



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

*(Incorporated in Cayman Islands with limited liability)*

(Stock Code: 8293)

**INTERIM RESULTS ANNOUNCEMENT**  
**FOR SIX MONTHS ENDED 30 JUNE 2006**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This announcement, for which the directors of Jinheng Automotive Safety Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

The board of directors of the Company (the “Board”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for each of the three months and six months ended 30 June 2006, together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

## CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2006

	Note	Three months ended 30 June		Six months ended 30 June	
		2006	2005	2006	2005
		HK\$	HK\$	HK\$	HK\$
Turnover	3	75,206,948	53,754,626	140,460,113	94,630,028
Cost of sales		(53,195,060)	(37,996,633)	(102,089,467)	(65,794,895)
Gross profit		22,011,888	15,757,993	38,370,646	28,835,133
Other revenue		910,760	288,035	1,162,731	358,683
Other net loss		(12,025)	(106,569)	(26,737)	(126,098)
Research and development expenses		(918,321)	(661,432)	(1,556,260)	(1,594,560)
Distribution costs		(1,504,913)	(1,272,864)	(2,602,402)	(1,910,009)
Administrative expenses		(7,152,857)	(5,322,865)	(12,729,509)	(8,933,706)
Recognition of negative goodwill	18	79,442	–	79,442	–
Profit from operations		13,413,974	8,682,298	22,697,911	16,629,443
Finance costs	4(a)	(1,898,320)	(537,347)	(2,752,644)	(1,193,274)
Share of profits of jointly controlled entities		935,816	54,121	1,334,865	15,300
Profit before taxation	4	12,451,470	8,199,072	21,280,132	15,451,469
Income tax	5	(2,105,206)	(47,797)	(3,006,289)	59,078
Profit for the period		10,346,264	8,151,275	18,273,843	15,510,547
Attributable to:					
Equity shareholders of the Company		9,418,578	8,030,130	17,425,890	15,527,800
Minority interests		927,686	121,145	847,953	(17,253)
Profit for the period		10,346,264	8,151,275	18,273,843	15,510,547
Earnings per share					
– Basic	7(a)	HK2.46 cents	HK2.11 cents	HK4.55 cents	HK4.08 cents
– Diluted	7(b)	HK2.43 cents	HK2.07 cents	HK4.49 cents	HK4.00 cents

The notes on pages 6 to 17 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET - UNAUDITED

AT 30 JUNE 2006

	Note	30 June 2006 HK\$	31 December 2005 HK\$
<b>Non-current assets</b>			
Fixed asset			
– Property, plant and equipment	8	79,187,016	64,988,078
– Interest in leasehold land held for own use under operating leases	8	14,117,281	8,775,732
Deposit paid for acquisition of fixed assets		13,567,358	8,671,894
Construction in progress		22,766,039	5,483,039
Interest in jointly controlled entities		10,703,609	18,203,923
Other non-current financial assets		48,077	48,077
Intangible assets		26,417,111	12,293,322
Deferred tax assets		40,366	57,533
		<b>166,846,857</b>	118,521,598
<b>Current assets</b>			
Inventories		59,225,598	41,127,946
Trade receivables, prepayments and other receivables	9	169,998,907	110,895,525
Current tax recoverable		48,320	48,320
Pledged bank deposits		368,769	4,624
Cash and cash equivalents	10	62,717,033	44,376,663
		<b>292,358,627</b>	196,453,078
<b>Current liabilities</b>			
Trade and other payables	11	86,975,762	34,541,781
Bank loans	12	44,654,808	43,037,023
Current tax payables		1,771,697	24,460
		<b>133,402,267</b>	77,603,264
<b>Net current assets</b>		<b>158,956,360</b>	118,849,814
<b>Total assets less current liabilities</b>		<b>325,803,217</b>	237,371,412
<b>Non-current liabilities</b>			
Bank loans	12	46,153,846	26,923,077
Deferred tax liabilities		1,038,589	461,406
Convertible notes	13	43,068,542	–
		<b>90,260,977</b>	27,384,483
<b>NET ASSETS</b>		<b>235,542,240</b>	209,986,929
<b>CAPITAL AND RESERVES</b>			
Share capital	14	3,855,600	3,810,000
Reserves	15	208,035,375	195,536,665
Total equity attributable to equity shareholders of the Company		<b>211,890,975</b>	199,346,665
Minority interests	15	23,651,265	10,640,264
<b>TOTAL EQUITY</b>		<b>235,542,240</b>	209,986,929

The notes on pages 6 to 17 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Note	Six months ended 30 June		HK\$
		2006	2005	
		HK\$	HK\$	HK\$
<b>Total equity at 1 January:</b>				
Attributable to equity shareholders of the Company (as previously reported at 31 December)		199,346,665	176,727,088	
Minority interests (as previously presented separately from liabilities and equity at 31 December)		10,640,264	1,187,182	
Prior period adjustments arising from changes in accounting policies	2(a)	–	3,403,757	
<b>As restated</b>		<b>209,986,929</b>		181,318,027
<b>Net income recognised directly in equity:</b>				
Profit for the period		18,273,843		15,510,547
<b>Total recognised income and expense for the period</b>		<b>18,273,843</b>		15,510,547
Attributable to:				
– Equity shareholders of the Company		17,425,890		15,527,800
– Minority interests		847,953		(17,253)
		<b>18,273,843</b>		15,510,547
Dividends approved during the period	6	(12,723,480)		(20,955,000)
<b>Movements in equity arising from capital transactions:</b>				
Equity settled share-based transactions		1,141,000		2,898,500
Capital contribution from minority shareholders		10,678,813		–
Exercise of share options		1,687,200		–
Issuance of shares pursuant to the exercise of share options		45,600		–
Recognition of fair value revaluation of acquired subsidiary		3,445,895		–
Recognition of equity component of convertible notes		3,006,440		–
		<b>7,281,468</b>		(18,056,500)
<b>Total equity at 30 June</b>		<b>235,542,240</b>		178,772,074

The notes on pages 6 to 17 form part of this interim financial report.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED***FOR THE SIX MONTHS ENDED 30 JUNE 2006*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2006</b>	2005
		<b>HK\$</b>	<b>HK\$</b>
Net cash generated from operating activities		<b>13,734,444</b>	7,172,221
Net cash used in investing activities		<b>(48,388,536)</b>	(11,353,324)
Net cash generated/(used in) financing activities		<b>52,994,462</b>	(10,248,533)
Net increase/(decrease) in cash and cash equivalents		<b>18,340,370</b>	(14,429,636)
Cash and cash equivalents at 1 January		<b>44,376,663</b>	92,823,795
Cash and cash equivalents at 30 June	<i>10</i>	<b>62,717,033</b>	78,394,159

The notes on pages 6 to 17 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 GEM Listing Rules, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies adopted in the preparation of this interim report are consistent with those adopted by the Group in the 2005 annual financial statements.

This interim financial 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 2005 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 HKICPA.

The financial information relating to the financial year ended 31 December 2005 included in this interim financial 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 2005 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2006.

## 2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

(a) *Summary of the effect of changes in the accounting policies*

Effect on opening balance of total equity at 1 January 2005 (as adjusted)

The following tables sets out the adjustments that have been made to the opening balance at 1 January 2005.

<b>Effect of new policy (increase / (decrease))</b>	<i>Note</i>	<b>Capital reserve</b> <i>HK\$</i>	<b>Retained profits</b> <i>HK\$</i>	<b>Sub-total</b> <i>HK\$</i>	<b>Minority interests</b> <i>HK\$</i>	<b>Total equity</b> <i>HK\$</i>
<i>Prior period adjustment</i>						
<i>in respect of:</i>						
– HKFRS 2	2(b)	345,000	(345,000)	–	–	–
– HKAS 31	2(c)	3,403,757	–	3,403,757	–	3,403,757
<b>Total effect at</b>						
1 January 2005		3,748,757	(345,000)	3,403,757	–	3,403,757

(b) *Employee share option scheme (HKFRS 2, Share-based payment)*

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the options’s exercise price receivable.

## 2. Changes in accounting policies (continued)

### (b) Employee share option scheme (HKFRS 2, Share-based payment) (continued)

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under this new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in the capital reserve within equity.

The adjustment to the opening balance of equity as at 1 January 2005 is set out in note 2(a). Details of the employee share option schedules can be found in "Share Option Schemes" and note 15 on this interim report.

### (c) Interest in jointly controlled entities (HKAS 31, Interest in joint venture)

In prior years, the Group's share of changes in equity of jointly controlled entities accounted for using the equity method was not recognised in the equity of the Group. With effect from 1 January 2005, in order to comply with HKAS 31, the share of changes in equity of jointly controlled entities is recognised directly in equity of the Group and disclosed in the consolidated statement of changes in equity.

The Group has applied the new policy retrospectively by increasing the opening net assets as of 1 January 2005 by HK\$3,403,757 to include the share of changes in equity of jointly controlled entities in the Group's capital reserve. There is no net effect to the opening retained profits nor the profit or loss for the periods presented.

## 3. Turnover

The principal activities of the Group are production and sales of automotive safety products in the People's Republic of China ("PRC").

Turnover represents the sales value of automotive safety products to customers net of sales tax and value added tax.

Turnover recognised during the period may be analysed as follows:

	Three months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
Sales of mechanical airbag systems	<b>25,832,646</b>	16,501,404	<b>43,732,705</b>	32,525,244
Sales of electronic airbag systems	<b>42,587,104</b>	19,574,238	<b>79,328,462</b>	29,550,353
Sales of automotive safety system components and other safety products	<b>6,787,198</b>	17,678,984	<b>17,398,946</b>	32,554,431
	<b>75,206,948</b>	53,754,626	<b>140,460,113</b>	94,630,028

The Group's turnover and operating profit are almost entirely derived from the production and sales of automotive safety products in the PRC. Accordingly, no analysis by geographical and business segments has been presented.

#### 4. Profit before taxation

Profit before taxation is arrived at after charging:

(a) *Finance costs:*

	Three months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
Interest expense on bank advances wholly repayable within five years	1,215,261	507,812	1,991,007	1,163,739
Interest expense on convertible notes	601,891	–	601,891	–
Discounting charges on discounted bills	81,168	29,535	159,746	29,535
<b>Total borrowing costs</b>	<b>1,898,320</b>	<b>537,347</b>	<b>2,752,644</b>	<b>1,193,274</b>

(b) *Other items:*

	Three months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
Cost of inventories	53,195,060	37,996,633	102,089,467	65,794,895
Depreciation	2,133,630	1,422,528	4,260,071	2,597,725
Amortisation of land lease premium	87,117	15,256	174,095	30,511
Amortisation of intangible assets				
– Acquired technology	250,750	193,029	879,069	397,695
– Development costs	2,006,035	252,148	2,412,479	362,758
– Patent	574	521	1,147	1,038

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

Taxation in the consolidated income statement represents:

	Three months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
<b>Current tax</b>				
PRC income tax for the period	(1,767,963)	(47,797)	(2,411,939)	(47,797)
	(1,767,963)	(47,797)	(2,411,939)	(47,797)
<b>Deferred tax</b>				
Origination and reversal of temporary differences	(337,243)	–	(594,350)	106,875
<b>Total income tax (expense)/credit</b>	<b>(2,105,206)</b>	<b>(47,797)</b>	<b>(3,006,289)</b>	<b>59,078</b>



## 5. Income tax in the consolidated income statement (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.

Pursuant to the income tax rules and regulations of the PRC, Jinzhou Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"), a subsidiary of the Company which is being a wholly owned foreign enterprise, is entitled to a tax concession period in which it is fully exempted from PRC income tax for 2 year starting from its first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years. Jinheng Automotive is in the third year following the first profit-making year. Furthermore, Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng"), a subsidiary of the Company which is being a Sino-foreign equity joint venture, is doing the application procedures of enjoying this tax concession period.

Pursuant to the income tax rules and regulations of the PRC, Harbin Hafei Jinheng Automotive Safety System Co., Ltd. ("Hafei Jinheng") and Beijing Jinheng Sega Automotive Spare Parts Limited ("Jinheng Sega"), subsidiaries of the Company, are liable to enterprise income tax at a rate of 27% for the period.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

## 6. Dividends

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

	Six months ended 30 June	
	2006 HK\$	2005 HK\$
Final dividend in respect of the financial year ended 31 December 2005 approved and paid during the following interim period of HK\$3.3 cents per share (year ended 31 December 2004: HK\$5.5 cents per share)	12,723,480	20,955,000

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: HK\$Nil).

## 7. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share for each of the three months and six months ended 30 June 2006 are based on the profit attributable to ordinary equity shareholders of the Company HK\$9,418,578 and HK\$17,425,890 respectively (for each of the three months and six months ended 30 June 2005: HK\$8,030,130 and HK\$15,527,800 respectively) and the weighted average of 383,368,177 and 383,368,177 (for each of the three months and six months ended 30 June 2005: 381,000,000 and 381,000,000 respectively) ordinary shares respectively in issue during the period, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares Three months ended 30 June		Number of shares Six months ended 30 June	
	2006	2005	2006	2005
Issued ordinary shares at 1 January	381,000,000	381,000,000	381,000,000	381,000,000
Effect of shares issued pursuant to the exercise of share options	2,368,177	-	2,368,177	-
Weighted average number of ordinary shares (basic) at 30 June	383,368,177	381,000,000	383,368,177	381,000,000

## 7. Earnings per share (Continued)

### (b) Diluted earnings per share

The calculation of diluted earnings per share for each of the three months and six months ended 30 June 2006 are based on the profit attributable to ordinary equity shareholders of the Company HK\$9,418,578 and HK\$17,425,890 respectively (for each of the three months and six months ended 30 June 2005: HK\$8,030,130 and HK\$15,527,800 respectively) and the weighted average of 387,220,591 and 383,354,629 (for each of the three months and six months ended 30 June 2005: 388,313,208 and 388,152,941 respectively) ordinary shares respectively in issue during the period, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Number of shares		Number of shares	
	Three months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
Weighted average number of ordinary shares at 30 June	<b>383,368,177</b>	381,000,000	<b>383,368,177</b>	381,000,000
Effect of deemed issue of ordinary shares under the Company's share option scheme for Company's nil consideration	<b>3,852,414</b>	7,313,208	<b>4,986,452</b>	7,152,941
Weighted average number of ordinary shares (diluted) at 30 June	<b>387,220,591</b>	388,313,208	<b>388,354,629</b>	388,152,941

## 8. Fixed assets

### (a) Acquisitions and disposals

During the six months ended 30 June 2006, the Group acquired items of property, plant and equipment with a cost of HK\$18,603,781 (six months ended 30 June 2005: HK\$5,990,909). During the six months ended 30 June 2006, there was a disposal of property, plant and equipment with net book value HK\$135,621 (six months ended 30 June 2005: HK\$ Nil).

(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 Shenyang and Jinzhou, the PRC. The applications for the property ownership certificates of the leasehold land and building situated in Shenyang and Jinzhou with net book value of HK\$5,717,496 and HK\$5,103,352 respectively are still in progress and the property ownership certificates have not yet been issued to the Group by the relevant offices of the State-owned Land Bureau in the PRC as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has acquired the beneficial titles to these leasehold land and buildings as at 30 June 2006 and, the property ownership certificates can be obtained by the end of 2006.

(c) As at 30 June 2006, leasehold land and buildings with carrying value totalling HK\$13,260,896 (31 December 2005: HK\$7,448,830) are mortgaged to banks for certain banking facilities granted to the Group.

## 9. Trade receivables, prepayments and other receivables

	30 June 2006 HK\$	31 December 2005 HK\$
Trade receivables	<b>116,124,594</b>	82,337,134
Bills receivable	<b>17,049,058</b>	12,700,913
	<b>133,173,652</b>	95,038,047
Prepayments	<b>27,033,083</b>	7,917,102
Other receivables	<b>9,792,172</b>	7,940,376
	<b>169,998,907</b>	110,895,525

Included in trade receivables are amounts due from related companies of HK\$27,575,004 (31 December 2005: HK\$20,476,920) (see note 17(b)).

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

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

	<b>30 June</b> <b>2006</b> <i>HK\$</i>	31 December 2005 <i>HK\$</i>
Current	<b>118,150,455</b>	79,710,439
1 to 3 months overdue	<b>11,559,444</b>	14,269,882
More than 3 months overdue but less than 12 months overdue	<b>2,928,928</b>	655,844
More than 1 year overdue but less than 2 years overdue	<b>534,825</b>	401,882
	<b>133,173,652</b>	95,038,047

The Group generally grants credit periods with 0 to 90 days from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and credit worthiness, extend the credit period upon customers' request.

Included in trade receivables, prepayments and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>30 June</b> <b>2006</b> <i>HK\$</i>	31 December 2005 <i>HK\$</i>
USD	<b>193,936</b>	4,806
EUR	<b>104,620</b>	17,500

## 10. Cash and cash equivalents

	<b>30 June</b> <b>2006</b> <i>HK\$</i>	31 December 2005 <i>HK\$</i>
Cash and cash equivalents in the balance sheet and cash flow statement	<b>62,717,033</b>	44,376,663

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>30 June</b> <b>2006</b>	31 December 2005
USD	<b>187,748</b>	1,773,748
RMB	<b>45,396</b>	–

Other than disclosed above, cash and cash equivalents of HK\$15,508,522 (31 December 2005: HK\$17,698,545) 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 2006 HK\$</b>	31 December 2005 HK\$
Trade payables	<b>70,347,480</b>	28,896,906
Other payables	<b>16,628,282</b>	5,644,875
	<b>86,975,762</b>	34,541,781

Included in trade payables are amounts due to related company of HK\$17,940,847 (31 December 2005: HK\$8,285,390) (see note 17(c)).

An ageing analysis of trade payables is as follows:

	<b>30 June 2006 HK\$</b>	31 December 2005 HK\$
Within 3 months	<b>59,041,699</b>	26,758,843
Over 3 months but less than 6 months	<b>11,305,781</b>	2,138,063
	<b>70,347,480</b>	28,896,906

All the trade and other payables are denominated in the functional currency of the entity to which they relate.

## 12. Bank loans

The bank loans are repayable as follows:

	<b>30 June 2006 HK\$</b>	31 December 2005 HK\$
Within 1 year or on demand	<b>44,654,808</b>	43,037,023
After 1 year but within 2 years	<b>46,153,846</b>	26,923,077
	<b>90,808,654</b>	69,960,100
Representing:		
Secured bank loans	<b>25,424,039</b>	19,960,100
Unsecured bank loans	<b>65,384,615</b>	50,000,000
	<b>90,808,654</b>	69,960,000

All the bank loans are with PRC commercial banks and are denominated in RMB. These were no unutilised banking facilities as at 30 June 2006 (31 December 2005: HK\$Nil).

## 12. Bank loans (continued)

At 30 June 2006, terms of bank loans were as follows:

- (a) A bank loan of HK\$15,480,769 (31 December 2005: HK\$15,480,769), which carried interest at 5.49% (31 December 2005: 5.49%) per annum with final maturity on 24 July 2006, and a bank loan of HK\$5,576,923 (31 December 2005: HK\$Nil), which carried interest at 7.61% (31 December 2005: Nil) per annum with final maturity on 20 April 2007, were secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of HK\$13,260,896 (31 December 2005: HK\$7,448,830).
- (b) Discounted bills with recourse totalling HK\$4,366,347 (31 December 2005: HK\$4,479,331) were secured by the related bills receivables and were repayable within one year.
- (c) Certain unsecured bank loans totalling HK\$19,230,769 (31 December 2005: HK\$23,076,923) carried interest at rates ranging from 5.58% to 6.26% (31 December 2005: from 5.58% to 6.24%) per annum and were repayable within one year.
- (d) Certain unsecured bank loans of HK\$46,153,846 (31 December 2005: HK\$26,923,077) carried interest at rates ranging from 5.47% to 5.58% (31 December 2005: 5.58%) per annum with final maturity on 25 July 2007 and 19 March 2008.

## 13. Convertible notes

Pursuant to the subscription agreement dated 27 April 2006 made between Value Partners Limited and the Company, convertible notes in the principal amount of HK\$46,000,000 were issued by the Company.

The convertible notes are, at the option of the holders, convertible on or after 26 November 2007 up to and including 25 May 2011, into ordinary shares of the Company at an initial conversion price of HK\$0.9 per share, subject to adjustment under certain events.

The convertible notes were separated into its liability and equity components on its initial recognition. Market value of the liability components of the instruments is estimated by computing the present value of all future cash flow discounted using the prevailing market rate of interest of a similar instrument with a similar credit rating.

## 14. Share capital

	30 June 2006		31 December 2005	
	Number of shares	Amount HK\$	Number of shares	Amount 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	381,000,000	3,810,000	381,000,000	3,810,000
Issuance of shares pursuant to the exercise of share options	4,560,000	45,600	–	–
<b>At 30 June 2006/31 December 2005</b>	<b>385,560,000</b>	<b>3,855,600</b>	<b>381,000,000</b>	<b>3,810,000</b>

## 15. Reserves

	Attributable to equity shareholders of the Company											Total HK\$
	Share premium HK\$	Merger reserve HK\$	Statutory		Convertible			Exchange reserve HK\$	Retained profits HK\$	Sub-total HK\$	Minority interests HK\$	
			Statutory surplus reserve HK\$	public welfare fund HK\$	Capital reserve HK\$	notes reserve HK\$	Revaluation reserve HK\$					
At 1 January 2005												
– as previously reported	80,168,124	36,341,236	8,749,449	4,374,723	–	–	–	–	43,283,556	172,917,088	1,187,182	174,104,270
– prior period adjustments in respect of:												
– HKFRS 2	–	–	–	–	345,000	–	–	–	(345,000)	–	–	–
– HKAS 31	–	–	–	–	3,403,757	–	–	–	–	3,403,757	–	3,403,757
– as restated	80,168,124	36,341,236	8,749,449	4,374,723	3,748,757	–	–	–	42,938,556	176,320,845	1,187,182	177,508,027
Equity settled share-based transactions	–	–	–	–	2,898,500	–	–	–	–	2,898,500	–	2,898,500
Dividend approved in respect of prior year	–	–	–	–	–	–	–	–	(20,955,000)	(20,955,000)	–	(20,955,000)
Profit/(loss) for the period	–	–	–	–	–	–	–	–	15,527,800	15,527,800	(17,253)	15,510,547
At 30 June 2005	80,168,124	36,341,236	8,749,449	4,374,723	6,647,257	–	–	–	37,511,356	173,792,145	1,169,929	174,962,074
At 1 January 2006	80,168,124	36,341,236	12,616,183	6,308,089	9,545,757	–	–	2,357,650	48,199,626	195,536,665	10,640,264	206,176,929
Equity settled share-based transactions	–	–	–	–	1,141,000	–	–	–	–	1,141,000	–	1,141,000
Dividend approved in respect of prior years	–	–	–	–	–	–	–	–	(12,723,480)	(12,723,480)	–	(12,723,480)
Profit for the period	–	–	–	–	–	–	–	–	17,425,890	17,425,890	847,953	18,273,843
Exercise of share options	5,279,600	–	–	–	(3,592,400)	–	–	–	–	1,687,200	–	1,687,200
Capital contribution from minority shareholders	–	–	–	–	–	–	(1,484,235)	–	–	(1,484,235)	12,163,048	10,678,813
Recognition of equity component of convertible notes	–	–	–	–	–	3,006,440	–	–	–	3,006,440	–	3,006,440
Recognition of fair value revaluation of acquired subsidiary	–	–	–	–	–	–	3,445,895	–	–	3,445,895	–	3,445,895
At 30 June 2006	85,447,724	36,341,236	12,616,183	6,308,089	7,094,357	3,006,440	1,961,660	2,357,650	52,902,036	208,035,375	23,651,265	231,686,640

On 22 November 2004, 11,400,000 share options were granted for nominal consideration to three directors and seven employees of the Company under the Company's Pre-IPO Employee Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK\$1 each of the Company. These share options will be vested on 9 December 2005, and then be exercisable until 9 December 2008. The exercise price is HK\$0.38.

4,560,000 options were exercised during the six months ended 30 June 2005.

## 16. Commitments

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

	<b>30 June 2006 HK\$</b>	31 December 2005 HK\$
Contracted for	<b>7,128,071</b>	11,167,890
Authorised but not contracted for	<b>8,769,808</b>	9,265,577
	<b>15,897,879</b>	20,433,467

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

	<b>30 June 2006 HK\$</b>	31 December 2005 HK\$
Properties		
Within 1 year	<b>41,968</b>	107,257
After 1 year but within 5 years	<b>166,662</b>	166,667
After 5 years	<b>933,999</b>	954,864
	<b>1,142,629</b>	1,228,788
Others		
Within 1 year	<b>8,400</b>	8,400
After 1 year but within 5 years	<b>15,400</b>	19,600
	<b>23,800</b>	28,000

The Group leases a number of properties and office equipment under operating leases for a period of 1 to 29 years. The leases do not include contingent rentals.

## 17. Material related party transactions

Name of party	Relationship
Shanxi Jinheng Automotive Spare Parts Co., Ltd. ("Jinheng Parts")	35% owned jointly controlled entity of the Group
Hafei Motor Co., Ltd. ("Hafei Motor")	Minority shareholder (10%) of Hafei Jinheng
Shenyang Jinbei Automotive Company Limited ("Jinbei Automotive")	Minority shareholder (14.81%) of Jinbei Jinheng

## 17. Material related party transactions (continued)

### (a) Recurring

	Six months ended 30 June	
	2006	2005
	HK\$	HK\$
Purchases of raw materials from:		
– Jinheng Parts	23,961,878	25,961,307
Sales of airbag systems to:		
– Jinbei Automotive	11,597,211	–
– Hafei Motor	9,552,784	13,362,873

The directors of the Company are of the opinion that the purchases of raw materials from and sales of airbag systems to the above related parties were conducted in the ordinary course of business.

### (b) Amounts due from related companies

	30 June	31 December
	2006	2005
	HK\$	HK\$
Jinbei Automotive	13,568,737	–
Jinbei Jinheng	–	7,774,353
Hafei Motor	14,006,267	12,702,567
	27,575,004	20,476,920

The Jinbei Jinheng became a 55.56% owned subsidiary by the Group as at 24 January 2006 (see note 18). The amounts due from related companies are trade-related, unsecured, interest free and are expected to be repaid within one year. These amounts are included in "Trade receivables, prepayments and other receivables" in the consolidated balance sheet (see note 9).

### (c) Amounts due to related company

	30 June	31 December
	2006	2005
	HK\$	HK\$
Jinheng Parts	17,940,847	8,285,390

The amounts due to related company are trade-related, unsecured, interest free and are expected to be repaid within one year. These amounts are included in "Trade and other payables" in the consolidated balance sheet (see note 11).

## 18. Acquisition of subsidiary

On 24 January 2006, pursuant to a subscription agreement dated 26 August 2005, Jinbei Jinheng increased equity interest from RMB20.0 million (equivalent to approximately HK\$19.2 million) to RMB27.0 million (equivalent to approximately HK\$26.0 million). The wholly owned subsidiary of the Company, Jinheng (Hong Kong) Limited ("Jinheng Hong Kong"), subscribed RMB5.0 million (equivalent to approximately HK\$4.8 million) to Jinbei Jinheng for the increased equity interest of Jinbei Jinheng. The Group's equity interest in Jinbei Jinheng then increased to 55.56% of its increased equity interest.



## 18. Acquisition of subsidiary (continued)

The principal activities of the Jinbei Jinheng are designing, manufacturing and selling of automotive safety airbag systems and related automotive spare parts, and provision of after sale services in respect of products manufactured by it. The acquired business contributed turnover of approximately HK\$14.9 million and a net profit of approximately HK\$1.6 million to the Group for the period from 24 January 2006 to 30 June 2006.

Net assets acquired:

	HK\$
Property, plant and equipment	9,082,436
Interest in leasehold land held for own use under operating leases	5,423,694
Intangible assets	6,533,602
Cash and cash equivalents	10,332,537
Other receivables	384,248
Inventories	501,231
Other payables	(4,888,152)
<b>Net identifiable assets and liabilities</b>	<b>27,369,596</b>
Share of net assets attributable to the Group (55.56%)	15,206,548
Less: Share of net assets attributable to the Group when it initially owned 50% by the Group	(10,319,413)
<b>Net assets acquired</b>	<b>4,887,135</b>
Negative goodwill arising on consolidation	79,442
Total purchase price paid, satisfied in cash	(4,807,693)
Less: Cash of the subsidiary acquired	10,332,537
<b>Net cash inflow in respect of the purchase of subsidiary</b>	<b>5,524,844</b>

The negative goodwill has been recognized to the consolidated income statement in the current period.

## 19. Post balance sheets events

- (a) On 16 June 2006, the Group's wholly-owned subsidiaries, Jinheng Hong Kong and Jinheng Automotive, entered into a joint venture arrangement with 2 PRC partners to form a joint venture company principally engaged in the design, manufacture and sale of automotive electronics parts. The joint venture company will be owned as to totally 55% by the Group. The total investment of the joint venture company will be RMB 36.0 million (equivalent to HK\$34.6 million) and the registered capital of the joint venture company amounts to RMB30.0 million (equivalent to HK\$28.8 million), of which RMB12.0 million (equivalent to HK\$11.5 million) will be paid by Jinheng Hong Kong, RMB4.5 million (equivalent to HK\$4.3 million) will be paid by Jinheng Automotive, and the remaining RMB13.5 million (equivalent to HK\$13.0 million) will be contributed by the PRC partners. As at the date of issuing this interim report, the joint venture company is still under registration process.
- (b) On 21 June 2006, the Company entered into the subscription agreements separately with 3 independent investors in relation to the issuance of the convertible notes in the aggregate principal amount of HK\$31.0 million. The convertible notes were issued on 14 July 2006. The convertible notes may be converted into ordinary shares of the Company at an initial conversion price of HK\$0.9 per share during their conversion period, which is on or after 14 January 2008 up to and including 13 July 2011. The maximum number of shares which may be issued upon full conversion of the convertible notes will be 34,444,444 shares, representing approximately 7.89% of the issued share capital of the Company immediately after full conversion of the convertible notes issued to Value Partners Limited.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

The Group's turnover for the six months ended 30 June 2006 was approximately HK\$140.5 million, representing an increase of approximately 48.4% as compared to the corresponding period of 2005. The turnover for the second quarter had also increased approximately 15.3% from the first quarter. The increase is mainly attributable to commencement of commercial purchases from three new customers since first quarter of this year, as well as another customer localize its purchase of automobile spare parts instead of importing from overseas since the second quarter. The commercial purchases from these 4 new customers had contributed to the significant increase in sales during the first half of 2006. The directors of the Company believed that these 4 customers would continue to place purchase orders with the Group, and as there will be new automotive safety airbag products launching in the second half of this year, continuous increase in turnover is expected for this year.

For the six months ended 30 June 2006, profit after taxation was approximately HK\$18.3 million, representing an increase of 17.8% as compared to the corresponding period of 2005. Profit before taxation increased approximately 37.7% from the corresponding period of 2005. The increase in profit after taxation was less than the increase in turnover due to the fact that Jinheng Automotive had commenced paying PRC income tax at 13.5% from this year. The directors of the Company believed that profit for the year will record continuous growth with turnover is set to increase further in the second half of this year.

The Group achieved great progress in market development during the six months ended 30 June 2006. The Group had entered into development contracts with 11 customers in relation to new automotive safety airbag system models and spare parts. 4 of them are new customers, and the others are long-term customers of the Group. The Group had entered into 14 new automotive safety airbag system development contracts as well as 4 steering wheels development contracts with these 11 customers. The Group had entered into steering wheels (with airbag) development contracts with 2 famous international automobile manufacturers namely, FAW Volkswagen Automobile Company Limited and Nanjing Fiat Inc. It signified that the products' quality and technological capacity of the Group had gained recognition from automobile manufacturers of renowned international brands. The investment of the Group in market development in the past had begun to yield dividend, as it recorded the greatest number of new development contracts secured in a period. With formation of safety airbag market in China is gaining momentum, the directors of the Company believe the Group is heading into a future with enormous opportunity and this shall be a major driving force to the development of the Group.

The Group maintains its strategy of actively exploring overseas markets. Not only it had commenced commercial production for a Malaysian customer, but in-depth negotiation and mutual visit had also been taken place between the Group and another prestigious foreign automobile manufacturer. The directors of the Company are confident that the Group would eventually penetrate into the sourcing system of major international automobile manufacturers.

The research and development of seat belts conducted by our subsidiary, Jinbei Jinheng, had progressed smoothly. During the period, all of the major facilities had been in place and had commenced fine tuning and testing. The move will contribute to the Group by adding a new type of automotive safety products to its product base.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Business Review** *(Continued)*

Construction work of the new plant of the Group's subsidiary, Jinheng Automotive, had completed during the period. The plant's facility included the most advanced state-of-the-art slope trial system and its fine tuning and testing had also been completed. We expect the system would contribute to the advancement in safety system development technology of the Group. On the other hand, expansion work of the road test tracks at the old plant area of Jinheng Automotive had also commenced. Types of road tests tracks will also increase from 7 to 14 special road surface to meet the increasingly high requirements in automotive safety technology, thereby the leading position in technological level of the Group may be maintained.

The Group entered into a subscription agreement with Value Partners Limited on 27 April 2006 pursuant to which it would issue convertible notes in principal amount of HK\$46.0 million. On 22 June 2006, the Group had also entered into a subscription agreement with another three independent investors to issue convertible notes in aggregate principal amount of HK\$31.0 million. The directors of the Company believe these transactions were proof of investors' assurance to the direction of the Group's development and their confidence to its prospect.

### **Financial Review**

For the three months and six months ended 30 June 2006, the Group reported turnover of approximately HK\$75.2 million and HK\$140.5 million respectively, representing an increase of approximately 39.9% and 48.4% from the corresponding periods of last year. The increase was mainly resulted from the commencement of commercial sales to 4 new customers and certain postponed automobile models in last year have launched during the period. The Group also maintained a healthy sales growth of safety airbag systems with an overseas automobile manufacturer. Furthermore, 2 subsidiaries of the Group, Jinheng Sega and Jinbei Jinheng, have commenced operation and contribution to the improvement of overall results. It is expected that such increase can be maintained through out the year since more new models will be launched during the second half of this year.

For the three months ended 30 June 2006, the Group's overall gross margin and the average gross profit margin of both mechanical and electric airbag systems were increased by 4.2% to 29.3% and by 2.4% to 29.1% respectively as compared with the first quarter of this year. It was mainly contributed by the launch of certain models with comparatively higher gross profit margin. In order to obtain our first order with an internationally renowned automobile manufacture, the Group offered a more competitive price to it in the first quarter of this year. Thus the overall gross profit margin was recorded as 27.3%, which was 2.7% lower than the same period of last year.

The profits from operation of the first half of 2006 was approximately HK\$22.7 million, representing an increase of approximately 36.5% as compared to the same period of previous year. This was mainly resulted from the substantial increase of turnover.

Other revenue increased mainly because of the increase in interest income and testing income. For the current six months period, it increased by approximately HK\$0.8 million to approximately HK\$1.2 million.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Financial Review** *(Continued)*

Distribution costs increased by 36.3% to approximately HK\$2.6 million during the reviewing period. The increase was mainly due to increased sales and exploration of new markets.

During the three and six months ended 30 June 2006, the research and development expenses were HK\$0.9 million and HK\$1.6 million respectively, while there were HK\$0.7 million and HK\$1.6 million respectively in the same period last year.

Administrative expenses were approximately HK\$12.7 million for the six months ended 30 June 2006, representing an increase of approximately HK\$3.8 million in comparison with the corresponding period of last year. The increase was mainly due to the commencement of commercial operation of 2 subsidiaries of the Group, Jinheng Sega and Jinbei Jinheng.

For the current six months period under review, the finance costs increased approximately HK\$1.6 million to HK\$2.8 million. Such increase was mainly contributed by the decrease of interest subsidy and the interest expenses for the newly issued convertible notes.

Share of profits of jointly controlled entities for the three and six months ended 30 June 2006 increased by approximately HK\$0.9 million and HK\$1.3 million as compared with the same period of last year. This was mainly because the Jinheng Parts, a 35% owned jointly controlled entity of the Group, has operated efficiently and recorded an increase in profit during the first half of 2006.

The income tax expenses for the six months ended 30 June 2006 increase by approximately HK\$3.1 million. Such increase was due to Jinheng Automotive was only enjoying 50% tax reduction benefit, while in the same period of last year it was enjoying a full income tax exemption.

Profit for the three and six months period ended 30 June 2006 were approximately HK\$10.3 million and HK\$18.3 million respectively, representing increase of approximately HK\$2.2 million and HK\$2.8 million in comparison with the corresponding period of last year. Such increase is contributed mainly by the increase in turnover and improvement in gross profit during the first half of 2006.

### **Outlook and Future Prospects**

The directors of the Company are of the view that the satisfactory results achieved during the first half of 2006 indicates the Group has advanced into a period of stable growth in line with the constant development phase of the automobile market in China. An increasing number of international automobile manufacturers have devoted greater effort in localization of spare parts sourcing. Such trend has brought abundant opportunities and presented a bright prospect to the Group.

The Group intends to pace up its spare parts localization process and realize seamless supply of automated safety system, with much lower cost structure and much better quality, thereby paving the way for the Group's entering into the global supply system.

Much effort will be devoted to the enhancement of internal management, which include internal operation and financial audit, as well as internal management capability appraisal, making it a high efficient and healthy enterprise and to lay down a solid foundation for further expansion of the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Outlook and Future Prospects** *(Continued)*

The Group will also commit to industry research with special focus on automotive electronics and engine spare parts. On this basis it will prudently pursue expansion in group business categories.

The Group plans to develop overseas markets with great effort but also in a well-planned and progressive manner, such that when development for an overseas customer is completed, the Group will ensure its being properly managed. Through its continuous dedication to meet the requirements of its first rank global customers, the technological standard of the Group could be enhanced and eventually become a world-wide automotive spare parts supplier.

The directors of the Company believe that the Group's management team will devote its best endeavor and efforts to enhance the Group's core competitiveness and bring fruitful return to investors.

### **Liquidity, Financial Resources and Capital Structure**

As at 30 June 2006, the Group had bank and cash balances of approximately HK\$62.7 million (31 December 2005: approximately HK\$44.4 million) and non-current assets of approximately HK\$166.8 million, which increased by HK\$48.3 million as compared with the fiscal year 2005. Such increase was mainly because of the increase in investment in fixed assets and also the increase in construction in progress.

As at 30 June 2006, the Group had non-current liabilities of approximately HK\$90.3 million for the expansion of the Group's production facilities and as investment reserves. It includes a long-term bank loan of approximately HK\$ 26.9 million (equivalent to RMB28.0 million) bears fixed interest rate of 5.58% per annum and is repayable on July 2007, and also a long-term bank loan of approximately HK\$19.2million (equivalent to RMB20.0 million) bears fixed interest rate of 5.47% per annum and is repayable on March 2008. Furthermore, the Company has issued convertible notes to Value Partners Limited in the aggregate principal amount of HK\$46.0 million. Such convertible notes bears fixed interest rate of 7% per annum and can be converted into ordinary shares of the Company at initial conversion price HK\$0.90 per share. The liability component of such notes was approximately HK\$43.1 million for the six months ended 30 June 2006.

The Group also has certain current term loans of HK\$44.7 million, of which HK\$7.7 million (equivalent to RMB8.0 million) bears fixed interest rate of 5.58% per annum, HK\$11.5 million (equivalent to RMB12.0 million) bears fixed interest rate of 6.26% per annum, HK\$15.5 million (equivalent to RMB16.1 million) bears fixed interest rate of 5.49% per annum and HK\$5.6 million (equivalent to RMB5.8 million) bears fixed interest rate of 7.6% per annum. Out of the current term loan HK\$44.7 million, it also included HK\$4.4 million (equivalent to RMB4.5 million) discounted bills not yet matured at the period end date. These were primarily used in financing 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, bank facilities and balance of proceeds from the issuance of convertible notes. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

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

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. 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 2006, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Apart from the issuance of the convertible notes disclosed above, for the six months ended 30 June 2006, 4,560,000 ordinary shares of the Company were issued resulted from the exercise of certain options issued under the Pre-IPO Share Option Scheme.

### **Charges on Group Assets**

As at 30 June 2006, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK\$13.3 million for certain bank loans totalling RMB21.9 million (equivalent to HK\$21.1 million).

### **Gearing Ratio**

Owing to the issuance of the convertible notes disclosed above, the Group's gearing ratio, which was derived from the total liabilities to total assets, increase to 48.7% from 33.3% as at 31 December 2005.

### **Future Plans for Material Investments**

As at 30 June 2006, the Group had a contracted but not provided for capital commitments of approximately HK\$7.1 million in respect of acquisition of fixed assets. The Group also had an authorized but not contracted for capital commitments of approximately HK\$8.8 million in respect of the third phase of technical improvement of Jinzhou factory.

### **Material Acquisitions and Disposals**

On 24 January 2006, pursuant to a subscription agreement dated 26 August 2005, Jinbei Jinheng increased equity interest from RMB20.0 million (equivalent to approximately HK\$19.2 million) to RMB27.0 million (equivalent to approximately HK\$26.0 million). The wholly owned subsidiary of the Company, Jinheng Hong Kong, subscribed RMB5.0 million (equivalent to approximately HK\$4.8 million) to Jinbei Jinheng for the increased equity interest of Jinbei Jinheng. The Group's equity interest in Jinbei Jinheng then increased to 55.56% of its increased equity interest.

On 16 June 2006, the Group's wholly-owned subsidiaries, Jinheng Hong Kong and Jinheng Automotive, entered into a joint venture arrangement with 2 PRC partners to form a joint venture company principally engage in the design, manufacture and sale of automotive electronics parts. The joint venture company is owned as to totally 55% by the Group. The total investment of the joint venture company will be RMB 36.0 million (equivalent to HK\$34.6 million) and the registered capital of the joint venture company amounts to RMB30.0 million (equivalent to HK\$28.8 million), of which RMB12.0 million (equivalent to HK\$11.5 million) will be paid by Jinheng Hong Kong, RMB4.5 million (equivalent to HK\$4.3 million) will be paid by Jinheng Automotive, and the remaining RMB13.5 million (equivalent to HK\$13.0 million) will be contributed by the PRC partners. As at the date of issuing this interim report, the joint venture company is still under registration process. Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the period under review.



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Significant Investment**

Save as disclosed above, there was no significant investment during the period under review.

### **Contingent Liabilities**

As at 30 June 2006, the directors of the Company were not aware of any contingent liabilities.

### **Subsequent Events**

On 21 June 2006, the Company entered into the subscription agreements separately with 3 individual investors. In relation to the issuance of the convertible notes in the aggregate principal amount of HK\$31.0 million. The convertible notes were issued on 14 July 2006. The convertible notes may be converted into ordinary shares of the Company at an initial conversion price of HK\$0.9 per share during their conversion period, which is on or after 14 January 2008 up to and including 13 July 2011. The maximum number of shares which may be issued upon full conversion of the convertible notes will be 34,444,444 shares, representing approximately 7.89% of the issued share capital of the Company immediately after full conversion of the convertible notes issued to Value Partners Limited.

### **Foreign Exchange Exposure**

Since almost all transactions of the Group are denominated either in Renminbi or Hong Kong dollars or US dollars and the exchange rates of such currencies were stable over the years under review, the Directors believe that such exposure does not have any significant adverse effect to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

### **Employees and Remuneration Policy**

As at 30 June 2006, the Group employed approximately 702 staff in the PRC and Hong Kong, representing an increase of 135 staff from 31 December 2005 and an increase of 416 staff from 30 June 2005. The increase in staff was mainly from the PRC operations. Remuneration of employees, including directors' emoluments was approximately HK\$8.8 million for the six months period under review as compared with that of approximately HK\$5.8 million for the corresponding period of the preceding financial year.

The Group reviews employee remuneration from time to time and salary increment is normally approved or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the directors of the Company and depending upon the financial performance of the Group.

## COMPARISON OF THE BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In compliance with the GEM Listing Rules, the Company sets out below a summary of actual business progress as measured against the business objectives set out in the prospectus dated 30 November 2004 issued by the Company ("Prospectus") for the period from 22 November 2004 to 30 June 2006 (the "Relevant Period").

### **Business Objectives for the Relevant Period as stated in the Prospectus**

### **Actual Business Progress**

#### ***Expansion of Production Capacity***

- Complete installation of production facilities for SAB modules of safety airbag systems
- Install production facilities for seat belt pre-tension systems

Production facilities for SAB modules of safety airbag systems were installed in October 2005.

Installation of major facilities had been in place and had commenced fine tuning and testing

#### ***Localization and self-production of key components***

- Conduct studies on the localization of seat belt pre-tensioner

The research and development works for the seat belt pre-tensioner in Jinbei Jinheng has commenced and progressed smoothly.

#### ***Enhancement of research and development capability***

- Recruit 1 technical experts for research and development.
- Commence research and development for the simulation system and software.
- Complete research and development of smart airbag system and curtain airbag system.

The Group has recruited 1 technical experts for research and development.

The Group has entered into an agreement with Jilin University in relation to the research and development of simulation system software, and the research of which has been duly commenced.

The Group has duly commenced the research of smart airbag system and curtain airbag system and they are expected to be completed by the end of this year.

#### ***Formulating strategic alliances***

- From joint venture partnership with major automobile manufacturers in the PRC.
- Continue to identify joint venture partnership with major suppliers in the PRC
- Continue to identify strategic alliance with international suppliers of spare parts

The Group is undergoing formal communication to find a suitable automobile manufacturer.

The Group entered a joint venture arrangement with 2 PRC partners to form a joint venture company on 16 June 2006 for formation of a joint venture company engaged principally in the design, manufacturer and sale of automotive electronic parts.

The Group has in depth discussed with the identified international suppliers of spare parts for strategic alliance.



## APPLICATION OF PROCEEDS FROM CAPITAL RAISING

The Group raised approximately HK\$80.5 million from the issue of 81,000,000 new shares of the Company at HK\$1.18 per share in December 2004. The Company's shares were successfully listed on GEM with effect from 9 December 2004. Up to the date of this report, the Group has applied part of the proceeds totalling approximately HK\$78.5 million for the following purposes:

- (i) approximately HK\$19.3 million for the expansion of production capacity;
- (ii) approximately HK\$27.0 million for the localization and self-production of key components;
- (iii) approximately HK\$9.9 million for the enhancement of research and development capabilities; and
- (iv) approximately HK\$17.7 million for the formulating strategic alliances; and
- (v) approximately HK\$4.6 million as additional working capital of the group.

Consistent with the disclosure in the Prospectus, the Group intends to apply the remaining proceeds of approximately HK\$2.0 million for the following purposes:

- (i) as to approximately HK\$0.7 million for further localization and self-production of key components; and
- (ii) as to approximately HK\$1.3 million as additional working capital of the Group.

The remaining net proceeds from the new share issue are currently placed on short term deposits with banks in Hong Kong and PRC.

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

As at 30 June 2006, 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 Rules 5.46 to 5.67 the GEM Listing Rules were as follows:

### (a) Long positions in issued shares

Name of director	Capacity	Number of shares	Approximate percentage of shareholding
Li Feng	Beneficial owner	1,040,000	0.27%
	Interest of a controlled corporation (Note)	(Note)	(Note)
Xing Zhanwu	Beneficial owner	800,000	0.21%
	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)
Zhao Qingjie	Interest of a controlled corporation (Note)	(Note)	(Note)
Foo Tin Chung, Victor	Beneficial owner	320,000	0.08%

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

### (a) Long positions in issued shares (Continued)

Note: As at 30 June 2006, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited which held approximately 61.89% in the Company:

Shareholder	Number of shares held in Applaud Group Limited		%
The controlling group	5,467		54.67
Li Feng	2,286		22.86
Xing Zhanwu	1,281		12.81
Xu Jianzhong	719		7.19
Li Hong	616		6.16
Yang Donglin	565		5.65
Zhao Qingjie	1,750		17.50
Gao Xiangdong	1,500		15.00
Zhao Jiyu	400		4.00
Lin Qing	223		2.23
Zhou Yuquan	214		2.14
Cao Feng	133		1.33
Zhang Chengyu	128		1.28
Zhang Chenye	100		1.00
Zhang Meina	85		0.85
Total	10,000		100

### (b) Interests in underlying shares

The directors and chief executive of the Company have been granted options under the Pre-IPO Employee Share Option Scheme, details of which are set out in the section headed "Share Option Schemes" below.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or Rules 5.46 to 5.67 of the GEM 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 two share option schemes namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme as defined in the Prospectus which were adopted on 22 November 2004. A summary of principal terms of the share option schemes were disclosed in Appendix VI to the Prospectus.

## SHARE OPTION SCHEMES (Continued)

The total number of securities available for issue under the share option schemes as at 30 June 2006 was 44,940,000 shares (including options for 6,840,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 11.66% of the issued share capital of the Company as at 30 June 2006.

As at 30 June 2006, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2006 is HK\$0.90) granted for at a consideration of HK\$1 under the share option schemes of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 each of the Company.

### (a) Pre-IPO Employee Share Option Scheme

On 22 November 2004, the Company granted options to subscribe for a total of 11,400,000 Shares under the Pre-IPO Employee Share Option Scheme to three directors and seven other employees of the Group, with the following details:

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 30 June 2006	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the period	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Mr. Li Feng (李峰)	Executive director and chairman of the Company	2,600,000	1,560,000	22 November 2004	9 December 2005 to 9 December 2008	1,040,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	2,000,000	1,200,000	22 November 2004	9 December 2005 to 9 December 2008	800,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	800,000	480,000	22 November 2004	9 December 2005 to 9 December 2008	320,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	1,080,000	648,000	22 November 2004	9 December 2005 to 9 December 2008	432,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Xing Zhanwen (邢占文)	Employee, deputy general manager of Jinheng Automotive	880,000	528,000	22 November 2004	9 December 2005 to 9 December 2008	352,000	HK\$0.38	HK\$0.788	HK\$0.75

## SHARE OPTION SCHEMES (Continued)

### (a) Pre-IPO Employee Share Option Scheme (Continued)

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 30 June 2006	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the period	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	1,000,000	600,000	22 November 2004	9 December 2005 to 9 December 2008	400,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Zhu Jiangbin (朱江濱)	Employee, deputy general manager of Jinheng Automotive	880,000	528,000	22 November 2004	9 December 2005 to 9 December 2008	352,000	HK\$0.38	HK\$0.788	HK\$0.75
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	840,000	504,000	22 November 2004	9 December 2005 to 9 December 2008	336,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	720,000	432,000	22 November 2004	9 December 2005 to 9 December 2008	288,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Chen Lixin (沈立新)	Employee, general manager of Hafei Jinheng	600,000	360,000	22 November 2004	9 December 2005 to 9 December 2008	240,000	HK\$0.38	HK\$0.788	HK\$0.75
		11,400,000	6,840,000			4,560,000			

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

\* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

## SHARE OPTION SCHEMES (Continued)

### (a) Pre-IPO Employee Share Option Scheme (Continued)

The weighted average value per option granted on 22 November 2004 and had not vested at 1 January 2005 using binomial lattice pricing model was HK\$0.788. The calculation of the weighted average value per option granted during the period does not take into account options granted and forfeited during the period. The weighted average assumptions used are as follows:

	<b>2006</b>
Risk-free interest rate	2.1%
Expected life (in years)	4 years
Volatility	50.0%
Expected dividend per share	2.3%

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

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

### (b) Share Option Scheme

As at 30 June 2006, no option has been granted under the Share Option Scheme.

## SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2006, 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.

	Capacity	Ordinary shares held	Underlying shares held under equity derivatives	Approximate percentage of total issued shares
Applaud Group Limited	Beneficial owner	238,620,000	–	61.89%
Value Partners Limited (Note)	Investment manager	–	51,111,111	13.3%
Mr. Cheah Cheng Hye (Note)	Interests of controlled corporation	–	51,111,111	13.3%

Note: Mr. Cheah Cheng Hye is the beneficial owner of 32.8% issued share capital of Value Partners Limited and therefore is deemed to be interested in the underlying shares deemed to be held by Value Partners Limited pursuant to the SFO.

## **SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY** *(Continued)*

### **Short positions in shares**

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

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

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

Save as disclosed above, as at 30 June 2006, 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 GEM Listing Rules) had an interest in a business which competes or may compete with the businesses of the Group as at 30 June 2006.

### **SPONSOR'S INTEREST**

Pursuant to an agreement dated 29 November 2004 entered into between the Company and VC Capital Limited, the VC Capital Limited would receive a monthly fee for acting as the Company's retained sponsor for the remainder of the year ended 31 December 2004 and for the period of two years thereafter until 31 December 2006.

As at 30 June 2006, VC Capital Limited had indirect interest in the shares of the Company held by VC Strategic Investments Limited through its interests in certain associated companies, both VC Capital Limited and VC Strategic Investments Limited are wholly-owned subsidiaries of Value Convergence Holdings Limited, a company listed on GEM. As at 30 June 2006, VC Strategic Investments Limited was beneficially interested in 11% of the issued capital of Top Growth Assets Limited, and Top Growth Assets Limited was beneficially interested in 81.5% of the issued capital of WAG (Greater China) Limited. WAG (Greater China) Limited is beneficially interested in 9,000,000 shares of the Company, representing approximately 2.33% of the total issued capital of the Company.

Save as disclosed above, none of VC Capital Limited, its directors, employees or their respective associates had any shareholding interests in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 30 June 2006.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or any time during the period save and except for the agreements as stated in section headed "Connected transactions" in the Prospectus, the announcement published on 16 June 2006 and the circular published on 7 July 2006.

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

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

## **THE CODE OF CORPORATE GOVERNANCE PRACTICES**

The Company has complied with all the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2006.

The Company established an audit committee on 22 November 2004 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM 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. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong.

The audit committee had reviewed the Group's unaudited results for the three months and six months ended 30 June 2006 and had provided advice and recommendation to the Board.

The Company established a remuneration committee in November 2005. The primary duties of the remuneration committee are to assist the Board in the overall management of the remuneration practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the incentives for the directors and senior management of the Company. The remuneration committee comprises executive director Mr. Xing Zhanwu and independent non-executive directors Mr. Zhu Tong and Mr. Huang Shilin.

The Company also established a nomination committee in November 2005. The primary duties of the nomination committee are to assist the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of directors of the Company. The nomination committee comprises executive director Mr. Xing Zhanwu and independent non-executive directors Mr. Zhu Tong and Mr. Chan Wai Dune.

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all directors of the Company 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 2006.

**THE CODE OF CORPORATE GOVERNANCE PRACTICES** *(Continued)*

The Company has complied with the requirement to appoint a sufficient number of independent non-executive director as set out in Rule 5.05(1) of the GEM Listing Rules. Throughout the six months ended 30 June 2006, the Company has appointed three independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong.

All the non-executive directors and independent non-executive directors of the Company are not appointed for specific terms but are subject to rotation and re-election at annual general meeting of the Company in accordance with the Articles of Association of the Company.

By order of the Board  
**Jinheng Automotive Safety Technology Holdings Limited**  
**Li Feng**  
*Chairman*

Hong Kong, 10 August 2006

*As at the date of this announcement, the Board comprises Mr. Li Feng, Mr. Xing Zhanwu, Mr. Zhao Qingjie, Mr. Yang Donglin, Mr. Foo Tin Chung, Victor as the executive Directors, Mr. Li Hong and Mr. Zeng Qingdong as the non-executive Directors and Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong as the independent non-executive Directors.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the day of its posting and on the website of the Company at [www.jinhengairbag.com](http://www.jinhengairbag.com).*