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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)

**ISSUE OF NON-LISTED CONVERTIBLE NOTE
AND
RESUMPTION OF TRADING**

ISSUE OF CONVERTIBLE NOTE

On 27 April 2006, the Company entered into the Subscription Agreement with Value Partners pursuant to which the Company has conditionally agreed to issue, and Value Partners has conditionally agreed to subscribe or procure funds under its management to subscribe for, the Convertible Note in the principal amount of HK\$46,000,000. The Convertible Note may be converted into Conversion Shares at an initial conversion price of HK\$0.90 per Conversion Share (subject to adjustments in accordance with the terms of the Convertible Note) during its conversion period.

Completion of the Subscription Agreement is subject to the fulfillment of the conditions stated in the section headed “Conditions of the Issue” in this announcement.

It is intended that the proceeds of HK\$46,000,000 from the Issue will be applied as to approximately HK\$36,000,000 as investment reserves for future investments in furtherance of its business objectives and as to the remaining proceeds of approximately HK\$10,000,000 as general working capital of the Group. As at the date of this announcement, no concrete investment plans or projects have been identified by the Group which warrants disclosure under Chapter 19 or 20 of the GEM Listing Rules.

The Conversion Shares will be issued under the General Mandate.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which may fall to be allotted and issued upon the exercise of the Conversion Rights attaching to the Convertible Note. No listing of the Convertible Note will be sought on GEM or any other stock exchanges.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on GEM was suspended with effect from 9:30 a.m. on 28 April 2006 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on GEM with effect from 9:30 a.m. on 4 May 2006.

SUBSCRIPTION AGREEMENT

Date: 27 April 2006

Parties: (i) the Company; and
(ii) Value Partners

Information on Value Partners

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Value Partners and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company. Value Partners is a company incorporated in the British Virgin Islands whose principal business is fund management. Before entering into the Subscription Agreement, Value Partners did not have any interests in the Shares or any business dealings with the Group.

Principal amount of Convertible Note

HK\$46,000,000

Completion Date

Completion of the Subscription Agreement will take place on the third Business Day after the fulfillment of the conditions referred to in the section headed "Conditions of the Issue" below.

Conditions of the Issue

Completion shall be subject to and conditional upon, among other things, the followings:

- (1) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company and Value Partners have no reasonable objection) listing of and permission to deal in the Conversion Shares;
- (2) if necessary, the shareholders of the Company having approved the transactions contemplated in the Subscription Agreement and the issue of the Convertible Note and the issue and allotment of the Conversion Shares upon the exercise of the Conversion Rights or otherwise pursuant to the Note Conditions at an extraordinary general meeting of such shareholders;
- (3) there being no event existing or having occurred and no condition being in existence which would be (after the issue of the Convertible Note) an event of default under the Note Conditions and no event or act having occurred which, with the giving of notices, or the lapse of time, or both, would (after the issue of the Convertible Note), constitute such an event of default; and
- (4) the Company delivering to Value Partners an opinion from a firm of Cayman Islands lawyers acceptable to Value Partners confirming the legality, enforceability, validity and the due execution of the Convertible Note (after it is issued), that the issue of the Convertible Note and the issue and allotment of the Conversion Shares upon the exercise of the Conversion Rights or otherwise pursuant to the Note Conditions comply with the requirements of applicable Cayman Islands law, and such other matters as Value Partners

may reasonably require.

If the above conditions are not fulfilled (or, in respect of those set out in (3) and (4) above, waived by Value Partners in its absolute discretion) on or before the Long Stop Date, the Subscription Agreement shall lapse and become null and void and the parties shall be released from all obligations thereunder, save for any liability arising out of any antecedent breaches thereof.

As the Conversion Shares will be allotted and issued under the General Mandate, Shareholders' approval under condition (2) above is not required.

PRINCIPAL TERMS OF THE CONVERTIBLE NOTE

Subject to the fulfillment of the conditions of the Subscription Agreement, the Convertible Note will be issued to the Noteholder upon completion in registered form and constituted by deed poll and the Noteholder will receive certificate(s) representing its holding of the Convertible Note.

Conversion price

The Convertible Note may be converted into Conversion Shares at an initial conversion price of HK\$0.90 per Conversion Share (subject to adjustments in accordance with the terms of the Convertible Note) during the conversion period as stated below.

The conversion price of HK\$0.90 per Conversion Share represents:

- (i) a premium of approximately 15.38% over the closing price of HK\$0.78 per Share as quoted on the Stock Exchange on 27 April 2006, being the last trading date before the signing of the Subscription Agreement;
- (ii) a premium of approximately 14.21% over the average closing price of HK\$0.788 per Share for the five trading days ended on and inclusive of 27 April 2006 as quoted on the Stock Exchange;
- (iii) a premium of approximately 13.35% over the average closing price of HK\$0.794 per Share for the ten trading days ended on and inclusive of 27 April 2006 as quoted on the Stock Exchange; and
- (iv) a premium of approximately 63.30% over the latest audited net asset value per Share of HK\$0.55 as shown in the Group's audited consolidated financial statements made up to 31 December 2005; and
- (v) a premium of approximately 65.25% over the latest audited net asset value as at 31 December 2005 (being the date up to which the latest audited consolidated accounts of the Group were made up) per Share of HK\$0.54 after taking into account of the exercise of the share options granted under the Pre-IPO Share Options Scheme.

The conversion price of HK\$0.90 was determined after arm's length negotiations between the Company and Value Partners with reference to prevailing market prices of the Shares. As Conversions will not take place in at least 18 months, and seeing the prospect of the Company in the short to medium run, Value Partners has agreed to the conversion price of HK\$0.90.

The conversion price is subject to events of adjustment from time to time in accordance with the provisions set out in the Note Conditions which include summarily:

- (i) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision;
- (ii) an issue of Shares by way of capitalisation of profits or reserves;
- (iii) subject to (ii) above, a capital distribution;
- (iv) an offer or grant by way of rights or options or warrants or other rights to subscribe for new Shares; and
- (v) an issue of securities convertible into or exchangeable for or carrying rights of subscription for new Shares.

Every adjustment to the conversion price shall be certified by an approved merchant bank.

Pursuant to the Note Conditions, no adjustment will be made to the conversion price of HK\$0.90 of the Convertible Note for issue of further convertible note in the amount not greater than HK\$31,000,000 to any Independent Third Party (excluding Value Partners) on the same principal terms as the Convertible Note within two months from the date of entering into of the Subscription Agreement. The HK\$31,000,000 represents the difference between the total funds of HK\$77,000,000 the Company wishes to raise by issuing convertible securities and the Convertible Note in the principal amount of HK\$46,000,000 that Value Partners has agreed to subscribe. The Company wishes to stress that no concrete agreement has been reached in relation to any further issue of convertible note at this stage and such further issue may or may not be implemented and that the Company currently has sufficient working capital to carry on the principal business activities of the Group even without the HK\$31,000,000 additional capital. In the event the Company issues further convertible note in the principal amount of HK\$31,000,000 or any other securities, the Company will make further announcement if and when appropriate in compliance with the GEM Listing Rules.

The Board considers that the conversion price of HK\$0.90 which is equal to the net price for the issue of the Conversion Shares is fair and reasonable, which was determined after arm's length negotiations between the Company and Value Partners, and is in the interests of the Company and the Shareholders as a whole.

Transferability

Pursuant to the Note Conditions, the Convertible Note is transferable to persons, companies, entities, or bodies (being subsidiaries (as defined in the Companies Ordinance (Chapter 571 of the Laws of Hong Kong)) of the Noteholder, or funds/sub-funds managed by Value Partners and successors of custodian or trustee of Noteholder (the “**Noteholder’s Group**”) or Independent Third Party(ies) who is(are) in the reasonable opinion of the Company not competitor of the Company (the “**Third Party(ies)**”) which competes with the business of the Company directly or indirectly.

Any transfer of the Convertible Note shall be in whole or in whole multiples of HK\$1,000 within the Noteholder’s Group. The Noteholder may also elect to transfer the Convertible Note to a Third Party but may only do so at any time after the expiry of 3.5 years commencing from the date of the Convertible Note for the whole or any part of the total then outstanding principal amount of the Note (the “**Offered Amount**”) then held by the Noteholder. Subject to the Note Conditions which restrict the Noteholder to transfer the Convertible Note to any Third Party(ies) who is(are) in the reasonable opinion of the Company not competitor of the

Company, if the Noteholder elects to transfer the Convertible Note to a Third Party (other than a competitor of the Company), the Noteholder shall serve a written notice on the Company on such proposed transfer and the Company may within 14 days of the issuance of such notice elect to purchase the whole but not any part of the Offered Amount at no less favourable terms than the Offered Amount and if the Company does not purchase any part of the Offered Amount, within the prescribed time, the Noteholder shall be at liberty to offer the Offered Amount to the Third Party.

Maturity Date

The date falling five years after the date of issue of the Convertible Note

Voting rights for the holders of the Convertible Note

The Noteholder will not have any right to attend or vote at any meeting of the Company by virtue of it being the holder of the Convertible Note. The Noteholder shall not have the right to participate in any distributions and/or offers of further securities made by the Company.

Interests

Interest is payable on the Convertible Note at a rate of 7% per annum on the principal amount of the Convertible Note outstanding from time to time. Interest shall be accrued from the date of issue of the Convertible Note on a daily basis and shall be calculated on the basis of the actual number of days elapsed in a year of 365 days, including the first day of the period during which it accrues and including the last. Interest will be payable by the Company once every six months in arrears at the end of each six-month period between the date of issue of the Convertible Note and the Maturity Date. The first payment shall be made on the date falling six months after the date of issue of the Convertible Note.

In the event the Noteholder has converted the whole or any part(s) of the principal amount of the Convertible Note and upon delivery to the Company of the certificate for the Convertible Note, the Noteholder shall be entitled to interest in respect of the whole or such part(s) of the principal amount of the Convertible Note being converted for the period from the immediately preceding interest payment date (or the date of issue of the Convertible Note, as the case may be) up to and including the date on which Conversion takes place.

Status of Convertible Note

The Convertible Note constitutes direct, unconditional, unsubordinated and unsecured obligations of the Company. The payment obligations of the Company under the Convertible Note shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

Conversion period

Subject to compliance with the procedures set out in the Note Conditions, the Noteholder has the right to convert on any Business Day during a period commencing on the date after 18 months from the date of the Convertible Note and ending on the Maturity Date (both days inclusive), the whole or any part(s) of the principal amount of the Convertible Note into Conversion Shares at any time and from time to time at the initial conversion price of HK\$0.90 per Conversion Share (subject to adjustments in accordance with the terms of the Convertible Note).

At any time between the third anniversary of the date of issue of the Convertible Note and the Maturity Date (including the third anniversary of the date of issue of the Convertible Note but excluding the Maturity Date), either the Noteholder or the Company may elect to redeem the whole or any part(s) of any outstanding principal amount of the relevant Convertible Note then held by the Noteholder and in such event, the principal amount of the relevant Note to be redeemed shall become immediately payable in full by the Company. The amount payable by the Company to the Noteholder upon redemption shall be the principal amount of the outstanding Convertible Note to be redeemed together with interest accrued from the immediately preceding interest payment up to and including the date of payment.

The principal amount of the relevant Convertible Note shall not be greater than 50% of the total outstanding principal amount of the relevant Convertible Note then held by the Noteholder for the first redemption and only subsequent to the completion of the standard redemption process as provided in the Note Conditions, the Noteholder may request for another redemption which shall not be subject to any restrictions.

If either the Noteholder wishes to exercise the right to require the Company to redeem or the Company wishes to redeem out of its initiative any outstanding Convertible Note, it shall serve an eight (8) calendar weeks written notice on the Company of its intention to do so whereupon the Company shall pay or cause to be paid the Noteholder within five (5) Business Days after expiry of the said notice the redemption amount specified in such notice. The amount payable by the Company under redemption shall be paid in Hong Kong dollars in immediately available funds.

Unless previously converted in accordance with the Conditions, upon presentation on the Maturity Date of the original of the certificate for the Convertible Note to the Company at its address specified in the Conditions, the Convertible Note will be redeemed by the Company at its principal amount outstanding together with accrued interest thereon up to and including the Maturity Date in Hong Kong dollars.

Conversion Shares

The Conversion Shares to be issued upon Conversion will, when issued and allotted, rank pari passu in all respects with all the Shares then in issue and be entitled to all dividends and other distributions, the record date of which falls on a date on or after the date of the conversion notice.

Fractions of Conversion Shares will not be issued on Conversion but (except in cases where any such cash entitlement would amount to less than HK\$10) a cash payment will be made to the Noteholder in respect of such fraction.

Assuming there is an immediate full Conversion, 51,111,111 Conversion Shares will be issued, and based on 385,560,000 Shares in issue as at the date of this announcement, the share capital of the Company will be enlarged to 436,671,111 Shares in issue. The 51,111,111 Conversion Shares of HK\$0.01 each (an aggregate nominal value of approximately HK\$511,111) represent 13.26% of the issued share capital of the Company as at the date of this announcement and 11.70% of the issued share capital of the Company as enlarged by the full conversion of the Convertible Note. Details of the shareholding structure is set out under the heading "SHAREHOLDING STRUCTURE" below.

The Board confirms that all material terms of the Convertible Note which should be drawn to the Shareholders' attention have been disclosed above.

MANDATE TO ISSUE THE CONVERSION SHARES

The General Mandate was granted to the Directors pursuant to an ordinary resolution of the Company passed at its annual general meeting on 21 April 2005 to allot and issue up to 20% of the aggregate nominal amount of the share capital of the Company in issue on that date, being HK\$762,000 and divided into 76,200,000 Shares. As at the date of this announcement, the General Mandate has not been previously utilised.

The Conversion Shares will be allotted and issued under the General Mandate. The 51,111,111 Conversion Shares to be allotted and issued upon full exercise of the Conversion Rights attaching to the Convertible Note will utilise 67.07% of the General Mandate.

APPLICATION FOR LISTING

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which may fall to be allotted and issued upon the exercise of the Conversion Rights attaching to the Convertible Note. No listing of the Convertible Note will be sought on GEM or any other stock exchanges.

REASONS FOR THE ISSUE

The Group is principally engaged in the design, research and development and manufacture and sale of automotive safety system. Currently, the Group's major products are safety airbags system used in automobiles.

The Board has considered other alternative fund raising methods such as debt financing, rights issue or open offers but the Board considers that the issue of the Convertible Note is a more appropriate means of fund raising for the Company as it does not have any immediate dilution effect on the shareholding of the existing Shareholders.

As the Group is principally engaged in the design, research and development and manufacture and sale of automotive safety system for which a solid financial position is no doubt advantageous for the maintenance and growth of its principal businesses. The Directors are of the view that the Issue provides a good opportunity to strengthen the Company's financial position for its development.

It is intended that the proceeds of HK\$46,000,000 from the Issue will be applied as to approximately HK\$36,000,000 as investment reserves for future investments in furtherance of its business objectives and as to the remaining proceeds of approximately HK\$10,000,000 as general working capital of the Group. As at the date of this announcement, no concrete investment plans or projects have been identified by the Group which warrants disclosure under Chapter 19 or 20 of the GEM Listing Rules.

The Directors consider that the terms of the Subscription Agreement (including the Note Conditions) have been arrived at after arm's length negotiations between the Company and Value Partners and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Immediately after Completion, there will be no change to the composition of the Board and the principal business engaged by the Group.

FUND RAISING ACTIVITIES OF THE GROUP

The Group has not conducted any fund raising activities for the 12 months immediately preceding the date of this announcement.

CHANGES OF SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 385,560,000 Shares in issue. The shareholding structure of the Company before and after the full exercise of the Conversion Rights attaching to the Convertible Note is as follows:

<u>Shareholder</u>	<u>As at the date of this announcement</u>		<u>Immediately after full exercise of the Conversion Rights attaching to the Convertible Note</u>	
	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage
Applaud Group Limited ^(note 1)	238,620,000	61.89%	238,620,000	54.65%
Mr. Li Feng ^(note 2)	1,040,000	0.27%	1,040,000	0.24%
Mr. Xing Zhanwu ^(note 2)	800,000	0.21%	800,000	0.18%
Mr. Foo Tin Chung, Victor ^(note 2)	320,000	0.08%	320,000	0.07%
Noteholder	Nil	Nil	51,111,111	11.70%
Public Shareholders	144,780,000	37.55%	144,780,000	33.16%
Total	<u>385,560,000</u>	<u>100.00%</u>	<u>436,671,111</u>	<u>100.00%</u>

Notes:

1. Applaud Group Limited is owned as to 54.67% by its controlling group of shareholders of Mr. Li Feng, Xing Zhanwu, Xu Jianzhong, Li Hong, Yang Donglin with Mr. Li Feng, Mr. Xing Zhanwu, and Mr. Yang Donglin being executive Directors and Mr. Li Hong being non-executive Director. Mr. Zhao Qingjie who is also an executive Director owns 17.5% equity interests in Applaud Group Limited. Save as being a shareholder of Applaud Group Limited, the rest of the shareholders of Applaud Group Limited are Independent Third Parties.
2. On 29 March 2006, Mr. Li, Mr. Xing and Mr. Foo exercised their respective share options granted to them under the Pre-IPO Share Options Scheme. Mr. Li, Mr. Xing and Mr. Foo are executive Directors.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on GEM was suspended with effect from 9:30 a.m. on 28 April 2006 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on GEM with effect from 9:30 a.m. on 4 May 2006.

DEFINITIONS

Terms or expressions used in this announcement shall, unless the context otherwise requires, have the meanings ascribed to them below:

“Board”	the board of Directors
“Business Day”	any day (not being a Saturday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	Jinheng Automotive Safety Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed to this term under the GEM Listing Rules
“Conversion”	conversion of the whole or any part(s) of the principal amount of the Convertible Note by the Noteholder in accordance with the terms of the Convertible Note
“Convertible Note”	the convertible note in the principal amount of HK\$46,000,000 to be issued by the Company pursuant to the Subscription Agreement with the benefit and subject to the Note Conditions
“Conversion Rights”	the rights attached to the Convertible Note to convert the whole or any part(s) of the principal amount of the Convertible Note into Shares
“Conversion Shares”	the Shares to be issued by the Company under the Convertible Note (whether upon exercise by the Noteholder of the Conversion Rights, or otherwise pursuant to the Note Conditions
“Directors”	the directors of the Company from time to time
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate granted to the Directors by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 21 April 2005, pursuant to which a maximum of 76,200,000 new Shares may fall to be allotted and issued
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Parties”	third parties independent of the Company and connected persons of the Company
“Issue”	the issue of the Convertible Note pursuant to the Subscription Agreement
“Long Stop Date”	two calendar months from the date of the Subscription Agreement (or such later date as may be agreed by the Company and Value Partners in writing)
“Maturity Date”	the date falling five (5) years after the date of issue of the Convertible Note
“Note Conditions”	the terms and conditions attached to or endorsed on the Convertible Note
“Noteholder”	the registered holder(s) of the Convertible Note
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Pre IPO Share Options Scheme”	the share option scheme adopted by all the then shareholders of the Company prior to the Shares being listing on GEM
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 27 April 2006 entered into between the Company and Value Partners
“Value Partners”	a company incorporated in the British Virgin Islands whose principal business is fund management
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 3 May 2006

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) 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.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at 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 .