



# JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED

錦恆汽車安全技術控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 8293)

## FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2006

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*This report, for which the directors (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 (“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: (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.*

The board of directors of the Company (the "Board") announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2006, together with the comparative unaudited consolidated results for the corresponding period in 2005 as follows:

## CONSOLIDATED INCOME STATEMENT - UNAUDITED

For the three months ended 31 March 2006

	Notes	Three months ended 31 March	
		2006 HK\$	2005 HK\$
<b>Turnover</b>	2	<b>65,253,165</b>	40,875,402
<b>Cost of sales</b>		<b>(48,894,407)</b>	(27,798,262)
<b>Gross profit</b>		<b>16,358,758</b>	13,077,140
<b>Other revenue</b>		<b>251,971</b>	70,648
<b>Other net loss</b>		<b>(14,712)</b>	(19,529)
<b>Research and development expenses</b>		<b>(637,939)</b>	(933,128)
<b>Distribution costs</b>		<b>(1,097,489)</b>	(637,145)
<b>Administrative expenses</b>		<b>(5,576,652)</b>	(3,955,841)
<b>Profit from operations</b>		<b>9,283,937</b>	7,602,145
<b>Finance costs</b>		<b>(854,324)</b>	(655,927)
<b>Share of profit/(losses) of jointly controlled entities</b>		<b>399,049</b>	(38,821)
<b>Profit before taxation</b>		<b>8,828,662</b>	6,907,397
<b>Income tax</b>	3	<b>(901,083)</b>	106,875
<b>Profit for the period</b>		<b>7,927,579</b>	7,014,272
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>8,007,312</b>	7,152,670
Minority interests		<b>(79,733)</b>	(138,398)
<b>Profit for the period</b>		<b>7,927,579</b>	7,014,272
<b>Earnings per share</b>	4		
– Basic		<b>HK2.10 cents</b>	HK1.88 cents
– Diluted		<b>HK2.07 cents</b>	HK1.84 cents

## 1. Basis of preparation

This quarterly 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 quarterly report are consistent with those adopted by the Group in the 2005 annual financial statements.

This quarterly report contains consolidated financial results and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. This consolidated quarterly 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 2005 included in this quarterly report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2006.

## 2. Turnover

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

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

Turnover recognised during the period may be analysed as follows:

	Three months ended 31 March	
	2006	2005
	HK\$	HK\$
Sales of mechanical airbag systems	17,900,059	16,023,840
Sales of electronic airbag systems	36,741,358	9,976,115
Sales of automotive safety system components and other automotive safety products	10,611,748	14,875,447
	65,253,165	40,875,402

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

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

Taxation in the consolidated income statement represents:

	Three months ended 31 March	
	2006 HK\$	2005 HK\$
<b>Current tax</b>		
PRC income tax for the period	643,976	–
	643,976	–
<b>Deferred tax</b>		
Origination and reversal of temporary differences	257,107	(106,875)
Total income tax expense/(credit)	901,083	(106,875)

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

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

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

#### 4. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the three months ended 31 March 2006 HK\$8,007,312 (three months ended 31 March 2005: HK\$7,152,670) and the weighted average of 381,152,000 (three months ended 31 March 2005: 381,000,000) ordinary shares in issue during the period, calculated as follows:

*Weighted average number of ordinary shares (basic)*

	Number of shares	
	Three months ended 31 March	
	2006	2005
Issued ordinary shares at 1 January	381,000,000	381,000,000
Effect of shares issued pursuant to the exercise of share options	152,000	–
Weighted average number of ordinary shares (basic) at 31 March	381,152,000	381,000,000

(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the three months ended 31 March 2006 HK\$8,007,312 (three months ended 31 March 2005: HK\$7,152,670) and the weighted average number of 387,455,916 (three months ended 31 March 2005: 388,024,242) ordinary shares, calculated as follows:

*Weighted average number of ordinary shares (diluted)*

	Number of shares	
	Three months ended 31 March	
	2006	2005
Weighted average number of ordinary shares at 31 March	381,152,000	381,000,000
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	6,303,916	7,024,242
Weighted average number of ordinary shares (diluted) at 31 March	387,455,916	388,024,242

## 5. Reserves

	Attributable to equity shareholders of the Company									
	Share premium	Merger reserve	Statutory surplus reserve	Statutory public welfare fund	Capital reserve	Exchange reserve	Retained profits	Sub-total	Minority interests	Total
At 1 January 2005	80,168,124	36,341,236	8,749,449	4,374,723	-	-	43,283,556	172,917,088	1,187,182	174,104,270
Equity settled share-based transactions	-	-	-	-	1,535,500	-	-	1,535,500	-	1,535,500
Profit/(loss) for the period	-	-	-	-	-	-	7,152,670	7,152,670	(138,398)	7,014,272
At 31 March 2005	80,168,124	36,341,236	8,749,449	4,374,723	1,535,500	-	50,436,226	181,605,258	1,048,784	182,654,042
At 1 January 2006	80,168,124	36,341,236	12,616,183	6,308,089	9,545,757	2,357,650	48,199,626	195,536,665	10,640,264	206,176,929
Equity settled share-based transactions	-	-	-	-	570,500	-	-	570,500	-	570,500
Profit/(loss) for the period	-	-	-	-	-	-	8,007,312	8,007,312	(79,733)	7,927,579
Exercise of share options	5,279,600	-	-	-	(3,592,400)	-	-	1,687,200	-	1,687,200
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	10,768,986	10,768,986
At 31 March 2006	85,447,724	36,341,236	12,616,183	6,308,089	6,523,857	2,357,650	56,206,938	205,801,677	21,329,517	227,131,194

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Sales income of the Group for the three months ended 31 March 2006 amounted to HK\$65.3 million, which represented an increase of 59.6% as compared to the amount recorded in the same period in 2005. The increase was a result of purchase of automotive safety airbag systems by three new customers in the quarter under review, while two of them are overseas customers and one is domestic customer. High-quantity purchases made by these customers resulted in the drastic growth in sales income of the Group in the first quarter of 2006. Directors believe this was a good start, and higher percentage of growth is expected in this year.

The Group will further pursue for expansion into overseas markets. The Group is currently under keen discussion with a renowned overseas automobile manufacturer for the implementation of the Group's automotive safety airbag systems into one of their new car series. The Group has also entered into automotive safety airbag systems research and development contracts for three car models with three local automobile manufacturers, one of them being a well-known local brand.

Research and development of the Group's new products has been progressing steadily. The automotive safety belt product series developed by Jinbei Jinheng, a subsidiary of the Group, has been making encouraging progress. Part of the machineries has been installed, and it is expected to be put into operation by the second half of 2006. The Group has already started the research and development of curtain safety airbag systems, which has been achieving satisfactory results and is expected to complete by mid of 2007. Research for smart safety airbag systems has started in the period under review and the research plan is expected to complete by December 2007.

The Group has also engaged in keen discussion with an international corporation regarding a comprehensive technological partnership for the control unit of automotive safety airbag systems. This will substantially improve the Group's technological capability while at the same time reduce system costs.

During this quarter, construction of the new production plant located in Jinzhou City in Liaoning Province has been progressing smoothly. Part of the facilities has already been delivered and construction of the production plant is expected to complete by the second quarter of 2006.

The Group has made progress in pursuing for localization of electronic inflators in the first quarter of 2006. The Group is discussing with a prominent research institute regarding the development of this. Directors believe that localized production can be proceeded by the third quarter of this year and by then, production costs can be drastically reduced.

During this quarter, the Group has organized specialized department to conduct in-depth research on the automotive spare parts industry of China. This will greatly benefit the Group's strategic system planning and help achieve strategic goals of the Group.

On 27 April 2006, the Group has entered a subscription agreement with Value Partners Limited to issue the convertible note in the principal amount of HK\$46.0 million. This shows that Value investors are confident to the business development of the Group, and this also proves that the development direction of the Group has also been recognized.

## Financial Review

For the three months ended 31 March 2006, the Group recorded a turnover of approximately HK\$65.3 million, representing an increase of 59.6% from the same period of last year. This is because the Group has successfully entered the international market in the second half of last year, and the related turnover has largely increased this year. It was also benefited from the continuing growth of the automotive industry, which was weakened in the past.

During this quarter, the Group has obtained the first order from an internationally renowned automobile manufacturer and sold with lower gross profit margin as an incentive for its further orders. The airbag system is a compulsory configuration of this model and thus contributed significantly to the overall turnover of the Group in this quarter. The average gross profit margin of both electronic and mechanical airbag systems recorded a decrease of approximately 6.9% to 26.7% as compared to the average of last year, and the overall gross profit margin of the Group is 25.1% this quarter.

Other revenue was mainly contributed by the interest income earned by the Group. For the three months ended 31 March 2006, it increased to approximately HK\$0.3 million from the corresponding period of last year.

Research and development expenses for the three months ended 31 March 2006 slightly decreased to approximately HK\$0.6 million in comparison to the corresponding period of last year.

Distribution costs were approximately HK\$1.1 million for the three months ended 31 March 2006, while it was approximately HK\$0.6 million in the same period last year. The increase was mainly contributed by the increased sales of Jinheng Segal and also Jinzhou Jinheng has made more effort in the development of the international markets.

During this quarter, the administrative expenses were approximately HK\$5.6 million, representing an increase of approximately HK\$1.6 million in comparison with the corresponding period of last year. The increase in the current three months period figure was mainly due to the commencement of commercial operations of 3 subsidiaries, Jinheng Segal, Hafei Jinheng and also Jinbei Jinheng.

Finance costs for the three months ended 31 March 2006 increased by approximately HK\$0.2 million for the corresponding period of last year to approximately HK\$0.9 million.

Share of profits of jointly controlled entities for the three months ended 31 March 2006 were approximately HK\$0.4 million in comparison with the losses of approximately HK\$0.04 million for the corresponding period of last year. This was mainly attributed by Shanxi Jinheng Automotive Spare Parts Co., Ltd., who continues to record profit since last year.

Since the fiscal year 2004, Jinheng Automotive is entitled a 2-years full income tax exemption and 3-years 50% PRC income tax reduction. It is now enjoying the 50% tax reduction benefit. As a result this quarter the Group recorded the income tax expenses of approximately HK\$0.9 million while there were income tax credit of approximately HK\$0.1 million.

Profit for the three months period ended 31 March 2006 were increased by approximately 13.0% or HK\$0.9 million to HK\$7.9 million as compared with the same period last year, which was resulted from the substantial increase of turnover.



## **Outlook and Future Prospects**

During the period under review, the Group has launched a couple of new automotive safety airbag system models, which have contributed to the good start of the year. Directors believe the sales income of the Group will rise steadily with the launch of those new automobile safety airbag models.

The Group will fasten the pace to have system spare parts localization and further enhance supply chain system. The ultimate goal is to have the whole system spare parts localization by the end of 2006 so as to exercise stronger control over production cost and maintain the Group's leading position among automotive safety system providers in China.

The Group will further fortify research on automotive electronics and engine spare parts so as to diversify the Group's business scope, and also attain the strategic goal of taking automobile safety as core business for a group that is engaged in a comprehensive automotive component business.

Directors believe that with the execution of the Group's future business plans, profit of the Group will increase continually with the gradual growth of the scale of the Group. All investors will be benefited from all the above ultimately.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2006 (three months ended 31 March 2005: HK\$ Nil).

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

As at 31 March 2006, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 the GEM Listing Rules were as follows:

### (a) Long positions in issued shares

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

*Note:* As at 31 March 2006, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited which held approximately 61.89% in the Company:

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

#### (b) Interests in underlying shares

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

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or Rules 5.46 to 5.67 of the GEM Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

#### SHARE OPTION SCHEMES

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme as defined in the prospectus dated 30 November 2004 issued by the Company (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 31 March 2006 was 44,940,000 shares (including options for 6,840,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 11.66% of the issued share capital of the Company as at 31 March 2006.

As at 31 March 2006, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 March 2006 is HK\$0.80) 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 31 March 2006	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the period	Exercise price per share	*Market value per share at date of grant of options	*Market value per share on exercise of options
Mr. Li Feng (李峰)	Executive director and chairman of the Company	2,600,000	1,560,000	22 November 2004	9 December 2005 to 9 December 2008	1,040,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	2,000,000	1,200,000	22 November 2004	9 December 2005 to 9 December 2008	800,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	800,000	480,000	22 November 2004	9 December 2005 to 9 December 2008	320,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	1,080,000	648,000	22 November 2004	9 December 2005 to 9 December 2008	432,000	HK\$0.38	HK\$0.788	HK\$0.75

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

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

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

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

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

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

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

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

**(b) Share Option Scheme**

As at 31 March 2006, no option has been granted under the Share Option Scheme.

**SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY**

As at 31 March 2006, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

	<b>Capacity</b>	<b>Ordinary shares held</b>	<b>Approximate percentage of total issued shares</b>
Applaud Group Limited	Beneficial owner	238,620,000	61.89%

**Long positions in underlying shares**

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

**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 31 March 2006, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **COMPETING INTERESTS**

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the businesses of the Group as at 31 March 2006.

### **SPONSOR'S INTEREST**

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

As at 31 March 2006, VC Capital Limited had indirect interest in the shares of the Company held by VC Strategic Investments Limited through its interests in certain associated companies, both VC Capital Limited and VC Strategic Investments Limited are wholly-owned subsidiaries of Value Convergence Holdings Limited, a company listed on GEM. As at 31 March 2006, VC Strategic Investments Limited was beneficially interested in 11% of the issued capital of Top Growth Assets Limited, and Top Growth Assets Limited was beneficially interested in 81.5% of the issued capital of WAG (Greater China) Limited. WAG (Greater China) Limited is beneficially interested in 9,000,000 shares of the Company, representing approximately 2.33% of the total issued capital of the Company.

Save as disclosed above, none of VC Capital Limited, its directors, employees or their respective associates had any shareholding interests in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 March 2006.

### **DIRECTORS' INTERESTS IN CONTRACTS**

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

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

During the three months ended 31 March 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## **PRE-EMPTIVE RIGHTS**

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

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

The Company has complied with all the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the three months ended 31 March 2006.

The Company established an audit committee on 22 November 2004 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the three Independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong.

The audit committee had reviewed the Group's unaudited results for the three months ended 31 March 2006 and had provided advice and recommendation to the Board.

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

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

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors of the Company adopted by the Company throughout the three months ended 31 March 2006.

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 three months ended 31 March 2006, the Company has appointed three independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong.

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

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



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

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