



**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 | **2013**

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 2013, together with the unaudited comparative figures for the corresponding periods in 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended 30 June	
	Note	2013 HK\$	2012 HK\$
Turnover	2	57,308,570	104,062,069
Cost of sales		(46,103,763)	(87,640,271)
Gross profit		11,204,807	16,421,798
Other revenue		2,671,878	19,837,052
Other net income/(loss)		488,979	(276,317)
Research and development expenses		(12,348,038)	(12,024,470)
Distribution costs		(2,817,164)	(3,188,916)
Administrative expenses		(21,702,499)	(14,535,816)
(Loss)/profit from operations		(22,502,037)	6,233,331
Finance costs	3	(2,196,963)	(2,474,955)
Share of losses of an associate		(1,434,228)	–
(Loss)/profit before taxation	4	(26,133,228)	3,758,376
Income tax	5	(949,025)	(32,265,502)
Loss for the period		(27,082,253)	(28,507,126)
Attributable to:			
Owners of the Company		(17,268,364)	(24,572,779)
Non-controlling interests		(9,813,889)	(3,934,347)
Loss for the period		(27,082,253)	(28,507,126)
Loss per share			
– Basic	7	(HK 3.36 cents)	(HK 4.78 cents)
– Diluted	7	(HK 3.36 cents)	(HK 4.78 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 2013

	Six months ended 30 June	
	2013 HK\$	2012 HK\$
Loss for the period	(27,082,253)	(28,507,126)
Other comprehensive income/(loss) for the period, net of income tax:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	8,642,620	(5,345,869)
Total comprehensive loss for the period	(18,439,633)	(33,852,995)
Attributable to:		
Owners of the Company	(9,968,365)	(28,590,519)
Non-controlling interests	(8,471,268)	(5,262,476)
Total comprehensive loss for the period	(18,439,633)	(33,852,995)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

AT 30 JUNE 2013

	Note	30 June 2013 HK\$	31 December 2012 HK\$
Non-current assets			
Fixed assets			
– Property, plant and equipment	8	133,359,551	72,217,388
– Interests in leasehold land held for own use under operating leases	8	37,517,722	37,720,661
Deposits paid for acquisition of property, plant and equipment		63,328,574	91,257,272
Construction in progress		86,790,452	67,050,260
Interests in an associate		38,565,772	–
Intangible assets		68,770,902	70,119,432
Goodwill		5,424,697	5,336,984
		433,757,670	343,701,997
Current assets			
Inventories		46,154,799	42,559,808
Trade receivables, prepayments and other receivables	9	211,152,969	182,381,783
Loan receivable		11,000,400	11,000,400
Cash and cash equivalents	10	126,555,088	259,974,508
		394,863,256	495,916,499
Current liabilities			
Trade and other payables	11	83,683,369	82,774,652
Current tax payable		381,191	379,541
Bank loans	12	76,950,693	43,868,159
Other loans		3,969,659	22,562,189
		164,984,912	149,584,541
Net current assets		229,878,344	346,331,958
Total assets less current liabilities		663,636,014	690,033,955
Non-current liabilities			
Deferred tax liabilities		21,924,573	21,657,738
NET ASSETS		641,711,441	668,376,217
Capital and reserves			
Share capital	13	5,117,189	5,138,489
Reserves		609,335,122	627,507,330
Total equity attributable to owners of the Company		614,452,311	632,645,819
Non-controlling interests		27,259,130	35,730,398
TOTAL EQUITY		641,711,441	668,376,217

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 2013

	Attributable to owners of the Company							Non-controlling interests	Total
	Share Capital	Share Premium	Statutory Surplus Reserve	Exchange Reserve	Other Reserve	Retained profits	Sub-total		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
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
At 1 January 2013	5,138,489	249,722,557	7,145,394	27,331,765	(29,118,372)	372,425,986	632,645,819	35,730,398	668,376,217
Loss for the period	-	-	-	-	-	(17,268,364)	(17,268,364)	(9,813,889)	(27,082,253)
Other comprehensive loss for the period, net of income tax:									
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	7,299,999	-	-	7,299,999	1,342,621	8,642,620
Total comprehensive loss for the period	-	-	-	7,299,999	-	(17,268,364)	(9,968,365)	(8,471,268)	(18,439,633)
Repurchase of ordinary shares	-	-	-	-	(549,360)	-	(549,360)	-	(549,360)
Cancellation of ordinary shares	(21,300)	(830,700)	-	-	852,000	-	-	-	-
Dividend paid during the period	-	-	-	-	-	(7,675,783)	(7,675,783)	-	(7,675,783)
Appropriations to statutory reserve	-	-	217,455	-	-	(217,455)	-	-	-
At 30 June 2013	5,117,189	248,891,857	7,362,849	34,631,764	(28,815,732)	347,264,384	614,452,311	27,259,130	641,711,441

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	<i>Note</i>	Six months ended 30 June	
		2013 HK\$	2012 HK\$
Net cash used in operating activities		(44,964,873)	(8,933,320)
Net cash used in investing activities		(95,703,323)	(37,996,964)
Net cash generated from financing activities		2,976,122	21,590,823
Net decrease in cash and cash equivalents		(137,692,074)	(25,339,461)
Effect of foreign exchange rate changes		4,272,654	(5,075,531)
Cash and cash equivalents at 1 January		259,974,508	45,401,132
Cash and cash equivalents at 30 June	<i>10</i>	126,555,088	14,986,140

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 2012 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 2012 annual accounts, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2013. 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 2012 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 2012 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2013.

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	
	2013 HK\$	2012 HK\$
Sales of automotive safety system components and other automotive components	28,657,732	67,390,897
Sales of electronic airbag systems	28,650,838	36,671,172
	57,308,570	104,062,069

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 one (2012: 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:

	Six months ended 30 June	
	2013 HK\$	2012 HK\$
PRC	57,308,570	103,965,810
Korea	–	96,259
	57,308,570	104,062,069

Information about major customers

For the six months period ended 30 June 2013, revenue generated from two (2012: two) customers of the Group amounting to approximately HK\$34,720,661 (2012: HK\$86,211,030) 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:

	Six months ended 30 June	
	2013 HK\$	2012 HK\$
Customer A	28,859,773	35,414,723
Customer B	5,860,888	50,796,307

3. Finance costs

	Six months ended 30 June	
	2013 HK\$	2012 HK\$
Interest expense on bank advances wholly repayable within five years	1,198,983	960,429
Interest expense on other loans	260,652	432,618
Discounting charges on discounted bills	737,328	1,081,908
	2,196,963	2,474,955

4. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2013 HK\$	2012 HK\$
Cost of inventories	46,103,763	87,640,271
Depreciation of property, plant and equipment	6,595,116	5,221,422
Amortisation of leasehold land held for own use under operating leases	815,657	556,719
Amortisation of intangible assets		
– Development costs	184,618	11,699,020
– Patents	2,294,370	2,249,280

5. Income tax

Income tax in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2013 HK\$	2012 HK\$
Current tax		
PRC enterprise income tax for the period	1,036,836	577,149
Income tax in related to disposal of business (Note)	–	32,431,448
Deferred tax		
Reversal and origination of temporary differences	(87,811)	(743,095)
Total income tax	949,025	32,265,502

5. Income tax (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:

In 2012, the Company has received notification from the PRC tax department, 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	
	2013 HK\$	2012 HK\$
Final dividend in respect of the financial year ended 31 December 2012 approved during the following interim period of 1.5 HK cents per share (year ended 31 December 2011: 1.5 HK cents per share)	7,675,783	7,707,733

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: HK\$Nil).

7. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2013 are based on the loss attributable to owners of the Company HK\$17,268,364 (for the six months ended 30 June 2012: loss HK\$24,572,779) and the weighted average of 513,378,170 (for the six months ended 30 June 2012: 513,848,888) ordinary shares in issue during the period.

For the six months ended 30 June 2013 and 2012, diluted loss per share are the same as the basic loss per share as the Company did not have dilutive potential ordinary shares during the six months period ended 30 June 2013 and 2012.

8. Fixed assets

(a) Acquisitions and disposals

During the six months ended 30 June 2013, the Group acquired items of property, plant and equipment with a cost of approximately HK\$69,243,215 (six months ended 30 June 2012: HK\$566,451). During the six months ended 30 June 2013, there were disposal of property, plant and equipment with net book value approximately HK\$2,685,758 (six months ended 30 June 2012: HK\$8,943).

(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 and Tianjian in the PRC.

(c) As at 30 June 2013, leasehold lands with carrying amount of approximately HK\$37,517,722 (31 December 2012: HK\$37,720,661) are situated outside Hong Kong under medium-term leases.

9. Trade receivables, prepayments and other receivables

	30 June 2013 HK\$	31 December 2012 HK\$
Trade receivables	73,921,813	93,976,265
Less: allowance for doubtful debts	(432,162)	(432,162)
	73,489,651	93,544,103
Bills receivable	51,701,234	43,953,714
	125,190,885	137,497,817
Prepayments	36,115,679	21,836,014
Other receivables	49,846,405	23,047,952
	211,152,969	182,381,783

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

9. Trade receivables, prepayments and other receivables (continued)

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

	30 June 2013 HK\$	31 December 2012 HK\$
Within 3 months	37,077,139	73,033,908
Over 3 months but less than 6 months	27,535,572	7,847,824
Over 6 months but less than 12 months	7,440,048	7,772,641
Over 12 months	1,436,892	4,889,730
	73,489,651	93,544,103

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 2013 HK\$	31 December 2012 HK\$
Cash and cash equivalents in the statement of financial position and statement of cash flows	126,555,088	259,974,508

Other than disclosed above, cash and cash equivalents of HK\$61,587,953 (31 December 2012: HK\$34,473,009) 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 2013 HK\$	31 December 2012 HK\$
Trade payables	37,224,500	48,195,090
Other payables	46,458,869	34,579,562
	83,683,369	82,774,652

Included in trade and other payables are amounts to from related companies of HK\$10,000,000 (31 December 2012: 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:

	30 June 2013 HK\$	31 December 2012 HK\$
Within 3 months	24,972,971	20,067,348
Over 3 months but less than 6 months	2,347,390	20,404,972
Over 6 months but less than 12 months	6,204,363	4,396,906
Over 1 year	3,699,776	3,325,864
	37,224,500	48,195,090

12. Bank loans

The bank loans are repayable as follows:

	30 June 2013 HK\$	31 December 2012 HK\$
Current		
Short term bank loans:		
– secured	76,950,693	43,868,159

At 30 June 2013, terms of bank loans were as follows:

- (a) Short-term secured bank loans of HK\$76,950,693 (31 December 2012: HK\$21,766,169) which carries interest rate of 6.56% to 8.83% (31 December 2012: at 6.56% and 8.83%). As at 31 December 2012, the short term secured bank loans of HK\$9,328,358 carried variables interest rate at lending rate of The People's Bank of China per annum.

As at 30 June 2013, the loans were secured by the Group's certain patents and leasehold land and building of HK\$69,804,226. As at 31 December 2012, the loan was secured by the Group's certain patents and leasehold land of HK\$37,720,661.

- (b) Included in short-term secured bank loans are discounted bills with recourse of HK\$22,589,125 (31 December 2012: HK\$12,773,632) are secured by the related bills receivable.

13. Share capital

	30 June 2013		31 December 2012	
	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	513,848,888	5,138,489
Cancellation of ordinary shares	(2,130,000)	(21,300)	–	–
At 30 June 2013/31 December 2012	511,718,888	5,117,189	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 2013 HK\$	31 December 2012 HK\$
Contracted for	671,934	12,251,384

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

	30 June 2013 HK\$	31 December 2012 HK\$
Properties		
Within 1 year	1,193,274	1,422,703
After 1 year but within 5 years	353,625	163,625
	1,546,899	1,586,328

The Group leases a number of properties and office equipment under operating leases for a period of 1 to 2 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, and a 30% owned associate of the Group in 2013

Amounts due to a related company

	30 June 2013 HK\$	31 December 2012 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 2013, the Group recorded turnover of the Company approximately HK\$57.3 million, while it was approximately HK\$104.1 million in the same period of last year. During the current period under review, the new production plant in Tianjian, PRC is still under construction for the expansion of the production capacities of the automobile engine management system (“EMS”) business. Given certain old production facilities were under reallocation and certain newly installed production facilities were in testing stage, the current production capacity and efficiency of EMS was reduced and thus the overall turnover amount reduced. Furthermore, the reallocation project has also reduced the profit attributed to the shareholders of the Company, as certain expenses were incurred for reallocation and the additional depreciation of newly used fixed assets.

During the six months period under review, the Group has completed the acquisition of the 30% equity interest of Ever Tech Holdings Limited. After the completion of such acquisition, the Group also obtained 30% equity interest of Handyman Group Limited, which owns certain advanced technology know-how in related to the automobile gearing system and power-control system. The Group has commenced to further research and develop new integrated automobile power system with the use of these new technologies, and it is expected to provide positive contributions in the future.

Financial Review

During the six months period ended 30 June 2013, the turnover amount and the average gross profit margin of the Group were approximately HK\$57.3 million and approximately 19.6% respectively, while it was approximately HK\$104.1 million and approximately 15.8% respectively in the same period of last year. Given the production capacity was decreased during last six months due to reallocation, we focused the production on the high gross profit margin products and thus the average gross profit margin increased.

The other revenue of the Group during the period under review was decreased from approximately HK\$19.8 million to approximately HK\$2.7 million. The changes were mainly due to the decrease of interest income from promissory notes, which was fully repaid during the second half of 2012.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review *(continued)*

During the current reporting period, the research and development expenses of the Group were approximately HK\$12.3 million, which was approximately 2.7% less than the same period of last year. During this period, the Group was continuously performing various research and development projects which were commenced in 2012.

During the six months period ended 30 June 2013, the distribution costs of the Group were approximately HK\$2.8 million, while it was approximately HK\$3.2 million in the first half of 2012. It was the objective of the Group to expand the distribution channel, and has continuously put effort to achieve this objective.

During the first half of 2013, the administrative expenses of the Group were approximately HK\$21.7 million, while it was approximately HK\$14.5 million in the same period of last year. This is mainly due to the construction and reallocation of new plant in Tianjian, PRC.

The finance costs during the current six-month period under review were decreased by approximately 11.2% to approximately HK\$2.2 million as compared to the same period of 2012. This was mainly due to the Group is restructuring of the combination of the financing vehicles.

For the six months ended 30 June 2013, the Group recorded approximately HK\$17.3 million loss attributable to owners of the Company, while it was approximately HK\$24.6 million in the same period of last year. The loss recorded in the current period was mainly due to the expansion and reallocation of production plant in Tianjian, PRC.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Outlook and Future Prospects

The reallocation of the production plant in Tianjian, PRC is expected to be completed in the second half of this year, and the test-run will be commenced at the same time in order to put our production processes into the right track as fast as possible.

The Group is planned to use the expanded plant to develop more new products and aimed to obtain more market shares in the automobile spare part market in the PRC. 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.

It is expected that after the new production plant operates in full scale, the production capacity and efficiency will be enhanced. 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 2013, the Group had cash and cash equivalents of approximately HK\$126.6 million (31 December 2012: approximately HK\$260.0 million) and net current assets of approximately HK\$229.9 million (31 December 2012: approximately HK\$346.3 million). The total non-current assets of the Group increased by approximately HK\$90.1 million to approximately HK\$433.8 million in the first half of 2013, which was mainly resulted from construction of new plants in Tianjian, PRC.

As at 30 June 2013, the Group had non-current liabilities of approximately HK\$21.9 million, which represent the deferred tax liabilities.

The Group also had short-term bank loans of approximately HK\$77.0 million which included bank loans with an aggregate amount of approximately HK\$54.4 million (equivalent to approximately RMB43.0 million) with fixed interest rates ranging from 6.56% to 8.83% per annum, and discounted bills of approximately HK\$22.6 million (equivalent to approximately RMB17.9 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 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 2013, 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 2013, the Group pledged certain patents and leasehold land and building of approximately HK\$69.8 million and certain discounted bills with recourse totaling approximately HK\$22.6 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 22.6% from 20.4% as at 31 December 2012.

Future Plans for Material Investments

As at 30 June 2013, the Group had the contracted but not provided for capital commitments of approximately HK\$0.7 million in respect of acquisition of fixed assets.

Material Acquisitions and Disposals

In November 2012, the Group has entered into an agreement to acquire 30% equity interest of Ever Tech Holdings Limited at a consideration of HK\$40 million. The acquisition was approved by independent shareholders in the extraordinary general meeting held on 12 April 2013.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Significant Investment

There was no significant investment during the period under review.

Contingent Liabilities

As at 30 June 2013, the Directors were not aware of any material contingent liabilities.

Subsequent Events

No subsequent events occurred after 30 June 2013, 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 2013, the Group employed approximately 512 staff in the PRC and Hong Kong, representing an increase of 46 from 31 December 2012 and an increase of 62 staff from 30 June 2012. 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\$16.0 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 2013, 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

Name of 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	0.94%
	Interest of a controlled corporation (Note)	(Note)	(Note)

Note: Save as disclosed above, as at 30 June 2013, 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 40.13% interests 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 2013 was 44,350,000 shares which represented approximately 8.7% of the issued share capital of the Company as at 30 June 2013.

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 2013, 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	205,340,802	40.13%

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 2013, 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 2013.

DIRECTORS' INTERESTS IN CONTRACTS

During the six months ended 30 June 2013, 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2013, the Company has purchased a total of 1,354,000 ordinary shares of the Company on the Stock Exchange at an aggregate cash consideration of HK\$501,550 with the highest and lowest price paid per Share being HK\$0.40 and HK\$0.345 respectively. The Shares were repurchased on the market pursuant to the repurchase mandate granted by the Shareholders at the annual general meeting of the Company held on 18 June 2012, with a view that it would enhance shareholders' value in the long term. With the aggregation of the 776,000 ordinary shares repurchased at the end of 2012 and the 1,354,000 ordinary shares repurchased at the first half of 2013, the Company cancelled 2,130,000 ordinary shares on 23 May 2013.

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 2013, 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. Zhu Tong and Mr. Chen Li Zhou, being independent non-executive directors of the Company, were unable to attend the extraordinary general meeting of the Company held on 12 April 2013 and the annual general meeting of the Company held on 7 June 2013 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. Chen Li Zhou and Mr. Zhu Tong.

The audit committee had reviewed the Group's unaudited results for the six months ended 30 June 2013 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. Chen Li Zhou.

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 2013.

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 2013, the Company has appointed three independent non-executive directors, namely Mr. Hui Hung Kwan, Mr. Chen Li Zhou 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. Chen Li Zhou 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, 30 August 2013