



**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)



Interim Report 2012

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 2012, together with the unaudited comparative figures for the corresponding periods in 2011 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Six months ended 30 June	
	Note	2012 HK\$	2011 HK\$
<b>Turnover</b>	2	<b>104,062,069</b>	161,903,069
<b>Cost of sales</b>		<b>(87,640,271)</b>	(125,322,356)
<b>Gross profit</b>		<b>16,421,798</b>	36,580,713
<b>Other revenue</b>		<b>19,837,052</b>	27,085,592
<b>Other net loss</b>		<b>(276,317)</b>	(164,146)
<b>Research and development expenses</b>		<b>(12,024,470)</b>	(20,587,488)
<b>Distribution costs</b>		<b>(3,188,916)</b>	(2,479,743)
<b>Administrative expenses</b>		<b>(14,535,816)</b>	(16,343,085)
<b>Profit from operations</b>		<b>6,233,331</b>	24,091,843
<b>Finance costs</b>	3	<b>(2,474,955)</b>	(4,667,006)
<b>Share of losses of jointly controlled entity</b>		<b>–</b>	(5,715,843)
<b>Profit before taxation</b>	4	<b>3,758,376</b>	13,708,994
<b>Income tax</b>	5	<b>(32,265,502)</b>	(2,165,882)
<b>(Loss)/profit for the period</b>		<b>(28,507,126)</b>	11,543,112
<b>Attributable to:</b>			
Owners of the Company		<b>(24,572,779)</b>	10,039,849
Non-controlling interests		<b>(3,934,347)</b>	1,503,263
<b>(Loss)/profit for the period</b>		<b>(28,507,126)</b>	11,543,112
<b>(Loss)/earnings per share</b>			
– Basic	7(a)	<b>(HK 4.78 cents)</b>	HK1.95 cents
– Diluted	7(b)	<b>(HK 4.78 cents)</b>	HK1.95 cents

The notes on pages 6 to 14 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended 30 June	
	2012 HK\$	2011 HK\$
<b>(Loss)/profit for the period</b>	<b>(28,507,126)</b>	11,543,112
<b>Other comprehensive (loss)/income for the period, net of income tax:</b>		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	(5,345,869)	7,563,453
<b>Total comprehensive (loss)/income for the period</b>	<b>(33,852,995)</b>	19,106,565
<b>Attributable to:</b>		
Owners of the Company	(28,590,519)	15,388,647
Non-controlling interests	(5,262,476)	3,717,918
<b>Total comprehensive (loss)/income for the period</b>	<b>(33,852,995)</b>	19,106,565

The notes on pages 6 to 14 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

AT 30 JUNE 2012

	Note	30 June 2012 HK\$	31 December 2011 HK\$
<b>Non-current assets</b>			
Fixed assets			
– Property, plant and equipment	8	70,109,350	75,244,601
– Interests in leasehold land held for own use under operating leases	8	14,159,344	14,601,285
Deposits paid for acquisition of property, plant and equipment		40,177,765	24,130,373
Construction in progress		46,509,311	8,692,904
Intangible assets		69,933,326	83,514,090
Goodwill		5,239,237	5,297,450
		<b>246,128,333</b>	211,480,703
<b>Current assets</b>			
Inventories		47,743,527	45,470,908
Trade receivables, prepayments and other receivables	9	627,325,160	581,809,333
Loan receivable		11,000,400	11,000,400
Cash and cash equivalents	10	14,986,140	45,401,132
		<b>701,055,227</b>	683,681,773
Asset classified as held for sale		–	25,176,074
		<b>701,055,227</b>	708,857,847
<b>Current liabilities</b>			
Trade and other payables	11	138,164,518	120,988,055
Current tax payable		32,725,870	556,846
Bank loans	12	61,274,298	36,506,173
Other loans		13,553,114	13,703,704
		<b>245,717,800</b>	171,754,778
<b>Net current assets</b>		<b>455,337,427</b>	537,103,069
<b>Total assets less current liabilities</b>		<b>701,465,760</b>	748,583,772
<b>Non-current liabilities</b>			
Deferred tax liabilities		20,582,958	20,965,558
<b>NET ASSETS</b>		<b>680,882,802</b>	727,618,214
<b>Capital and reserves</b>			
Share capital	13	5,138,489	5,138,489
Reserves		639,660,731	670,030,895
Total equity attributable to owners of the Company		644,799,220	675,169,384
Non-controlling interests		36,083,582	52,448,830
<b>TOTAL EQUITY</b>		<b>680,882,802</b>	727,618,214

The notes on pages 6 to 14 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Attributable to owners of the Company								
	Share Capital	Share Premium	Statutory Surplus Reserve	Exchange Reserve	Other Reserve	Retained profits	Sub-total	Non-controlling interests	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
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
Profit for the period	-	-	-	-	-	10,039,849	10,039,849	1,503,263	11,543,112
Other comprehensive income for the period, net of income tax:									
– Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	5,348,798	-	-	5,348,798	2,214,655	7,563,453
Total comprehensive income for the period	-	-	-	5,348,798	-	10,039,849	15,388,647	3,717,918	19,106,565
Dividend 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
At 1 January 2012	5,138,489	249,722,557	6,371,715	26,385,275	(26,927,346)	414,478,694	675,169,384	52,448,830	727,618,214
Loss for the period	-	-	-	-	-	(24,572,779)	(24,572,779)	(3,934,347)	(28,507,126)
Other comprehensive loss for the period, net of income tax:									
– Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	(4,017,740)	-	-	(4,017,740)	(1,328,129)	(5,345,869)
Total comprehensive loss for the period	-	-	-	(4,017,740)	-	(24,572,779)	(28,590,519)	(5,262,476)	(33,852,995)
Acquisition of additional interest in subsidiary	-	-	-	-	(1,779,645)	-	(1,779,645)	(11,102,772)	(12,882,417)
At 30 June 2012	5,138,489	249,722,557	6,371,715	22,367,535	(28,706,991)	389,905,915	644,799,220	36,083,582	680,882,802

The notes on pages 6 to 14 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	<i>Note</i>	Six months ended 30 June	
		2012 <i>HK\$</i>	2011 <i>HK\$</i>
Net cash used in operating activities		<b>(8,933,320)</b>	(51,887,554)
Net cash (used in)/generated from investing activities		<b>(37,996,964)</b>	15,387,195
Net cash generated from/(used in) financing activities		<b>21,590,823</b>	(79,182,686)
Net decrease in cash and cash equivalents		<b>(25,339,461)</b>	(115,683,045)
Effect of foreign exchange rate changes		<b>(5,075,531)</b>	506,766
Cash and cash equivalents at 1 January		<b>45,401,132</b>	141,217,189
Cash and cash equivalents at 30 June	<i>10</i>	<b>14,986,140</b>	26,040,910

The notes on pages 6 to 14 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 2011 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 2011 annual accounts, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2012. 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 2011 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 2011 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2012.

## 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:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>HK\$</b>	<b>HK\$</b>
Sales of electronic airbag systems	<b>36,671,172</b>	–
Sales of automotive safety system components and other automotive components	<b>67,390,897</b>	161,903,069
	<b>104,062,069</b>	161,903,069

## 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 two (2011: one) 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:

	<b>Six months ended 30 June</b>	
	<b>2012 HK\$</b>	2011 HK\$
PRC	<b>103,965,810</b>	161,903,069
Korea	<b>96,259</b>	–
	<b>104,062,069</b>	161,903,069

### *Information about major customers*

For the six months period ended 30 June 2012, revenue generated from two (2011: three) customers of the Group amounting to approximately HK\$86,211,030 (2011: HK\$136,939,850) has individually accounted for over 10% of the Group's total revenue.

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

	<b>Six months ended 30 June</b>	
	<b>2012 HK\$</b>	2011 HK\$
Customer A	<b>50,796,307</b>	29,932,783
Customer B	<b>35,414,723</b>	64,079,374
Customer C	–	42,927,693



### 3. Finance costs

	Six months ended 30 June	
	2012 HK\$	2011 HK\$
Interest expense on bank advances wholly repayable within five years	960,429	601,912
Interest expense on other loans	432,618	2,491,542
Discounting charges on discounted bills	1,081,908	1,573,552
	<b>2,474,955</b>	4,667,006

### 4. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2012 HK\$	2011 HK\$
Cost of inventories	87,640,271	125,322,356
Depreciation of property, plant and equipment	5,221,422	4,426,219
Amortisation of leasehold land held for own use under operating leases	556,719	402,122
Amortisation of intangible assets		
– Acquired technology	–	550,518
– Development costs	11,699,020	2,732,402
– Patents	2,249,280	2,205,920

### 5. Income tax in the consolidated statement of comprehensive income

Income tax in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2012 HK\$	2011 HK\$
<b>Current tax</b>		
PRC enterprise income tax for the period	577,149	1,306,085
Income tax in related to disposal of business (Note)	32,431,448	–
<b>Deferred tax</b>		
Reversal and origination of temporary differences	(743,095)	859,797
Total income tax	<b>32,265,502</b>	2,165,882

**5. Income tax in the consolidated statement of comprehensive income** *(continued)*

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.

*Note:*

The Company has received notification from the PRC tax department before the announcement date, in which the Company is required to pay approximately RMB26.4 million income tax in related to the disposal of 100% equity interest of Jinheng (BVI) Limited in 2010.

**6. Dividends**

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

	Six months ended 30 June	
	2012 HK\$	2011 HK\$
Final dividend in respect of the financial year ended 31 December 2011 approved during the following interim period of 1.5 HK cents per share (year ended 31 December 2010: 1.5 HK cents per share)	<b>7,707,733</b>	7,707,733

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: HK\$Nil).

**7. (Loss)/earnings per share**

The calculation of basic (loss)/earnings per share for the six months ended 30 June 2012 are based on the loss attributable to owners of the Company HK\$24,572,779 (for the six months ended 30 June 2011: profit HK\$10,039,849) and the weighted average of 513,848,888 (for the six months ended 30 June 2011: 513,848,888) ordinary shares in issue during the period.

For the six months ended 30 June 2012 and 2011, diluted (loss)/earnings per share are the same as the basic (loss)/earnings per share as the Company did not have dilutive potential ordinary shares during the six months period ended 30 June 2012 and 2011.

## 8. Fixed assets

### (a) Acquisitions and disposals

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a cost of approximately HK\$566,451 (six months ended 30 June 2011: HK\$3,137,727). During the six months ended 30 June 2012, there were disposal of property, plant and equipment with net book value approximately HK\$8,943 (six months ended 30 June 2011: HK\$166,313).

(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 Shanxi in the PRC.

(c) As at 30 June 2012, leasehold lands with carrying amount of approximately HK\$14,159,344 (31 December 2011: HK\$14,601,285) are situated outside Hong Kong under medium-term leases.

## 9. Trade and other receivables

	<b>30 June 2012 HK\$</b>	31 December 2011 HK\$
Trade receivables	<b>114,074,647</b>	135,303,930
Less: allowance for doubtful debts	<b>(1,128,689)</b>	(1,128,689)
	<b>112,945,958</b>	134,175,241
Bills receivable	<b>75,002,137</b>	38,000,782
	<b>187,948,095</b>	172,176,023
Prepayments	<b>5,080,792</b>	6,256,884
Promissory note receivables	<b>385,635,311</b>	385,635,311
Other receivables	<b>48,660,962</b>	17,741,115
	<b>627,325,160</b>	581,809,333

The Company and the promissory note issuer (the "Note Issuer") entered into a deed of modification, pursuant to which the Company and the Note Issuer have conditionally agreed to amend the existing terms of the promissory note, including the inclusion of interest rate (bearing no interest amount to 8% per annum) and the extension of maturity date (being 12 March 2011 extend to 12 June 2012), with effect from the 12 March 2011. The promissory note is secured by entire issued share capital of Jinheng (BVI) Limited. The promissory note receivables are interest-bearing at the rate of 8% per annum accrued daily on the outstanding principal amount on 365-day year basis and mature on 12 June 2012. The Company has received all outstanding principals and related interests on 3 September 2012.

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

**9. Trade and other receivables (continued)**

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

	<b>30 June 2012 HK\$</b>	31 December 2011 HK\$
Within 3 months	<b>100,652,465</b>	112,423,075
Over 3 months but less than 6 months	<b>5,288,080</b>	13,166,757
Over 6 months but less than 12 months	<b>7,005,413</b>	8,585,409
	<b>112,945,958</b>	134,175,241

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**

	<b>30 June 2012 HK\$</b>	31 December 2011 HK\$
Cash and cash equivalents in the statement of financial position and cash flow statement	<b>14,986,140</b>	45,401,132

Other than disclosed above, cash and cash equivalents of HK\$9,449,112 (31 December 2011: HK\$10,473,125) 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**

	<b>30 June 2012 HK\$</b>	31 December 2011 HK\$
Trade payables	<b>64,741,954</b>	69,452,194
Other payables	<b>73,422,564</b>	51,535,861
	<b>138,164,518</b>	120,988,055

Included in trade and other payables are amounts to from related companies of HK\$10,000,000 (31 December 2011: HK\$10,000,000)(see note 15).

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

**11. Trade and other payables (continued)**

An ageing analysis of trade payables is as follows:

	<b>30 June 2012 HK\$</b>	31 December 2011 HK\$
Within 3 months	<b>55,138,980</b>	57,147,234
Over 3 months but less than 6 months	<b>4,853,767</b>	6,805,716
Over 6 months but less than 12 months	<b>1,324,314</b>	963,589
Over 1 year	<b>3,424,893</b>	4,535,655
	<b>64,741,954</b>	69,452,194

**12. Bank loans**

The bank loans are repayable as follows:

	<b>30 June 2012 HK\$</b>	31 December 2011 HK\$
<b>Current</b>		
Short term bank loans:		
– secured	<b>49,064,286</b>	20,456,790
– unsecured	<b>12,210,012</b>	16,049,383
	<b>61,274,298</b>	36,506,173

At 30 June 2012, terms of bank loans were as follows:

- (a) Short-term secured bank loan of HK\$3,516,484 (31 December 2011: HK\$6,790,123) which carries interest rate at 3.05% (31 December 2011: at the lending rate of The People's Bank of China per annum. As at 30 June 2012, the loan was secured by bills receivables of approximately HK\$3,663,004. As at 31 December 2011, the loan was secured by trade receivables of approximately of HK\$8,780,580.
- (b) Included in short-term secured bank loans are discounted bills with recourse of HK\$45,547,802 (31 December 2011: HK\$13,666,667) are secured by the related bills receivable.
- (c) As at 30 June 2012, there was an unsecured bank loan of HK\$12,210,012 which carries interest rate at 6.60% and are guaranteed by a third party. As at 31 December 2011, there were unsecured banks loan of approximately HK\$12,345,679 and HK\$3,703,704 which carries interest rate at 6.56% and variable interest rate at lending rate of The People's Bank of China respectively per annum.

### 13. Share capital

	30 June 2012		31 December 2011	
	Number of shares	HK\$	Number of shares	HK\$
<b>Authorised:</b>				
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000,000	10,000,000,000	100,000,000
<b>Issued:</b>				
At 1 January	513,848,888	5,138,489	513,848,888	5,138,489
At 30 June 2012/31 December 2011	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 2012 HK\$	31 December 2011 HK\$
Contracted for	24,260,052	5,957,633

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

	30 June 2012 HK\$	31 December 2011 HK\$
Properties		
Within 1 year	1,574,554	1,616,420
After 1 year but within 5 years	818,732	1,565,071
	2,393,286	3,181,491

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
Ever Tech Holdings Limited ("Ever Tech")	Minority shareholder of Honest Bright Group Limited

*Amounts due to a related company*

	<b>30 June 2012 HK\$</b>	31 December 2011 HK\$
Ever Tech	<b>10,000,000</b>	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 2012, the Group recorded turnover of the Company was approximately HK\$104.1 million, while it was approximately HK\$161.9 million in the same period of last year. During the current period under review, the Group is constructing a new production plant in Tianjian, PRC for the expansion of the production capacities of the automobile engine management system (“EMS”) business. Given the reallocation of the EMS production facilities has commenced, the current production capacity and efficiency of EMS was reduced and thus the overall turnover amount reduced.

The current development objective of the Group is to streamline the group structure and consolidate the control on the remaining business. During the review period, the Group has acquired the remaining minority interests of Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd (“Jinheng Jinsida”). Jinheng Jinsida is principally engaged in sale and manufacturing of electronic control unit, which is an essential component of EMS system. The directors of the Company consider that such acquisition may allow the Group to consolidate the control over the Jinheng Jinsida and contribute more return to the Company once the expansion of EMS production facilities completed.

During the current period, the Group is also expanding its sales network and commence business negotiation with a few potential customers. The Group has entered another 4 new contracts in related to the development and provision of EMS systems and spare parts to new car models, and a few new projects are also under negotiation and are expected to have further progress in the coming future. These new projects may commence commercial production in the coming 2 years and may become the major revenue sources of the Group.

### Financial Review

During the six months period ended 30 June 2012, the turnover amount and the average gross profit margin of the Group were approximately HK\$104.1 million and approximately 15.8% respectively, while it was approximately HK\$161.9 million and approximately 22.6% respectively in the same period of last year. The changes were mainly due to the production inefficiency of the EMS products, which the production facilities are under expansion and reallocation.

The other revenue of the Group during the period under review was decreased from approximately HK\$27.1 million to approximately HK\$19.8 million. The changes was mainly due to the research and development income recorded in last year, while certain new projects were just commenced in the current review period and were still at the initial stage.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Financial Review *(continued)*

During the current reporting period, the research and development expenses of the Group were approximately HK\$12.0 million, while it was approximately HK\$20.6 million in the same period of last year. This reduction was mainly due to the completion of certain projects in the second half of 2011, while the new projects launched during this period were still at the beginning stage.

During the six months period ended 30 June 2012, the distribution costs of the Group were approximately HK\$3.2 million, which was increased by approximately 28.6% in compared with the same period of last year. The increment was mainly due to Group has focused on the expansion of distribution channel and negotiation with new customers.

During the first half of 2012, the administrative expenses of the Group were decreased by approximately HK\$1.8 million to approximately HK\$14.5 million. This is mainly due to the synergy effect as a result of the group restructuring completed in 2011 and 2012.

The finance costs during the current six-month period under review were decreased by approximately 47.0% to approximately HK\$2.5 million as compared to the same period of 2011. This was mainly due to the Group is adjusting the combination of the financing vehicles in order to substantially reduce the finance costs.

For the six months ended 30 June 2012, the income tax expenses of the Group was approximately HK\$32.3 million, while it was approximately HK\$2.2 million in the same period of last year. This is due to an one-off income tax expense in related to the disposal of the entire equity interest of Jinheng (BVI) Limited in 2010. Even the transaction object is an oversea entity, the related PRC tax authority considered to lift the veil and deemed it as a disposal of the PRC operations, and thus charged the Group of approximately HK\$32.4 income tax expense. As a result the Group recorded approximately HK\$24.6 million loss attributable to owners of the Company, while it was approximately HK\$10.0 million profit attributable to the owners of the Company in the same period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Outlook and Future Prospects

The new plant in Tianjian, PRC is expected to be completed in the coming quarters, and the test-run will be completed in the second half of 2013. It may not only enhance the production capacity and efficiency of the EMS products, but may also improve the research ability of the Group and thus can fulfill the growing demand of customers.

The directors of the Company believe that there are various business opportunities available in the PRC automobile markets, and we will seek for different investment opportunities to expand our market share in the automobile spare parts industry and consolidate the control on the remaining business. We may also make use of the existing resources to invest in different investment vehicles in order to obtain return at an acceptable risk level.

With the continuous launch of new products and utilize different investment opportunities, 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 2012, the Group had cash and cash equivalents of approximately HK\$15.0 million (31 December 2011: approximately HK\$45.4 million) and net current assets of approximately HK\$455.3 million (31 December 2011: approximately HK\$537.1 million). The total non-current assets of the Group increased by approximately HK\$34.6 million to approximately HK\$246.1 million in the first half of 2012, which was mainly resulted from commencement of construction new plants in Tianjian, PRC.

As at 30 June 2012, the Group had non-current liabilities of approximately HK\$20.6 million, which represent the deferred tax liabilities.

The Group also had short-term bank loans of approximately HK\$61.3 million which included bank loans with an aggregate amount of approximately HK\$15.7 million (equivalent to approximately RMB12.9 million) with fixed interest rates ranging from 3.05% to 6.60% per annum, and discounted bills of approximately HK\$45.6 million (equivalent to approximately RMB37.3 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. The Group adopted a new treasury policy and allow the Group to invest its surplus funds in different investment grade debt securities or other investment vehicles. The Group currently placed the surplus funds as deposits in Hong Kong and PRC banks.

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. Most of the bank deposits are 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 2012, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

### Charge of Group Assets

As at 30 June 2012, the Group pledged certain bills receivable of approximately HK\$3.7 million for a bank loan, and certain discounted bills with recourse totaling approximately HK\$45.6 million were secured by the related bills receivable and were repayable within one year.

### Gearing Ratio

The Group's gearing ratio, which was derived from the total liabilities to total assets, increased to 28.1% from 20.9% as at 31 December 2011.

### Future Plans for Material Investments

As at 30 June 2012, the Group had the contracted but not provided for capital commitments of approximately HK\$24.3 million in respect of acquisition of fixed assets.

### Material Acquisitions and Disposals

In February 2012, the Group has entered into an agreement to acquire the remaining 35.29% equity interest of Jinheng Jinsida at a consideration of approximately RMB10.55 million. The acquisition was completed in June 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Significant Investment

There was no significant investment during the period under review.

### Contingent Liabilities

As at 30 June 2012, the Directors were not aware of any material contingent liabilities.

### Subsequent Events

No subsequent events occurred after 30 June 2012, 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 predictably 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 2012, the Group employed approximately 450 staff in the PRC and Hong Kong, representing an increase of 4 from 31 December 2011 and an increase of 20 staff from 30 June 2011. Such changes were mainly from the PRC operations. Remuneration of employees, including Directors' emoluments was approximately HK\$16.0 million for the six months period under review as compared with that of approximately HK\$14.6 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 annually or by special adjustment depending on length of services and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

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

As at 30 June 2012, 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	200,000	0.04%
	Interest of a controlled corporation (Note)	(Note)	(Note)
Xing Zhanwu	Interest of a controlled corporation (Note)	(Note)	(Note)
Li Hong	Interest of a controlled corporation (Note)	(Note)	(Note)
Yang Donglin	Interest of a controlled corporation (Note)	(Note)	(Note)
Foo Tin Chung, Victor	Beneficial owner	4,800,000	0.93%
	Interest of a controlled corporation (Note)	(Note)	(Note)

Note: Save as disclosed above, as at 30 June 2012, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited ("Applaud Group") which held approximately 39.88% in the Company:

## 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	%
Li Feng	5,129	55.36
Li Hong	1,464	15.80
Xing Zhanwu	674	7.27
Yang Donglin	868	9.37
Foo Tin Chung, Victor	1,130	12.20
Total	9,265	100

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 2012 was 44,350,000 shares which represented approximately 8.6% of the issued share capital of the Company as at 30 June 2012.

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 2012, 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	204,940,802	39.88%

### Short positions in shares

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

### 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 2012, 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 2012.

## **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 11 July 2010, and the circular published on 19 August 2010.

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

During the six months ended 30 June 2012, 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 of the code provisions of the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2012, except the following:

CG Code A.6.7 stipulates that independent non-executive directors of the Company and other non-executive directors of the Company should attend general meetings. Mr. Li Hong, being an non-executive directors of the Company, and Mr. Zhu Tong and Mr. Huang Shilin, being independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 18 June 2012 as they were out town for other businesses.

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 2012 and had provided advice and recommendation to the Board.



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

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 2012.

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 2012, 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, 31 August 2012