



2014 Interim Report



**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)

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 2014, together with the unaudited comparative figures for the corresponding period in 2013 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Note	Six months ended 30 June	
		2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
<b>Turnover</b>	2	<b>54,193,851</b>	57,308,570
<b>Cost of sales</b>		<b>(45,354,539)</b>	(46,103,763)
<b>Gross profit</b>		<b>8,839,312</b>	11,204,807
<b>Other revenue</b>		<b>3,341,253</b>	2,671,878
<b>Other net income</b>		<b>961</b>	488,979
<b>Research and development expenses</b>		<b>(26,389,211)</b>	(12,348,038)
<b>Distribution costs</b>		<b>(4,042,585)</b>	(2,817,164)
<b>Administrative expenses</b>		<b>(26,761,254)</b>	(21,702,499)
<b>Loss from operations</b>		<b>(45,011,524)</b>	(22,502,037)
<b>Finance costs</b>	4	<b>(2,601,958)</b>	(2,196,963)
<b>Share of losses of an associate</b>		<b>(1,943,752)</b>	(1,434,228)
<b>Loss before taxation</b>	5	<b>(49,557,234)</b>	(26,133,228)
<b>Income tax</b>	6	<b>(99,072)</b>	(949,025)
<b>Loss for the period</b>		<b>(49,656,306)</b>	(27,082,253)
<b>Attributable to:</b>			
Owners of the Company		<b>(26,257,404)</b>	(17,268,364)
Non-controlling interests		<b>(23,398,902)</b>	(9,813,889)
<b>Loss for the period</b>		<b>(49,656,306)</b>	(27,082,253)
<b>Loss per share</b>			
– Basic	8	<b>(HK 5.13 cents)</b>	(HK 3.36 cents)
– Diluted	8	<b>(HK 5.13 cents)</b>	(HK 3.36 cents)

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

	<b>Six months ended 30 June</b>	
	<b>2014 HK\$ (Unaudited)</b>	<b>2013 HK\$ (Unaudited)</b>
<b>Loss for the period</b>	<b>(49,656,306)</b>	(27,082,253)
<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	<b>(8,096,290)</b>	8,642,620
<b>Total comprehensive loss for the period</b>	<b>(57,752,596)</b>	(18,439,633)
<b>Attributable to:</b>		
Owners of the Company	<b>(32,985,958)</b>	(9,968,365)
Non-controlling interests	<b>(24,766,638)</b>	(8,471,268)
<b>Total comprehensive loss for the period</b>	<b>(57,752,596)</b>	(18,439,633)

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Note	30 June 2014 HK\$ (Unaudited)	31 December 2013 HK\$ (Audited)
<b>Non-current assets</b>			
Fixed assets			
– Property, plant and equipment	9	120,454,504	135,106,875
– Interests in leasehold land held for own use under operating leases	9	35,468,412	37,466,163
Deposits paid for acquisition of property, plant and equipment		21,047,072	23,450,311
Construction in progress		96,264,706	81,826,184
Interests in an associate		39,786,491	41,730,243
Intangible assets		46,917,177	50,402,887
Goodwill		5,363,669	5,494,155
		<b>365,302,031</b>	375,476,818
<b>Current assets</b>			
Inventories		35,667,188	46,344,023
Trade receivables, prepayments and other receivables	10	231,376,178	256,851,081
Loan receivable		11,000,400	11,000,400
Cash and cash equivalents	11	63,528,953	40,961,978
		<b>341,572,719</b>	355,157,482
<b>Current liabilities</b>			
Trade and other payables	12	98,756,683	70,955,624
Current tax payable		13,294	–
Bank loans	13	72,837,711	59,096,142
Other loans		3,775,000	3,866,837
		<b>175,382,688</b>	133,918,603
<b>Net current assets</b>		<b>166,190,031</b>	221,238,879
<b>Total assets less current liabilities</b>		<b>531,492,062</b>	596,715,697
<b>Non-current liabilities</b>			
Deferred tax liabilities		20,153,227	20,124,266
<b>NET ASSETS</b>		<b>511,338,835</b>	576,591,431
<b>Capital and reserves</b>			
Share capital	14	5,117,189	5,117,189
Reserves		516,031,475	549,017,433
Total equity attributable to owners of the Company		521,148,664	554,134,622
Non-controlling interests		(9,809,829)	22,456,809
<b>TOTAL EQUITY</b>		<b>511,338,835</b>	576,591,431

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	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\$		
At 1 January 2013 (Audited)	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 surplus reserve	-	-	217,455	-	-	(217,455)	-	-	-
At 30 June 2013 (Unaudited)	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
At 1 January 2014 (Audited)	5,117,189	248,891,857	7,932,209	37,616,915	(46,562,018)	301,138,470	554,134,622	22,456,809	576,591,431
Loss for the period	-	-	-	-	-	(26,257,404)	(26,257,404)	(23,398,902)	(49,656,306)
Other comprehensive loss for the period, net of income tax:									
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	(6,728,554)	-	-	(6,728,554)	(1,367,736)	(8,096,290)
Total comprehensive loss for the period	-	-	-	(6,728,554)	-	(26,257,404)	(32,985,958)	(24,766,638)	(57,752,596)
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	(7,500,000)	(7,500,000)
At 30 June 2014 (Unaudited)	5,117,189	248,891,857	7,932,209	30,888,361	(46,562,018)	274,881,066	521,148,664	(9,809,829)	511,338,835

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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Note	Six months ended 30 June	
		2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
Net cash generated from/(used in) operating activities		36,443,006	(44,964,873)
Net cash used in investing activities		(17,946,329)	(95,703,323)
Net cash generated from financing activities		5,043,144	2,976,122
Net increase/(decrease) in cash and cash equivalents		23,539,821	(137,692,074)
Effect of foreign exchange rate changes		(972,846)	4,272,654
Cash and cash equivalents at 1 January		40,961,978	259,974,508
Cash and cash equivalents at 30 June	11	63,528,953	126,555,088

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 2013 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 2013 annual financial statements, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2014. 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 2013 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 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2014.

## 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.

## 2. Turnover (continued)

Turnover recognised during the period may be analysed as follows:

	Six months ended 30 June	
	2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
Sales of automotive safety system components and other automotive components	26,379,184	28,657,732
Sales of electronic airbag systems	27,814,667	28,650,838
	<b>54,193,851</b>	57,308,570

## 3. Segment information

Information reported to the Board, being the chief operating decision maker, for purpose of resource allocation and assessment of segment performance focuses on types of goods delivered.

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.

### *Information about geographical areas*

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 operations are mainly located in the PRC. All of the Group's turnover is derived from customers based in the PRC.

### *Information about major customers*

For the six months period ended 30 June 2014, revenue generated from three (2013: two) customers of the Group amounting to approximately HK\$39,463,858 (2013: HK\$34,720,661) has individually accounted for over 10% of the Group's total revenue.



**3. Segment information (continued)**

Information about major customers (continued)

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>2014 HK\$ (Unaudited)</b>	<b>2013 HK\$ (Unaudited)</b>
Customer A	<b>26,379,184</b>	28,859,773
Customer B	<b>7,004,667</b>	–
Customer C	<b>6,080,007</b>	5,860,888

**4. Finance costs**

	<b>Six months ended 30 June</b>	
	<b>2014 HK\$ (Unaudited)</b>	<b>2013 HK\$ (Unaudited)</b>
Interest expense on bank advances wholly repayable within five years	<b>1,322,180</b>	1,198,983
Interest expense on other loans	<b>438,994</b>	260,652
Discounting charges on discounted bills	<b>840,784</b>	737,328
	<b>2,601,958</b>	2,196,963

**5. Loss before taxation**

Loss before taxation is arrived at after charging:

	<b>Six months ended 30 June</b>	
	<b>2014 HK\$ (Unaudited)</b>	<b>2013 HK\$ (Unaudited)</b>
Cost of inventories	<b>45,354,539</b>	46,103,763
Depreciation of property, plant and equipment	<b>6,962,105</b>	6,595,116
Amortisation of interests in leasehold land held for own use under operating leases	<b>818,734</b>	815,657
Amortisation of intangible assets		
– Patents	<b>2,303,037</b>	2,294,370
– Development costs	–	184,618

## 6. Income tax

Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 June	
	2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
<b>Current tax</b>		
PRC enterprise income tax for the period	89,270	1,036,836
<b>Deferred tax</b>		
Reversal and origination of temporary differences	9,802	(87,811)
<b>Total income tax</b>	<b>99,072</b>	949,025

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.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

## 7. Dividends

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

	Six months ended 30 June	
	2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
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	-	7,675,783

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$Nil).

## 8. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2014 are based on the loss attributable to owners of the Company HK\$26,257,404 (for the six months ended 30 June 2013: HK\$17,268,364) and the weighted average of 511,718,888 (for the six months ended 30 June 2013: 513,378,170) ordinary shares in issue during the period.

For the six months ended 30 June 2014 and 2013, 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 2014 and 2013.

## 9. Fixed assets

### (a) Acquisitions and disposals

During the six months ended 30 June 2014, the Group acquired items of property, plant and equipment with a cost of approximately HK\$790,394 (six months ended 30 June 2013: HK\$69,243,215). During the six months ended 30 June 2014, there were disposal and written-off of property, plant and equipment with net book value approximately HK\$5,178,679 (six months ended 30 June 2013: HK\$2,685,758).

(b) The Group's interests in leasehold land and buildings for own use is held by the subsidiaries in the PRC. The interests in leasehold land and buildings represent the land use rights together with the buildings thereon situated in Shanxi and Tianjian in the PRC.

(c) As at 30 June 2014, leasehold lands with carrying amount of approximately HK\$35,468,412 (31 December 2013: HK\$37,466,163) are situated outside Hong Kong under medium-term leases.

## 10. Trade receivables, prepayments and other receivables

	<b>30 June 2014 HK\$ (Unaudited)</b>	31 December 2013 HK\$ (Audited)
Trade receivables	<b>64,528,907</b>	73,693,978
Less: allowance for doubtful debts	<b>(8,549,109)</b>	(6,212,689)
	<b>55,979,798</b>	67,481,289
Bills receivable	<b>78,031,723</b>	82,000,829
	<b>134,011,521</b>	149,482,118
Deposits and prepayments	<b>36,686,614</b>	24,537,413
Other receivables	<b>60,678,043</b>	82,831,550
	<b>231,376,178</b>	256,851,081

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

## 10. Trade receivables, prepayments and other receivables (continued)

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

	<b>30 June 2014 HK\$ (Unaudited)</b>	31 December 2013 HK\$ (Audited)
Within 3 months	<b>49,166,440</b>	59,784,086
Over 3 months but less than 6 months	<b>4,073,620</b>	2,376,687
Over 6 months but less than 12 months	<b>2,739,738</b>	5,230,087
Over 12 months	–	90,429
	<b>55,979,798</b>	67,481,289

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.

## 11. Cash and cash equivalents

	<b>30 June 2014 HK\$ (Unaudited)</b>	31 December 2013 HK\$ (Audited)
Cash and cash equivalents in the statement of financial position and statement of cash flows	<b>63,528,953</b>	40,961,978

Other than disclosed above, cash and cash equivalents of HK\$11,437,429 (31 December 2013: HK\$36,218,771) 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.

## 12. Trade and other payables

	<b>30 June 2014 HK\$ (Unaudited)</b>	31 December 2013 HK\$ (Audited)
Trade payables	<b>37,030,422</b>	41,305,705
Other payables	<b>61,726,261</b>	29,649,919
	<b>98,756,683</b>	70,955,624

Included in trade and other payables are amounts due to an associate of HK\$10,000,000 (31 December 2013: HK\$10,000,000)(see note 16).

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

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

An ageing analysis of trade payables is as follows:

	<b>30 June 2014 HK\$ (Unaudited)</b>	31 December 2013 HK\$ (Audited)
Within 3 months	<b>22,632,395</b>	30,084,002
Over 3 months but less than 6 months	<b>2,811,551</b>	3,334,977
Over 6 months but less than 12 months	<b>7,580,977</b>	3,843,942
Over 1 year	<b>4,005,499</b>	4,042,784
	<b>37,030,422</b>	41,305,705

**13. Bank loans**

The bank loans are repayable as follows:

	<b>30 June 2014 HK\$ (Unaudited)</b>	31 December 2013 HK\$ (Audited)
<b>Current</b>		
Short term bank loans:		
– secured	<b>72,837,711</b>	59,096,142

At 30 June 2014, terms of bank loans were as follows:

- (a) As at 30 June 2014, the short-term secured bank loans of HK\$6,250,000, HK\$12,500,000 and HK\$31,250,000 which carry interest rate of 6.00%, 6.00% and 7.50% per annum respectively. As at 31 December 2013, the short-term secured bank loans of HK\$12,804,097, HK\$23,047,375 and HK\$6,402,049 which carry interest rate of 6.00%, 6.90% and 7.20% per annum respectively.

As at 30 June 2014, the loans were secured by the Group's certain construction in progress, leasehold land and buildings of approximately HK\$131,927,024. As at 31 December 2013, the loan was secured by the Group's certain patents, leasehold land and buildings of HK\$47,884,865.

- (b) Included in short-term secured bank loans are discounted bills with recourse of HK\$22,837,711 (31 December 2013: HK\$16,842,621) are secured by the related bills receivable.

#### 14. Share capital

	30 June 2014		31 December 2013	
	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	511,718,888	5,117,189	513,848,888	5,138,489
Cancellation of ordinary shares	-	-	(2,130,000)	(21,300)
At 30 June 2014/31 December 2013	511,718,888	5,117,189	511,718,888	5,117,189

#### 15. Commitments

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

	30 June 2014 HK\$ (Unaudited)	31 December 2013 HK\$ (Audited)
Contracted for	1,449,321	5,602,461

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

	30 June 2014 HK\$ (Unaudited)	31 December 2013 HK\$ (Audited)
Properties		
Within 1 year	353,625	416,232
After 1 year but within 5 years	-	219,678
	353,625	635,910

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.

**16. 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

*Amounts due to a related company*

	<b>30 June 2014 HK\$ (Unaudited)</b>	31 December 2013 HK\$ (Audited)
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 12).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30 June 2014, the Group recorded turnover of approximately HK\$54.2 million, while it was approximately HK\$57.3 million in the same period of last year. During the current period under review, the new production plant in Tianjian, PRC was in the final stage of test-run and has yet to reach the optimum utilization capacity, this resulted the reduction of the turnover amount and the gross profit margin.

During the six months period under review, the Group has entered into a disposal agreement, pursuant to which the Company will dispose the entire equity interest of Jinheng Automotive Electronic (BVI) Limited and its subsidiaries (the “Disposed Group”) at the consideration of HK\$30 million. The Disposed Group is principally engaged in the research and development of automotive electronic parts and systems. In order to focus more on the automotive power management system businesses of the Group which are considered to have higher development potential, the Group intends to reorganize its existing businesses to reallocate its financial and other resources in strengthening such businesses in order to generate more return to the shareholders of the Company. The Directors consider that this disposal also represents a good opportunity to realize the past investment in the Disposed Group.

### Financial Review

During the six months period ended 30 June 2014, the turnover amount and the average gross profit margin of the Group were approximately HK\$54.2 million and approximately 16.3% respectively, while it was approximately HK\$57.3 million and approximately 19.6% respectively in the same period of last year. Given the new production plant in Tianjian, PRC was in the final stage of test-run and has yet to reach the optimum utilization capacity, this resulted the reduction of the turnover amount and the gross profit margin.

During the current reporting period, the research and development expenses of the Group were approximately HK\$26.4 million, while it was approximately HK\$12.3 million in the same period of last year. The increment mainly related to the research and development of new models and product enhancement to cope with the market demand. Furthermore, during this period the Group was continuously performing various research and development projects which were commenced in 2013.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Financial Review *(continued)*

During the six months period ended 30 June 2014, the distribution costs of the Group were approximately HK\$4.0 million, which is increased by approximately HK\$1.2 million in compared with the same period of 2013. The increment is mainly related to additional expenses for marketing activities for exploration of new markets and introduction of our new and upgraded products.

The administrative expenses of the Group during the six months ended 30 June 2014 were approximately HK\$26.8 million, while it was approximately HK\$21.7 million in the same period of last year. The increment is mainly due to the expenses incurred for relocation of new production plant, including the written-off of certain old facilities and equipment.

The finance costs during the current six-month period under review were increased by approximately HK\$0.4 million to approximately HK\$2.6 million as compared to the same period of 2013. This was mainly due to the additional of bank loans primarily used for general working capital.

For the six months ended 30 June 2014, the Group recorded approximately HK\$26.3 million loss attributable to owners of the Company, while it was approximately HK\$17.3 million in the same period of last year. The loss recorded in the current period was mainly due to the increment of research and development activities for the preparation to cope with the challenges from the market.

### Outlook and Future Prospects

The new production plant in Tianjian, PRC will gradually put into commercial operation in the foreseeable future. To cope with the expansion of production and research capacity, the Group has already put effort into the development of new products and exploration of new markets in order to better utilize the expanded capacity and match with the market need.

The current business objective the Group is to focus more on the automotive spare parts and automotive power management system businesses, and the management considers that there are potential business opportunities in the PRC market. The Group will use its over 10 years experiences to actively explore different business opportunities and aim to enlarge the product pool. Furthermore, in order to allocate the existing resources of the Group in a more efficient manner, the Group will continue to restructure the existing business and focus in one to two business segments.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Liquidity, Financial Resources and Capital Structure

As at 30 June 2014, the Group had cash and cash equivalents of approximately HK\$63.5 million (31 December 2013: approximately HK\$41.0 million) and net current assets of approximately HK\$166.2 million (31 December 2013: approximately HK\$221.2 million). The total non-current assets of the Group was approximately HK\$365.3 million as at 30 June 2014, while it was approximately HK\$375.5 million as at 31 December 2013.

As at 30 June 2014, the Group had non-current liabilities of approximately HK\$20.2 million (31 December 2013: approximately HK\$20.1 million), which represent the deferred tax liabilities.

The Group also had short-term bank loans of approximately HK\$72.8 million which included bank loans with an aggregate amount of approximately HK\$50.0 million (equivalent to approximately RMB40.0 million) with fixed interest rates ranging from 6.00% to 7.50% per annum, and discounted bills of approximately HK\$22.8 million (equivalent to approximately RMB18.3 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.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The directors of the Company (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 or US dollars. 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 2014, 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 2014, the Group pledged certain construction in progress, leasehold land and building of approximately HK\$131.9 million and certain discounted bills with recourse totaling approximately HK\$22.8 million were secured by the related bills receivable and were repayable within one year.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Gearing Ratio

As at 30 June 2014, the Group's gearing ratio, which was derived from the total liabilities to total assets, increased to 27.7% from 21.1% as at 31 December 2013.

### Future Plans for Material Investments

As at 30 June 2014, the Group had the contracted but not provided for capital commitments of approximately HK\$1.4 million in respect of acquisition of fixed assets.

The Company also entered into a letter of intent on 23 June 2014 in related to the possible establishment of a joint venture company, which will be principally engaged in research and development, manufacturing and sale of selective catalytic reduction system of automobile engine. If the said transaction is materialized, the total investment will be RMB300 million, in which the Company will invest RMB210 million and hold 70% equity interest in the new company. As at the date of this report, no legally binding agreement in related to this transaction has been entered by the Company.

### Material Acquisitions and Disposals

On 27 May 2014, the Company entered into a disposal agreement, pursuant to which the Company will dispose the entire equity interest of Disposed Group at the consideration of HK\$30 million. The Disposed Group is principally engaged in the research and development of automotive electronic parts and systems. This disposal is not yet completed as at the date of this report.

### Significant Investment

There was no significant investment during the period under review.

### Contingent Liabilities

As at 30 June 2014, the Directors were not aware of any material contingent liabilities.

### Subsequent Events

On 9 July 2014, the Company issued and placed 102,300,000 new shares of the Company to not less than six investors in according to the placing agreement dated 24 June 2014. The placing price is HK\$0.37 per share, and the net proceed is approximately HK\$36 million.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### 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 periods 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 2014, the Group employed 444 staff in the PRC and Hong Kong, representing a decrease of 67 staff from 31 December 2013 and a decrease of 68 staff from 30 June 2013. Such changes were mainly from the PRC operations. Remuneration of employees, including Directors' emoluments was approximately HK\$17.0 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 2014, 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)
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 2014, 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:

Shareholder	Number of shares held in Applaud Group	%
Li Feng	5,129	55.36
Li Hong (Note)	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

Note: Mr Li Hong was a non-executive director of the Company, but resigned on 6 January 2014.

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

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

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 SCHEME

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 2014 was 44,350,000 shares which represented approximately 8.7% of the issued share capital of the Company as at 30 June 2014.

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 2014, 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%
Get Real Global Limited ("Get Real")	Security interest in shares (Note 1)	205,340,802	40.13%
Wong Kui Shing, Danny ("Mr Wong")	Interest of controlled corporation (Note 2)	205,340,802	40.13%

## SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

*(continued)*

Notes:

- (1) According to the Corporate Substantial Shareholder Notices filed by Get Real on 8 May 2014, Get Real, as a corporation having a security in shares, is interested in 205,340,802 shares.
- (2) According to the Individual Substantial Shareholder Notice filed by Mr. Wong on 8 May 2014, Mr. Wong is deemed to be interested in 205,340,802 shares through Get Real, which is controlled by him.

### 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 2014, 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 2014.

## DIRECTORS' INTERESTS IN CONTRACTS

During the six months ended 30 June 2014, 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**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

## **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 2014, except the following:

CG Code A.6.7 stipulates that independent non-executive directors of the Company and non-executive directors of the Company should attend general meetings. Mr Chen Li Zhou and Mr Zhu Tong, being independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 3 June 2014 as they were out of 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 2014 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. Chen Li Zhou.



## **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 2014.

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 2014, the Company has appointed three independent non-executive directors, namely Mr. Hui Hung Kwan, Mr. Chen Li Zhou and Mr. Zhu Tong.

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, 29 August 2014