



# Interim Report 2008



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**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 : 8293)

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, 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 report 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 report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*As at the date of this report, the board of the Company comprises 5 executive directors of the Company, namely Messrs. Li Feng, Xing Zhanwu, Zhao Qingjie, Yang Donglin and Foo Tin Chung, Victor; 2 non-executive directors of the Company, namely Messrs. Li Hong and Zeng Qingdong; and 3 independent non-executive directors of the Company, namely Messrs. Chan Wai Dune, Huang Shilin and Zhu Tong.*

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 2008, together with the unaudited comparative figures for the corresponding periods in 2007 as follows:

### CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2008

	Note	Three months ended 30 June		Six months ended 30 June	
		2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Turnover	2	187,763,387	165,083,148	321,276,522	293,549,307
Cost of sales		(145,556,619)	(126,045,295)	(247,309,962)	(218,005,194)
Gross profit		42,206,768	39,037,853	73,966,560	75,544,113
Other revenue		46,239,911	1,656,525	46,919,930	1,957,780
Other net income		39,864	2,392,379	4,293,576	2,928,751
Research and development expenses		(4,071,235)	(8,052,443)	(9,528,496)	(13,555,022)
Distribution costs		(4,987,363)	(4,150,438)	(10,228,884)	(8,359,859)
Administrative expenses		(16,050,026)	(13,155,580)	(29,102,301)	(24,643,840)
Profit from operations		63,377,919	17,728,296	76,320,385	33,871,923
Finance costs	3(a)	(8,148,002)	(4,405,518)	(12,605,892)	(8,461,130)
Share of profit of associates		–	1,240,412	–	2,177,747
Share of profits of jointly controlled entities		27,970	1,260,222	255,250	2,223,302
Profit before taxation	3	55,257,887	15,823,412	63,969,743	29,811,842
Income tax	4	(2,365,077)	(2,655,337)	(3,070,266)	(5,650,294)
Profit for the period		52,892,810	13,168,075	60,899,477	24,161,548
Attributable to:					
Equity shareholders of the Company		34,517,129	17,658,675	47,654,689	30,510,844
Minority interests		18,375,681	(4,490,600)	13,244,788	(6,349,296)
Profit for the period		52,892,810	13,168,075	60,899,477	24,161,548
Earnings per share					
– Basic	6(a)	HK7.79 cents	HK4.53 cents	HK10.83 cents	HK7.83 cents
– Diluted	6(b)	HK6.54 cents	HK4.04 cents	HK9.23 cents	HK7.07 cents

The notes on pages 5 to 22 form part of this interim financial report.

**CONSOLIDATED BALANCE SHEET – UNAUDITED**

AT 30 JUNE 2008

	Note	30 June 2008 HK\$	31 December 2007 HK\$
<b>Non-current assets</b>			
Fixed asset			
– Property, plant and equipment	7	201,897,535	165,095,638
– Interest in leasehold land held for own use under operating leases	7	38,898,333	21,776,612
Deposit paid for acquisition of fixed assets		38,049,576	31,062,280
Construction in progress		40,940,300	22,151,684
Intangible assets		129,922,421	109,145,770
Goodwill		18,231,231	4,760,769
Interest in jointly controlled entities		48,456,063	67,433,218
Other non-current financial assets		122,223	53,191
Deferred tax assets		26,808	25,667
		<b>516,544,490</b>	<b>421,504,829</b>
<b>Current assets</b>			
Inventories		118,158,256	108,251,301
Trade receivables, prepayments and other receivables	8	610,023,304	414,057,287
Loan receivable		20,000,000	20,000,000
Current tax recoverable		–	1,250,874
Pledged bank deposits		–	8,708,803
Cash and cash equivalents	9	46,295,545	56,156,196
		<b>794,477,105</b>	<b>608,424,461</b>
<b>Current liabilities</b>			
Trade and other payables	10	301,106,932	248,939,515
Bank loans	11	248,649,662	228,646,808
Current taxation		165,182	–
Other loans		22,669,432	20,903,298
		<b>572,591,208</b>	<b>498,489,621</b>
<b>Net current assets</b>		<b>221,885,897</b>	<b>109,934,840</b>
<b>Total assets less current liabilities</b>		<b>738,430,387</b>	<b>531,439,669</b>
<b>Non-current liabilities</b>			
Convertible notes	12	68,414,520	68,299,757
Financial liability		114,113,158	–
Deferred tax liabilities		26,233,587	18,039,341
		<b>208,761,265</b>	<b>86,339,098</b>
<b>NET ASSETS</b>		<b>529,669,122</b>	<b>445,100,571</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	4,431,000	4,301,200
Reserves	14	450,286,438	387,946,329
Total equity attributable to equity shareholders of the Company		454,717,438	392,247,529
Minority interests	14	74,951,684	52,853,042
<b>TOTAL EQUITY</b>		<b>529,669,122</b>	<b>445,100,571</b>

The notes on pages 5 to 22 form part of this interim financial report.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED**

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Note	Six months ended 30 June	
		2008 HK\$	2007 HK\$
<b>Total equity at 1 January:</b>		<b>445,100,571</b>	281,321,354
<b>Net income recognised directly in equity:</b>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		15,463,946	–
Profit for the period		60,899,477	24,161,548
<b>Total recognised income and expense for the period</b>		<b>76,363,423</b>	24,161,548
Attributable to:			
– Equity shareholders of the Company		62,272,328	30,510,844
– Minority interests		14,091,095	(6,349,296)
		<b>76,363,423</b>	24,161,548
Dividends approved during the period	5	(15,951,600)	(13,654,200)
<b>Movements in equity arising from capital transactions:</b>			
Equity settled share-based transactions		1,429,500	278,500
Equity component of convertible notes		–	8,167
Acquisition and disposal of subsidiaries		10,090,828	17,456,943
Shares issued under share option scheme		866,400	1,732,800
Shares issued for acquisition of Winner Investment Limited		11,770,000	–
		<b>8,205,128</b>	5,822,210
<b>Total equity at 30 June</b>		<b>529,669,122</b>	311,305,112

The notes on pages 5 to 22 form part of this interim financial report.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED**

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Note	Six months ended 30 June	
		2008 HK\$	2007 HK\$
Net cash generated from operating activities		<b>31,830,205</b>	7,059,417
Net cash used in investing activities		<b>(40,291,646)</b>	(70,616,288)
Net cash (used in)/generated financing activities		<b>(2,487,817)</b>	43,313,162
Net decrease in cash and cash equivalents		<b>(10,949,258)</b>	(20,243,709)
Effect of foreign exchange rate difference		<b>1,088,607</b>	–
Cash and cash equivalents at 1 January		<b>56,156,196</b>	65,734,351
Cash and cash equivalents at 30 June	9	<b>46,295,545</b>	45,490,642

The notes on pages 5 to 22 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.

The accounting policies adopted in the preparation of this interim report are consistent with those adopted by the Group in the 2007 annual financial statements.

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 2007 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 financial information relating to the financial year ended 31 December 2007 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 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 5 March 2008.

## 2. Turnover

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

Turnover represents the sales value of goods to customers net of sales tax and value added tax.

Turnover recognised during the period may be analysed as follows:

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Sales of mechanical airbag systems	29,422,388	37,328,957	47,966,829	61,270,812
Sales of electronic airbag systems	133,834,694	65,877,374	217,168,297	140,207,419
Sales of automotive safety system components and other automotive spare parts	24,506,305	61,876,817	56,141,396	92,071,076
	187,763,387	165,083,148	321,276,522	293,549,307

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of assets is chosen as the primary reporting format because this is more relevant to the Group in marking operating and financial decisions.

## 2. Turnover (continued)

No business segment information is presented as the Group's turnover and operating result are mainly generated from the production and sales of automotive safety products.

### *Geographical segments by the location of assets and by the location of customers*

As the Group's business fundamentally participates in one geographical location classified by the location of assets, i.e. the PRC, no separate geographical segment analysis based on the location of assets is presented.

The Group's geographical segments are also classified according to the location of customers. There are four customer-based geographical segments. The PRC is the major market for the Group's business. Segment revenue from external customers by the location of customers is analysed as follows:

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
PRC	183,160,980	154,136,133	304,720,330	269,809,727
Malaysia	11,622	567	40,990	10,396
Italy	12,029	10,902,789	6,330,504	20,814,217
Others	4,578,756	43,659	10,184,698	2,914,967
	<b>187,763,387</b>	165,083,148	<b>321,276,522</b>	293,549,307

## 3. Profit before taxation

Profit before taxation is arrived at after charging:

### (a) Finance costs:

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Interest expense on bank advances wholly repayable within five years	5,474,962	2,572,847	7,831,662	4,657,316
Interest expense on convertible notes	1,401,190	1,617,217	2,787,612	3,214,587
Interest expense on other loans	463,199	-	875,860	-
Discounting charges on discounted bills	808,651	215,454	1,110,758	589,227
Total borrowing costs	<b>8,148,002</b>	4,405,518	<b>12,605,892</b>	8,461,130



### 3. Profit before taxation (continued)

(b) Other items:

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Cost of inventories	145,556,619	126,045,295	247,309,962	218,005,194
Depreciation	5,682,789	3,557,612	10,751,875	9,179,738
Amortisation of land lease premium	246,216	130,784	455,151	221,386
Amortisation of intangible assets				
– Acquired technology	505,122	2,214,655	1,068,693	2,886,472
– Development costs	1,871,859	5,669,185	3,570,532	9,506,982
– Patent	2,391,503	596	3,387,213	1,193

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

Taxation in the consolidated income statement represents:

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
<b>Current tax</b>				
PRC income tax for the period	2,227,295	2,480,581	2,934,577	6,054,579
	2,227,295	2,480,581	2,934,577	6,054,579
<b>Deferred tax</b>				
Origination and reversal of temporary differences	137,782	174,756	135,689	(404,285)
Total income tax expense	2,365,077	2,655,337	3,070,266	5,650,294

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”), Shenyang Jinbei Jinheng Automotive Safety System Co., Ltd. (“Jinbei Jinheng”) and Shanxi Winner Auto-Parts Ltd. (“Shanxi Winner”), subsidiaries of the Company, are entitled to a tax concession period in which they are fully exempted from PRC income tax for 2 year starting from their first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years. Jinheng Automotive, Jinbei Jinheng and Shanxi Winner are in the fifth year, second year and third year following their first profit-making year, respectively.

Income tax for other subsidiaries established and operating in the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC.

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

## 5. Dividends

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

	Six months ended 30 June	
	2008 HK\$	2007 HK\$
Final dividend in respect of the financial year ended 31 December 2007 approved and paid during the following interim period of HK\$3.6 cents per share (year ended 31 December 2006: HK\$3.5 cents per share)	<b>15,951,600</b>	13,654,200

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: HK\$Nil).

## 6. 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 2008 are based on the profit attributable to ordinary equity shareholders of the Company HK\$34,517,129 and HK\$47,654,689 respectively (for each of the three months and six months ended 30 June 2007: HK\$17,658,675 and HK\$30,510,844 respectively) and the weighted average of 443,100,000 and 440,090,110 (for each of the three months and six months ended 30 June 2007: 390,120,000 and 389,742,099 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	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Issued ordinary shares at 1 January	<b>430,120,000</b>	385,560,000	<b>430,120,000</b>	385,560,000
Effect of shares issued for acquisition of Winner Investment Limited	<b>10,700,000</b>	-	<b>7,878,022</b>	-
Effect of shares issued pursuant to the exercise of share options	<b>2,280,000</b>	4,560,000	<b>2,092,088</b>	4,182,099
Weighted average number of ordinary shares (basic) at 30 June	<b>443,100,000</b>	390,120,000	<b>440,090,110</b>	389,742,099

## 6. 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 2008 are based on the profit attributable to ordinary equity shareholders of the Company HK\$35,918,319 and HK\$50,442,301 respectively (for each of the three months and six months ended 30 June 2007: HK\$19,275,892 and HK\$33,725,431 respectively) and the weighted average of 549,255,556 and 546,245,666 (for each of the three months and six months ended 30 June 2007: 477,346,093 and 477,082,716 respectively) ordinary shares respectively in issue during the period, calculated as follows:

#### (i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Profit attributable to ordinary equity shareholders	34,517,129	17,658,675	47,654,689	30,510,844
After tax effect of effective interest on the liability component of convertible notes	1,401,190	1,617,217	2,787,612	3,214,587
Profit attributable to ordinary equity shareholders (diluted)	35,918,319	19,275,892	50,442,301	33,725,431

#### (ii) Weighted average number of ordinary shares (diluted)

	Number of shares Three months ended 30 June		Number of shares Six months ended 30 June	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Weighted average number of ordinary shares at 30 June	443,100,000	390,120,000	440,090,110	389,742,099
Effect of conversion of convertible notes	85,555,556	85,555,556	85,555,556	85,555,556
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	20,600,000	1,670,537	20,600,000	1,785,061
Weighted average number of ordinary shares (diluted) at 30 June	549,255,556	477,346,093	546,245,666	477,082,716

## 7. Fixed assets

### (a) Acquisitions and disposals

During the six months ended 30 June 2008, the Group acquired items of property, plant and equipment with a cost of HK\$17,102,536 (six months ended 30 June 2007: HK\$33,410,229). During the six months ended 30 June 2008, there were disposal of property, plant and equipment with net book value HK\$49,419 (six months ended 30 June 2007: HK\$273,985).

(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\$8,954,871 and HK\$8,713,789 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 2008 and, the property ownership certificates can be obtained by the end of 2008.

(c) As at 30 June 2008, leasehold land and buildings with carrying value totalling HK\$21,523,472 (31 December 2007: HK\$21,776,612) are mortgaged to banks for certain banking facilities granted to the Group.

## 8. Trade receivables, prepayments and other receivables

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
Trade receivables	<b>335,113,137</b>	304,049,283
Bills receivable	<b>45,526,767</b>	70,215,523
	<b>380,639,904</b>	374,264,806
Prepayments	<b>43,309,979</b>	9,504,006
Other receivables	<b>186,073,421</b>	30,288,475
	<b>610,023,304</b>	414,057,287

Included in trade receivables are amounts due from related companies of HK\$24,103,428 (31 December 2007: HK\$28,586,571) (see note 16(b)).

**8. Trade receivables, prepayments and other receivables** *(continued)*

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

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
Current	<b>350,909,769</b>	230,695,703
1 to 3 months overdue	<b>22,937,071</b>	102,468,401
More than 3 months overdue but less than 12 months overdue	<b>6,793,064</b>	41,100,702
	<b>380,639,904</b>	374,264,806

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 2008</b>	31 December 2007
United States Dollars	<b>USD 552,793</b>	USD 187,649
Euros	<b>EUR 416,015</b>	EUR1,403,147

## 9. Cash and cash equivalents

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
Cash and cash equivalents in the balance sheet and cash flow statement	<b>46,295,545</b>	56,156,196

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 2008</b>	31 December 2007
United States Dollars	<b>USD 18,789</b>	USD 30,428
Euros	<b>EUR 562,054</b>	EUR 820,179

Other than disclosed above, cash and cash equivalents of HK\$35,633,537 (31 December 2007: HK\$35,649,770) 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.

## 10. Trade and other payables

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
Trade payables	<b>187,472,328</b>	162,874,636
Bills payables	<b>6,669,061</b>	24,795,489
	<b>194,141,389</b>	187,670,125
Other payables	<b>106,965,543</b>	61,269,390
	<b>301,106,932</b>	248,939,515

Included in trade and other payables are amounts due to related company of HK\$Nil (31 December 2007: HK\$29,354,286) (see note 16(c)).

An ageing analysis of trade payables is as follows:

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
Within 3 months	<b>114,955,595</b>	153,522,220
Over 3 months but less than 6 months	<b>51,893,231</b>	33,934,379
Over 6 months but less than 12 months	<b>27,292,563</b>	213,526
	<b>194,141,389</b>	187,670,125

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

	<b>30 June 2008</b>	31 December 2007
United States Dollars	<b>USD 207,033</b>	USD 88,223
Euros	<b>EUR –</b>	EUR 87,191

**11. Bank loans**

The bank loans are repayable as follows:

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
Within 1 year or on demand	<b>248,649,662</b>	228,646,808
Representing:		
Secured bank loans	<b>21,111,111</b>	28,859,574
Unsecured bank loans	<b>227,538,551</b>	199,787,234
	<b>248,649,662</b>	228,646,808

All the bank loans are with PRC commercial banks and are denominated in RMB. These were no unutilised banking facilities as at 30 June 2008 (31 December 2007: HK\$Nil).

At 30 June 2008, terms of bank loans were as follows:

- (a) A bank loan of HK\$8,888,888, which carried interest at 8.16% per annum with final maturity on 4 November 2008, was guaranteed by a third party, and such guarantee was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of HK\$2,444,536.
- (b) A bank loan of HK\$7,777,778, which carried interest at 7.20% per annum with final maturity on 2 July 2008, was guaranteed by a third party, and such guarantee was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of HK\$3,054,095.
- (c) A bank loan of HK\$4,444,444 (31 December 2007: HK\$4,255,319), which carried interest at 7.84% (31 December 2007: 7.84%) per annum with final maturity on 30 July 2008, was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying value of HK\$15,413,882 (31 December 2007: HK\$15,071,299).
- (d) A bank loan of HK\$3,111,111 (31 December 2007: HK\$2,978,723), which carried interest at 8.59% (31 December 2007: 8.28%) per annum with final maturity on 21 August 2008, was guaranteed by a third party.
- (e) Discounted bills with recourse totalling HK\$13,316,329 (31 December 2007: HK\$18,434,043) were secured by the related bills receivable and were repayable within one year.
- (f) Certain unsecured bank loans totalling HK\$211,111,112 (31 December 2007: HK\$175,531,915) carried interest at rates ranging from 5.94% to 6.95% (31 December 2007: from 5.47% to 8.02%) per annum and were repayable within one year.



## 12. Convertible notes

On 26 May 2006, the Company issued convertible notes with a nominal value of HK\$46,000,000 to Value Partner Limited, an independent investor. The notes bear interest rate at 7% per annum with a maturity date of 25 May 2011. The convertible notes are, at the option of the holder, 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 \$0.90 per share, subject to adjustment under certain events. Upon full conversion, the notes shall be converted into 51,111,111 ordinary shares of HK\$0.01 each of the Company.

On 14 July 2006, the Company issued convertible notes with a nominal value of HK\$25,000,000, HK\$3,000,000 and HK\$3,000,000 to three independent investors, Sagemore Assets Limited, Blue Water Ventures International Ltd. and Synergy Capital Co., Ltd. respectively. The notes bear interest rate at 7% per annum with a maturity date of 13 July 2011. The convertible notes are, at the option of the holders, convertible on or after 14 January 2008 up to and including 13 July 2011, into ordinary shares of the Company at an initial conversion price of HK\$0.90 per share, subject to adjustment under certain events. Upon full conversion, the notes shall be converted into 34,444,444 ordinary shares of HK\$0.01 each of the Company.

The convertible notes were split into liability, derivative and equity components of HK\$70,544,443, HK\$1,305,431 and HK\$5,150,126 respectively upon initial recognition by recognising the liability component and derivative components at their fair value and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost while the derivative component is carried at fair value to be remeasured at each balance date. The equity component is recognised in the capital reserve.

The movements of liability component of convertible notes during the period as follows:

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
At 1 January	<b>68,299,757</b>	71,254,320
Interest charged during the period	<b>2,787,612</b>	6,887,952
Interest paid during the period	<b>(2,672,849)</b>	(5,390,000)
Change in fair value	-	(4,452,515)
At 30 June 2008/31 December 2007	<b>68,414,520</b>	68,299,757

## 13. Share capital

	30 June 2008		31 December 2007	
	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	430,120,000	4,301,200	385,560,000	3,855,600
Shares issued under share option scheme	2,280,000	22,800	4,560,000	45,600
Shares issued under placement	-	-	40,000,000	400,000
Shares issued for acquisition of Winner Investment Limited	10,700,000	107,000	-	-
<b>At 30 June 2008/31 December 2007</b>	<b>443,100,000</b>	<b>4,431,000</b>	<b>430,120,000</b>	<b>4,301,200</b>

## 14. Reserves

	Attributable to equity shareholders of the Company									Minority interests HK\$	Total HK\$
	Share premium HK\$	Merger reserve HK\$	Statutory reserve HK\$	Capital reserve HK\$	Exchange reserve HK\$	Other reserve HK\$	Retained profit HK\$	Sub-total HK\$			
At 1 January 2007	85,447,724	36,341,236	26,529,605	13,311,975	9,817,164	2,141,065	73,479,070	247,067,839	30,397,915	277,465,754	
Equity settled share-based transactions	-	-	-	278,500	-	-	-	278,500	-	278,500	
Dividend approved in respect of prior years	-	-	-	-	-	-	(13,654,200)	(13,654,200)	-	(13,654,200)	
Profit/(loss) for the period	-	-	-	-	-	-	30,510,844	30,510,844	(6,349,296)	24,161,548	
Shares issued under share option scheme	5,279,600	-	-	(3,592,400)	-	-	-	1,687,200	-	1,687,200	
Equity component of convertible notes	-	-	-	8,167	-	-	-	8,167	-	8,167	
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	17,456,943	17,456,943	
<b>At 30 June 2007</b>	<b>90,727,324</b>	<b>36,341,236</b>	<b>26,529,605</b>	<b>10,006,242</b>	<b>9,817,164</b>	<b>2,141,065</b>	<b>90,335,714</b>	<b>265,898,350</b>	<b>41,505,562</b>	<b>307,403,912</b>	
At 1 January 2008	151,912,459	36,341,236	32,737,143	15,739,575	28,826,674	2,141,065	120,248,177	387,946,329	52,853,042	440,799,371	
Equity settled share-based transactions	-	-	-	1,429,500	-	-	-	1,429,500	-	1,429,500	
Dividend approved in respect of prior years	-	-	-	-	-	-	(15,951,600)	(15,951,600)	-	(15,951,600)	
Profit for the period	-	-	-	-	-	-	47,654,689	47,654,689	13,244,788	60,899,477	
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	-	-	-	-	14,617,639	-	-	14,617,639	846,307	15,463,946	
Shares issued under share option scheme	2,639,800	-	-	(1,796,200)	-	-	-	843,600	-	843,600	
Shares issued for acquisition of Winner Investment Limited	11,663,000	-	-	-	-	-	-	11,663,000	-	11,663,000	
Acquisition and disposal of subsidiaries	-	-	-	-	-	2,083,281	-	2,083,281	8,007,547	10,090,828	
<b>At 30 June 2008</b>	<b>166,215,259</b>	<b>36,341,236</b>	<b>32,737,143</b>	<b>15,372,875</b>	<b>43,444,313</b>	<b>4,224,346</b>	<b>151,951,266</b>	<b>450,286,438</b>	<b>74,951,684</b>	<b>525,238,122</b>	

**14. Reserves (continued)**

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. 2,280,000 options were exercised during the six months ended 30 June 2008.

On 23 August 2007, 20,600,000 share options were granted for nominal consideration to five directors and two employees of the Company under the Company's Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 each of the Company. These share options were vested on 23 August 2007, and then be exercisable until 22 August 2012. The exercise price is HK\$1.60. No options granted under the Share Option Scheme were exercised during the six months ended 30 June 2008.

**15. 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 2008 HK\$</b>	31 December 2007 HK\$
Contracted for	<b>1,646,422</b>	4,918,543

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

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
Properties		
Within 1 year	<b>2,379,216</b>	1,641,372
After 1 year but within 5 years	<b>6,026,164</b>	5,110,234
After 5 years	<b>9,894,106</b>	9,948,292
	<b>18,299,486</b>	16,699,898
Others		
Within 1 year	<b>7,000</b>	8,400
After 1 year but within 5 years	-	2,800
	<b>7,000</b>	11,200

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.

**16. Material related party transactions**

<b>Name of party</b>	<b>Relationship</b>
Shanxi Winner	35% owned jointly controlled entity of the Group in 2007
Hafei Motor Co., Ltd. ("Hafei Motor")	Minority shareholder (10%) of Harbin Hafei Jinheng Automotive Safety System Co., Limited
Shenyang Jinbei Automotive Company Limited ("Jinbei Automotive")	Minority shareholder (14.81%) Shenyang Jinbei Jinheng Automotive Safety System Co., Limited ("Jinbei Jinheng")
Shenyang Brilliance Jinbei Automobile Company Limited ("Brilliance Jinbei")	An associate (49%) of Jinbei Automotive
Li Feng ("Mr Li")	Director of the Company

*(a) Recurring*

	<b>Six months ended 30 June</b>	
	<b>2008</b> <i>HK\$</i>	<b>2007</b> <i>HK\$</i>
Rental expenses paid to – Mr. Li	<b>408,400</b>	368,700
Purchases of raw materials from: – Shanxi Winner	–	37,697,037
Sales of airbag systems or other automotive safety products to:		
– Hafei Motor	<b>4,428,150</b>	7,639,209
– Brilliance Jinbei	<b>15,769,172</b>	32,512,404
– Shanxi Winner	–	166,838

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

**16. Material related party transactions** (continued)*(b) Amounts due from related companies*

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
Brilliance Jinbei	<b>16,490,400</b>	25,444,798
Hafei Motor	<b>7,613,028</b>	3,141,773
	<b>24,103,428</b>	28,586,571

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 8).

*(c) Amount due to related parties*

	<b>30 June 2008 HK\$</b>	31 December 2007 HK\$
Shanxi Winner	-	29,354,286

The amount due to Shanxi Winner is trade-related, unsecured, interest free and is expected to be repaid within one year.

These amounts are included in "Trade and other payables" in the consolidated balance sheet (see note 10).

**17. Acquisition of subsidiary***(a) Winner Investment*

In February 2008, the Group acquired 100% equity interest of Winner Investment Limited with the consideration of issuing 10,700,000 shares of the Company to the vendors.

Winner Investment Limited is an investment holding company and its principal assets are its direct interest of 25% equity interest in Shanxi Winner. Shanxi Winner is engaged in production and sales of inflators and other related spare parts of automotive safety airbag system and other automotive spare parts in PRC. As a result of the acquisition, the Group's equity interest in Shanxi Winner increased from 35% to 60%.

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts <i>HK\$</i>	Fair value adjustments <i>HK\$</i>	Recognized values on acquisitions <i>HK\$</i>
Share of net assets of associates	13,048,326	1,488,058	14,536,384
Current assets	226,730	–	226,730
Net identifiable assets	13,275,056	1,488,058	14,763,114
Share of net identifiable assets attributable to the Group (100%)			14,763,114
Negative goodwill			(2,610,564)
Consideration satisfied by 10,700,000 ordinary shares of the Company plus direct costs attributable to the transactions			12,152,550

**17. Acquisition of subsidiary (continued)***(b) Tianjian Zhou Yuan*

In April 2008, the Group acquired 52% equity interest of Tianjian Zhou Yuan Electrical Technology Limited (“Tianjian Zhou Yuan”) with the consideration of RMB6,000,000 to the vendors.

Tianjian Zhou Yuan is engaged in production and sales of automotive electronic products in PRC. Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisitions
	HK\$	HK\$	HK\$
Fixed Assets	498,907	16,609	515,516
Intangible Assets	–	13,511,111	13,511,111
Inventory	1,933,078	–	1,933,078
Trade and other receivable	2,839,355	208,883	3,048,238
Cash and cash equivalents	5,582,604	–	5,582,604
Trade and other payable	(10,110,137)	53,533	(10,056,604)
Deferred tax liabilities	–	(3,373,611)	(3,373,611)
Net identifiable assets	743,807	10,416,525	11,160,332
Share of net identifiable assets attributable to the Group (52%)			5,803,373
Goodwill on acquisition			863,294
Consideration paid			6,666,667
Less: cash on subsidiary acquired			(5,582,604)
Net cash inflow in respect of purchase of a subsidiary			1,084,063

**17. Acquisition of subsidiary (continued)***(c) Beijing Troitec*

In May 2008, the Group acquired additional 38.5% equity interest of Troitec Automotive Electronics Co., Ltd. ("Beijing Troitec") with the consideration of RMB30,000,000 to the vendor. Beijing Troitec is an indirectly wholly-owned subsidiary of Shiny Bright Holdings Limited ("Shiny Bright"). In June 2008, the Group disposed 32.79% equity interest of Shiny Bright to Orchid Asia IV, LP at a consideration of RMB100,000,000.

Beijing Troitec is engaged in development, production and distribution of automobile used engine management system and related components in the PRC. Shiny Bright is an investment holding company. As a result of the acquisition and the disposal, the Group's equity interest in Beijing Troitec increased from 61.5% to 67.21%, and the gain of disposal of net assets of Shiny Bright amounted to approximately HK\$47.0 million.

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	<b>Pre-acquisition carrying amounts</b>	<b>Recognized values on acquisitions</b>
	<i>HK\$</i>	<i>HK\$</i>
Fixed Assets	10,094,655	10,094,655
Deposits for acquisition of fixed assets	197,946	197,946
Intangible Assets	87,756,854	87,756,854
Inventory	19,439,458	19,439,458
Trade and other receivable	19,033,008	19,033,008
Cash and cash equivalents	431,662	431,662
Trade and other payable	(89,493,950)	(89,493,950)
Deferred tax liabilities	(14,143,298)	(14,143,298)
Net identifiable assets	33,316,335	33,316,335
Share of net identifiable assets attributable to the Group (67.21%)		22,391,909
Less: Share of net assets attributable to the Group's initial interest (61.5%)		(20,489,546)
Net assets acquired		1,902,363
Net assets acquired for disposal		10,924,426
Goodwill on acquisition		20,881,076
Consideration payable		33,707,865



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group recorded turnover of approximately HK\$187.8 million for the three months ended 30 June 2008, an increase of approximately 13.7% in comparison with the same period of last year. The profit attributable to the equity shareholders of the Company for the first half of the year 2008 was approximately HK\$47.7 million, which was a substantial 56.2% increment in comparison of the corresponding period last year. Such continuous increase in the Group's result was mainly due to the fact that our previous investment in expanding into new markets and development of new products had commenced to make contribution. For the business of automotive engine management systems, trial production for 2 new customers was commenced. Moreover, several research and development projects for new models of automobile safety airbag systems carried out in the past two years for customers were completed, and product supplies were commenced during this period. Accordingly, notwithstanding the considerable impact of macro-economic control policies, snowstorm and earthquake in the first half of the year on PRC's automobile industry that retarded its growth, turnover of the Group could still maintain healthy growth.

In the six-month period, the Group had completed the acquisitions of an additional 25% equity interest in Shanxi Winner and a 52% equity interest in Tianjian Zhuo Yuan, both of which had become the Group's subsidiaries after the respective acquisition. Shanxi Winner is principally engaged in manufacturing inflators of automotive safety airbag system and wire products for automotives, which forms the important part of the Group's long-term localization strategy in spare parts productions. Tianjian Zhuo Yuan, on the other hand, is principally engaged in manufacturing automotive electronic spare parts, which is also an important step of the Group to the newly established automotive electronic products business. Though the Group had acquired these two subsidiaries that were already in secured operations, our consolidated operating expenses had not been increased substantially, which is due to the Group's cost controlling strategies adopted in the past years have gradually taken effect.

In addition, the Group had invited a strategic partner for investment in the engine management system business of Beijing Troitec during the period. Besides obtaining funds to expand the scales in productions and in research and development of the engine management system business, the investment also brought in its effective management system that improves the management of the new business and accelerates its achievement to economies of scales, that in turn further contributes to the Group's results. Upon the completion of the transaction, effective interest of the Group in Beijing Troitec was increased from 31.5% to 34.4%.

During the period, the Company was rewarded as an outstanding China enterprise by a renowned Hong Kong publication for three consecutive years. The reward not only proves our Group's efforts in carrying out the business strategies in the past years, but also drives us to continue our efforts in business operations, in order to achieve more remarkable results in the future.

**MANAGEMENT DISCUSSION AND ANALYSIS** (continued)**Financial Review**

For the three months ended 30 June 2008, the Group recorded turnover of approximately HK\$187.8 million, which is increased by approximately 13.7% in compared with the same period of last year. The increase was mainly due to our previous investment in exploring new markets and the developing new products have commenced to provide return to us. Several new models of automotive safety airbag systems have launched commercial production during the period, and our automotive electronic products business has also provided improving contribution to the Group. Despite the fact that the snow disaster, earthquake and the impact of macro-economic control policies had slowed down the growth of the PRC automotive industry, our expanded product profile and the new developed markets may provide us a solid foundation to maintain a healthy growth in the coming future.

During the current six-month review period, the average gross profit margin of the Group was slightly decreased by 2.7% to approximately 23.0% in compared with the same period of last year. The reason for such decrease was mainly due to the change of product mix, in which the proportion of the airbag safety system models with lower margin over the overall sales in the past few months weighted more than the first half of 2007. Hence the average gross profit margin of both mechanical and electric airbag systems was recorded as 21.9%, which was decreased by 6.9% in compared with the same period of 2007.

The gross profit for the six months ended 30 June 2008 were approximately HK\$74.0 million, which was slightly decreased by approximately HK1.6 million as compared with the same period of last year. The reason for such decrease was mainly due to the lower gross profit margin of the newly launched products.

During the first half of this year, the other revenue of the Group was approximately HK\$46.9 million, which was increased by approximately HK\$45.0 million as compared with the same period of last year. This is mainly contributed by the gain on disposal of Beijing Troitec during the quarter under review.

For the six months ended 30 June 2008, the research and development expenses were decreased by approximately 29.7% to approximately HK\$9.5 million as compared with the corresponding period of 2007. Such decrease was mainly resulted from our continuing technical refining program, which may improve the overall efficiency and thus reduce the development cost of the current period, and a substantial one-off research and development expenses were recorded in last year.

During the first half of the current year, the distribution costs of the Group were approximately HK\$10.2 million, which was approximately HK\$1.9 million more than the same period of last year. The increase was contributed from the newly developed automotive electronic business and the exploration of new overseas markets, in which both have provided return to the Group already.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Financial Review *(continued)*

For the six months ended 30 June 2008, the administrative expenses of the Group were approximately HK\$29.1 million, while it was approximately HK\$24.6 million in the same period of last year. Although the effective cost control program has commenced, the 2 new acquired subsidiaries, Shanxi Winner and Tianjian Zhou Yuan which both of them were in a full operation status and were newly consolidated in the Group's account this year, have resulted such increments.

The finance costs during the current six-month period under review were approximately HK\$12.6 million, while it was approximately HK\$8.5 million in the same period of last year. The reason for such increase was due to the newly acquired subsidiary and the increase in the average interest rate.

For the three and six months ended 30 June 2008, the profit attributable to equity shareholders of the Company was approximately HK\$34.5 million and HK\$47.7 million respectively, which was increased by approximately 95.5% and 56.2% respectively in comparison with the corresponding period of last year. Apart from the gain on disposal of Beijing Troitec, the increase was mainly resulted from the increase of turnover during the year, and it is expected that such growth may be continued in the rest of this year.

### Outlook and Future Prospects

The directors of the Company believe that as the automotive engine management system business had been operated on the right track and a strategic partner had been invited to assist in the management of the business, coupled with the fact that mass productions will be commenced for more new models in the coming future, the automotive electronic products business will contribute more to the Group's results in the foreseeable future.

In this July, the Group purchased from Liaoning He Chang Hua Bao Automotive Electronic Co., Ltd. facilities for the production, research and development of automotive safety system, together with inventories of automotive safety airbag systems, and had sub-contracted the company to carry out research and development works for more than 10 new automotive models for the Group. Upon the completion of the transactions, it is expected that the Group will not only be able to expand the scale, but also better control the overall costs of its production, research and development so as to meet the demands of its customers.

While undergoing business expansion and implementing cost control strategies, the Group will continue to introduce more strategic partners to strengthen the Group's competitiveness in order to capture the business opportunities brought by the PRC and overseas markets.

The directors believe that given that the Group's investment in the last few years had started to deliver returns, and that the Group will continue to carry out its existing mid-to-long term policies, the Group will continue to grow in scale and have a promising prospect, which enable it to deliver fruitful returns to its investors.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Liquidity, Financial Resources and Capital Structure

As at 30 June 2008, the Group had bank and cash balances of approximately HK\$46.3 million (31 December 2007: approximately HK\$56.2 million) and net current assets of approximately HK\$221.9 million, which was increased by approximately HK\$112.0 million as compared with the last fiscal year. The increase was mainly due to the positive contributions from the expanding automotive electronic business, and the disposal of equity interest of Beijing Troitec. As a result of the increase in investing activities, total non-current assets of the Group increased by 22.5% to approximately HK\$516.5 million in the current year.

As at 30 June 2008, the Group had non-current liabilities of approximately HK\$208.8 million for the expansion of the Group's production facilities and as investment reserves. Included in non-current liabilities were convertible notes issued in 2006 with an aggregate principal amount of HK\$77.0 million. The convertible notes bear fixed interest at 7% per annum and can be converted into conversion shares at initial conversion price HK\$0.90 per share. There are also including approximately HK\$114.1 million financial liability, represents the fair value of the conversion features, subscription rights and the redemption rights attached on the preferences shares of Shiny Bright to the strategic investor.

The Group also had short-term bank loans of HK\$248.6 million which include bank loans with aggregate amount of HK\$235.3 million (equivalent to RMB211.8 million) bear fixed interest rates ranging from 5.94% to 8.59% per annum, and discounted bills of HK\$13.3 million (equivalent to RMB11.9 million) which are not yet matured at the year end date. The short-term bank loans were primarily used in 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, 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.

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 2008, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

### Charges on Group Assets

As at 30 June 2008, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK\$21.5 million for certain bank loans totalling RMB19.0 million (equivalent to HK\$21.1 million).

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Gearing Ratio

The Group's gearing ratio, which was derived from the total liabilities to total assets, increase to 59.6% from 56.8% as at 31 December 2007.

### Future Plans for Material Investments

As at 30 June 2008, the Group had a contracted but not provided for capital commitments of approximately HK\$1.6 million in respect of acquisition of fixed assets.

### Material Acquisitions and Disposals

In February 2008, the Group acquired 100% equity interest of Winner Investment Limited with the consideration of issuing 10,700,000 shares of the Company to the vendors. Winner Investment Limited is an investment holding company and its principal assets are its direct interest of 25% equity interest in Shanxi Winner. Shanxi Winner is engaged in production and sales of inflators and other related spare parts of automotive safety airbag system and other automotive spare parts in PRC. As a result of the acquisition, the Group's equity interest in Shanxi Winner increased from 35% to 60%.

In April 2008, the Group acquired 52% equity interest of Tianjian Zhou Yuan with the consideration of RMB6,000,000 to the vendors. Tianjian Zhou Yuan is engaged in production and sales of automotive electronic spare parts in PRC.

In May 2008, the Group acquired additional 38.5% equity interest of Beijing Troitec with the consideration of RMB30,000,000 to the vendor. Beijing Troitec is an indirectly wholly-owned subsidiary of Shiny Bright. In June 2008, the Group disposed 32.79% equity interest of Shiny Bright to Orchid Asia IV, LP at a consideration of RMB100,000,000. Beijing Troitec is engaged in development, production and distribution of automobile used engine management system and related components in the PRC. Shiny Bright is an investment holding company. As a result of the acquisition and the disposal, the Group's equity interest in Beijing Troitec increased from 61.5% to 67.21%.

### Significant Investment

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

### Contingent Liabilities

As at 30 June 2008, the directors of the Company were not aware of any contingent liabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Subsequent Events

On 12 July 2008, the Group entered into 3 agreements with Liaoning He Chang Hua Bao Automotive Electronic Co., Ltd. (“He Chang”), in which (i) the Group agreed to purchase production facilities and research & development facilities of automotive safety airbags systems with the consideration of RMB38,400,000; (ii) the Group agreed to purchase automotive safety airbags related inventories from He Chang with the consideration of RMB14,800,000; and (iii) the Group sub-contracted the development works of over 10 new car models to He Chang with the consideration of RMB25,000,000.

### 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 2008, the Group employed approximately 1,874 staff in the PRC and Hong Kong, representing an increase of 219 staff from 31 December 2007 and an increase of 468 staff from 30 June 2007. The increase in staff was mainly from the PRC operations. Remuneration of employees, including directors’ emoluments was approximately HK\$35.0 million for the six months period under review as compared with that of approximately HK\$20.1 million for the corresponding period of the preceding financial year.

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

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

As at 30 June 2008, 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	2,600,000	0.59%
	Interest of a controlled corporation ( <i>Note</i> )	( <i>Note</i> )	( <i>Note</i> )
Xing Zhanwu	Beneficial owner	8,420,000	1.90%
	Interest of a controlled corporation ( <i>Note</i> )	( <i>Note</i> )	( <i>Note</i> )
Li Hong	Interest of a controlled corporation ( <i>Note</i> )	( <i>Note</i> )	( <i>Note</i> )
Yang Donglin	Interest of a controlled corporation ( <i>Note</i> )	( <i>Note</i> )	( <i>Note</i> )
Zhao Qingjie	Beneficial owner	4,280,000	0.97%
	Interest of a controlled corporation ( <i>Note</i> )	( <i>Note</i> )	( <i>Note</i> )
Foo Tin Chung, Victor	Beneficial owner	800,000	0.18%

*Note:* Save as disclosed above, as at 30 June 2008, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited which held approximately 51.6% in the Company:

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

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

Shareholder	Number of shares held in Applaud Group Limited		%
The controlling group	5,269		52.69
Li Feng	2,386	23.86	
Xing Zhanwu	900	9.00	
Xu Jianzhong	750	7.50	
Li Hong	643	6.43	
Yang Donglin	590	5.90	
Zhao Qingjie	1,827	18.27	
Gao Xiangdong	1,566	15.66	
Zhao Jiyu	417	4.17	
Lin Qing	233	2.33	
Zhou Yuquan	223	2.23	
Cao Feng	139	1.39	
Zhang Chengyu	134	1.34	
Zhang Chenye	104	1.04	
Zhang Meina	88	0.88	
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 and Share Option Scheme details of which are set out in the section headed "Share Option Scheme" 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.

The total number of securities available for issue under the share option schemes as at 30 June 2008 was 38,100,000 shares (including options for 20,600,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 8.60% of the issued share capital of the Company as at 30 June 2008.

As at 30 June 2008, 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 2008 is HK\$0.98) 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 2008	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	520,000	-	22 November 2004	9 December 2005 to 9 December 2008	520,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	400,000	-	22 November 2004	9 December 2005 to 9 December 2008	400,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	160,000	-	22 November 2004	9 December 2005 to 9 December 2008	160,000	HK\$0.38	HK\$0.788	HK\$1.20

## 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 2008	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. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	216,000	-	22 November 2004	9 December 2005 to 9 December 2008	216,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Xing Zhanwen (邢占文)	Employee, general manager of Jinheng Sega	176,000	-	22 November 2004	9 December 2005 to 9 December 2008	176,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	200,000	-	22 November 2004	9 December 2005 to 9 December 2008	200,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Zhu Jiangbin (朱江濱)	Employee, general manager of Beijing Great Idea	176,000	-	22 November 2004	9 December 2005 to 9 December 2008	176,000	HK\$0.38	HK\$0.788	HK\$1.20
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	168,000	-	22 November 2004	9 December 2005 to 9 December 2008	168,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	144,000	-	22 November 2004	9 December 2005 to 9 December 2008	144,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Chen Lixin (沈立新)	Employee, deputy general manager of Jinheng Automotive	120,000	-	22 November 2004	9 December 2005 to 9 December 2008	120,000	HK\$0.38	HK\$0.788	HK\$1.20
		2,280,000	-			2,280,000			

**SHARE OPTION SCHEMES** (continued)**(a) Pre-IPO Employee Share Option Scheme** (continued)

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.

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:

**2008**

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.

## SHARE OPTION SCHEMES (continued)

## (b) Share Option Scheme

On 23 August 2007, the Company granted options to subscribe for a total of 20,600,000 Shares under the Share Option Scheme to five directors and two 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 2008	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the period	Exercise price per share	Market value per share before the date on which the options were granted	Market value per share on exercise of options
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Zeng Qingdong (曾慶東)	Non-executive director of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Li Hong (李宏)	Non-executive director of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Chan Wan Dune (陳雄瑞) (Note)	Independent non-executive director of the Company	400,000	400,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Wong Wah Wai (黃華威) (Note)	Employee, senior accountant of the Company	200,000	200,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
		20,600,000	20,600,000			-			

Note: Mr. Chan and Mr. Wong accepted the offer of the share options from the Company on 3 September 2007.

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

**SHARE OPTION SCHEMES** *(continued)***(b) Share Option Scheme** *(continued)*

The weighted average value per option granted on 23 August 2007 using binomial lattice pricing model was HK\$0.426. 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>2008</b>
Risk-free interest rate	4.03%
Expected life (in years)	5 years
Volatility	50.0%
Expected dividend per share	4.0%

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.

## SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2008, 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	Number of ordinary shares of the Company held	Number of the underlying shares of the Company held under equity derivatives	Approximately percentage of the total issued shares of the Company before full conversion of all convertible notes	Approximately percentage of the total issued shares of the Company after full conversion of all convertible notes
Applaud Group Limited	Beneficial owner	228,620,000	–	51.60%	43.25%
Value Partners Limited (Note 1)	Investment manager	–	51,111,111	11.53%	9.67%
Value Partners Group Limited (Note 1)	Interests of controlled corporation	–	51,111,111	11.53%	9.67%
Cheah Capital Management Limited (Note 1)	Interests of controlled corporation	–	51,111,111	11.53%	9.67%
Cheah Company Limited (Note 1)	Interests of controlled corporation	–	51,111,111	11.53%	9.67%
Hang Seng Bank Trustee International Limited (Note 1)	Trustee	–	51,111,111	11.53%	9.67%
Mr. Cheah Cheng Hye (Note 1)	Founder of discretionary trust	–	51,111,111	11.53%	9.67%
Ms. To Hau Yin (Note 1)	Spouse of Mr Cheah Cheng Hye	–	51,111,111	11.53%	9.67%
Sagemore Assets Limited (Note 2)	Beneficial Owner	–	27,777,778	6.27%	5.25%
CDS International Limited (Note 2)	Interest of controlled corporation	–	27,777,778	6.27%	5.25%
TNS Services Limited (Note 2)	Nominee shareholder of beneficial owner	–	27,777,778	6.27%	5.25%

*Note 1:* Hang Seng Bank Trustee International Limited, the trustee of the C H Cheah Family Trust, has 100% control of Cheah Company Limited, which has 100% control of Cheah Capital Management Limited, which has 35.65% control of Value Partners Group Limited, which in turn has 100% control of Value Partners Limited. Mr. Cheah Cheng Hye is the founder of C H Cheah Family Trust. Ms. To Hau Yin is the spouse of Mr. Cheah Cheng Hye. They are all deemed to be interested in the interest to be held by Value Partners Limited pursuant to the SFO.

*Note 2:* CDS International Limited is a director of Sagemore Assets Limited and TNS Services Limited is a nominee shareholder of Sagemore Assets Limited and therefore both of them are deemed to be interested in the underlying shares to be held by Sagemore Assets 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 2008, 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 2008.

### 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 18 July 2008, and the circular published on 7 July 2006 and 4 August 2008.

### PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2008, 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 2008.

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

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 2008 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 2008.

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 2008, 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 appointed for a fixed term of three year and be 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, 14 August 2008