Bright Holdings Limited (“Shiny Bright”), in which Shiny Bright and its subsidiaries are principally engaged in sale and manufacture of EMS. It is expected that with the completion of such acquisition, the Group can strengthen its control on the EMS business and thus its operations and business development can be implemented in a smoother manner that meets the goals and vision of the Group.

In March 2011, the Group has entered into a deed of modification for the extension of the repayment period of HK\$452 million outstanding consideration from the disposal of automobile safety airbag system business. The extension period is 15 months and bears 8% interest per annum. Such extension was approved by independent shareholders of the Company in an extraordinary general meeting in April 2011, and the Company has received partial repayment during the period under review.

Financial Review

During the six months period ended 30 June 2011, the turnover amount of the Group were approximately HK\$161.9 million, while it was approximately HK\$606.4 million in the same period of last year. The difference was mainly resulted from the disposal of the automobile safety airbag business in the middle of last year, while the EMS and automobile electronic spare parts businesses were under development stages. Due to the change of product mix, the average gross profit margin in the first half of 2011 was approximately 22.6%, while it was approximately 21.7% in 2010.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review *(continued)*

The other revenue of the Group during the period under review was increased by approximately HK\$17.9 million to approximately HK\$27.1 million as compared to the same period of 2010. The increment was mainly due to the income from certain research and development projects related to the EMS business.

During the current reporting period, the research and development expenses of the Group were approximately HK\$20.6 million, while it was approximately HK\$22.8 million in the same period of last year. The Group has continuously contributed in several different research and development activities for developing certain new models of EMS and automobile electronic spare parts, which are expected to provide positive contribution to the Group in the coming future.

During the six months period ended 30 June 2011, distribution costs and administrative expenses of the Group were decreased by 87.6% and 57.6% to approximately HK\$2.5 million and HK\$16.3 million respectively as compared to the same period of last year. Such decrease was mainly due to the disposal of automobile safety airbag business completed in the third quarter of 2010.

The finance costs during the current six-month period under review were decreased by approximately 55.6% to approximately HK\$4.7 million as compared to the same period of 2010. The reduction was mainly due to the conversion and redemption of certain convertible notes completed in 2010, and also several subsidiaries were disposed in 2010.

For the six months ended 30 June 2011, the profit attributable to owners of the Company was decreased by approximately HK\$21.7 million to approximately HK\$10.0 million in compared with the same period of last year. The decrease was mainly due to the disposal of automobile safety airbag system business in 2010, while certain resources were contributed for establishing solid foundation for the developing EMS and automobile electronic spare parts businesses.

Outlook and Future Prospects

In order to cope with the extension of the EMS business, the Group has actively looked for suitable facilities and equipment to expand our research and manufacturing capacities. With the support from these solid foundations, it is expected that the Group can capture the growing business opportunities available in the market and fulfill the different demands from our customers.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Outlook and Future Prospects *(continued)*

Currently, the Group is constructing a plant for EMS business in Tianjian, the PRC. It is expected to be completed in the first quarter of 2012. After its completion, the production capacity of our EMS business will be increased, and it will provide a good foundation for further improvement in the future. Moreover, this plant will also provide state-of-the-art research facilities to improve our research and development capacities. The directors of the Company believe that the completion of this plant will be a milestone of the Group, and it will be a solid foundation for our further growth in the EMS industry.

Being an experienced manufacture in the PRC automobile safety spare parts markets, we may continuously invest and contribute more resources in the development of automobile safety spare parts business in order to enlarge our competitive advantages and maintain the leading position in the market. We may also seek for opportunities to restructure the existing businesses in order to use existing resources in a more effective way.

With the continuous launch of new products and the enlargement of customer bases, the directors of the Company believe that the Group will have improvement in the financial performance and provide fruitful returns to the shareholders of the Company.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2011, the Group had bank and cash balances of approximately HK\$26.0 million (31 December 2010: approximately HK\$141.2 million) and net current assets of approximately HK\$500.1 million, which increased by approximately HK\$23.8 million as compared with the last fiscal year. The total non-current assets of the Group decreased by approximately HK\$9.5 million to approximately HK\$239.4 million in the first half of 2011, which was mainly resulted from the amortisation of intangible assets and the reduction of interest in a jointly controlled entity.

As at 30 June 2011, the Group had non-current liabilities of approximately HK\$21.1 million, which represent the deferred tax liabilities.

The Group also had short-term bank loans of approximately HK\$58.1 million which included bank loans with an aggregate amount of approximately HK\$19.3 million (equivalent to approximately RMB16.0 million) with fixed interest rates ranging from 5.56% to 8.78% per annum, and discounted bills of approximately HK\$38.9 million (equivalent to approximately RMB32.3 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.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

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

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 2011, 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 2011, the Group pledged its leasehold land and buildings with aggregate carrying value of approximately HK\$14.8 million and certain trade receivables for the bank loans of approximately RMB3.0 million (equivalent to approximately HK\$3.6 million).

In additions, discounted bills with recourse totaling approximately HK\$38.9 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 28.2% from 34.1% as at 31 December 2010.

Future Plans for Material Investments

As at 30 June 2011, the Group had the contracted but not provided for capital commitments of approximately HK\$8.8 million in respect of acquisition of fixed assets.

Material Acquisitions and Disposals

During the six months period ended 30 June 2011, 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Contingent Liabilities

As at 30 June 2011, the directors of the Company were not aware of any contingent liabilities.

Subsequent Events

No subsequent events occurred after 30 June 2011, which may have a significant effect, on the assets and liabilities of future operations of the Group.

Foreign Exchange Exposure

Since almost all transactions of the Group are denominated either in Renminbi 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 2011, the Group employed approximately 430 staff in the PRC and Hong Kong, representing an increase of 34 from 31 December 2010 and a decrease of 1,074 staff from 30 June 2010. Such changes were mainly from the PRC operations. Remuneration of employees, including Directors' emoluments was approximately HK\$14.6 million for the six months period under review as compared with that of approximately HK\$33.4 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 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 2011, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Long positions in issued shares

Director	Capacity	Number of Shares	Percentage of interests
Li Feng	Beneficial owner	720,000	0.14%
	Interest of a controlled corporation (Note)	(Note)	(Note)
Xing Zhanwu	Beneficial owner	5,184,000	1.01%
	Interest of a controlled corporation (Note)	(Note)	(Note)
Li Hong	Interest of a controlled corporation (Note)	(Note)	(Note)
Yang Donglin	Interest of a controlled corporation (Note)	(Note)	(Note)
Foo Tin Chung, Victor	Beneficial owner	4,800,000	0.93%

Note: Save as disclosed above, as at 30 June 2011, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited ("Applaud Group") which held approximately 45.06% in the Company:

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

Long positions in issued shares *(continued)*

Shareholder	Number of shares held in Applaud Group		%
The controlling group	5,896		56.33
Li Feng	2,978	28.45	
Li Hong	852	8.14	
Xu Jianzhong	750	7.17	
Xing Zhanwu	726	6.94	
Yang Donglin	590	5.63	
Jin Ying Limited	4,015		38.36
Zhao Jiyu	417		3.98
Cao Feng	139		1.33
Total	10,467		100

Jin Ying Limited was beneficially owned by the following individuals:

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



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

Long positions in issued shares *(continued)*

Note: In July 2011, the shareholding structure of Applaud Group has been restructured. As a result of the said restructuring, the number of ordinary shares of the Company held by Applaud Group became 204,940,802, and the shareholding structure of Applaud Group is as below as at the date of this report:

Shareholder	Number of shares held in Applaud Group	%
Li Feng	5,129	55.36
Li Hong	1,464	15.80
Xing Zhanwu	674	7.27
Yang Donglin	868	9.37
Foo Tin Chung, Victor	1,130	12.20
	9,265	100.00

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 total number of securities available for issue under the 2009 Share Option Scheme as at 30 June 2011 was 44,350,000 shares which represented approximately 8.6% of the issued share capital of the Company as at 30 June 2011.

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

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2011, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Name of shareholders	Capacity	Number of shares of the Company held	Approximate percentage
Applaud Group	Beneficial owner	231,530,000	45.06%
Jin Ying Limited	Interest in controlled corporation	231,530,000	45.06%

Note: In July 2011, the shareholding structure of Applaud Group has been restructured. As a result of the said restructuring, the number of ordinary shares of the Company held by Applaud Group became 204,940,802, and Jin Ying Limited did not have any interest in Applaud Group and the Company.

Short positions in shares

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

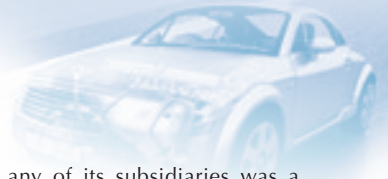
Short positions in underlying shares

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 2011, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 2011.



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 the announcement published on 14 July 2009 and 11 July 2010, and the circular published on 30 July 2009 and 19 August 2010.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2011, 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 2011.

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 2011 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 CODE OF CORPORATE GOVERNANCE PRACTICES *(continued)*

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 2011.

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 2011, the Company has appointed three independent non-executive directors, namely Mr. Hui Hung Kwan, Mr. Huang Shilin and Mr. Zhu Tong.

Mr. Li Hong, being the non-executive director of the Company, is 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, 26 August 2011