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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Jinheng Automotive Safety Technology Holdings Limited (the “Company”), you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING  
FORMATION OF A JOINT VENTURE COMPANY  
AND  
CONTINUING CONNECTED TRANSACTIONS**

**Independent financial adviser to the independent board committee  
and the independent shareholders of the Company**

Nuada Limited

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This circular 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).

7 July 2006

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## CHARACTERISTICS OF GEM

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publications on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“Applaud Group”	Applaud Group Limited, a company incorporated in the British Virgin Islands with limited liability and a controlling Shareholder interested in 238,620,000 Shares representing approximately 61.89% of the total issued share capital of the Company as at the Latest Practicable Date
“associates”	has the meaning ascribed to this term under the GEM Listing Rules
“Board”	the board of Directors
“business days”	any day on which the Stock Exchange is open for the business of dealing in securities
“Company”	Jinheng Automotive Safety Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on GEM
“connected person”	has the meaning ascribed to this term under the GEM Listing Rules
“Directors”	directors of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hafei Jinheng”	Harbin Hafei Jinheng Safety System Co., Ltd., a joint venture company established in the PRC with limited liability and owned as to 90% by Jinzhou Jinheng and 10% by Hafei Motor
“Hafei Motor”	Hafei Motor Co., Ltd., a joint venture company established in the PRC with limited liability and a subsidiary of Harbin Aircraft Industry (Group) Ltd., which is principally engaged in the manufacture of automobiles in the PRC
“Hafei Sales Caps”	the annual maximum sales caps of HK\$41.5 million, HK\$53.4 million and HK\$70.4 million respectively for each of the three years ending 31 December 2008 as contemplated under the Hafei Supply Agreement
“Hafei Supply Agreement”	the supply agreement entered into between Jinzhou Jinheng, Hafei Jinheng and Hafei Motor in respect of the supply of automotive safety airbag systems

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## DEFINITIONS

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“Independent Third Party(ies)”	third party(ies) who is/are independent of the Company and its connected persons
“Jinbei Automotive”	金杯汽車股份有限公司 (Shenyang Jinbei Automotive Company Limited), a state-owned enterprise established in the PRC with limited liability, the issued shares of which are listed on the Shanghai Stock Exchange
“Jinbei Jinheng”	瀋陽金杯錦恆汽車安全系統有限公司 (Shenyang Jinbei Automotive Safety System Co. Limited), a joint venture company established in the PRC with limited liability and owned as to approximately 55.56% by the Group, as to 14.81% by Jinbei Automotive, as to 22.22% by Shenyang Electricity Co. Limited (which is a state-owned enterprise established in the PRC) and as to 7.41% by an Independent Third Party
“Jinbei Sales Caps”	the annual maximum sales caps of HK\$43.0 million, HK\$64.0 million and HK\$67.0 million respectively for each of the three years ending 31 December 2008 as contemplated under the Jinbei Supply Agreement
“Jinbei Supply Agreement”	the supply agreement entered into between Jinzhou Jinheng, Jinbei Automotive and Jinbei Jinheng dated 16 June 2006 in respect of the supply of automotive safety airbag systems
“Jinheng HK”	Jinheng (Hong Kong) Limited 錦恆(香港)有限公司, a company incorporated in Hong Kong and an indirect subsidiary of the Company
“Jinzhou Jinheng”	錦州錦恆汽車安全系統有限公司 (Jinzhou Jinheng Automotive Safety System Co., Ltd.), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“JV Arrangement”	the establishment of the JV Company pursuant to a joint venture agreement and the articles of the JV Company, both dated 16 June 2006 and entered into among Jinheng HK, Jinzhou Jinheng, Shenyang Auto Parts, and Shanxi Electrical in respect of the establishment of the JV Company to engage in the design, manufacture and sale of automotive electronic parts
“JV Company”	an equity joint venture company with limited liabilities and to be established in the PRC pursuant to the JV Arrangement
“Independent Board Committee”	the independent board committee comprising Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong, being all independent non-executive Directors, appointed to advise the independent Shareholders as to the terms of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps)

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## DEFINITIONS

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“Latest Practicable Date”	5 July 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“PRC”	the People’s Republic of China, which, for the purpose of this circular, shall excludes Hong Kong, the Macau Special Administration 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
“Prospectus”	the Company’s prospectus dated 30 November 2004 in relation to the listing of the Shares on GEM
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanxi Electrical”	山西泰富精密機電技術有限公司, a company established in the PRC with limited liability
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shenyang Auto Parts”	瀋陽金思達汽車零部件有限公司, a company established in the PRC with limited liability
“Shenyang Electricity”	瀋陽熱電發展有限公司 (Shenyang Electricity Co. Limited), a state-owned enterprise established in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“RMB”	Renminbi, the lawful currency for the time being of the PRC
“%”	per cent.

*For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of HK\$1 to RMB1.04. This exchange rate is for illustration purposes only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate.*

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Li Feng, *Chairman*  
Mr. Xing Zhanwu, *Chief Executive Officer*  
Mr. Zhao Qingjie  
Mr. Yang Donglin  
Mr. Foo Tin Chung, Victor, *Financial Controller*

*Non-executive Directors:*

Mr. Li Hong  
Mr. Zeng Qingdong

*Independent non-executive Directors:*

Mr. Chan Wai Dune  
Mr. Huang Shilin  
Mr. Zhu Tong

*Registered office:*

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

*Head office and principal place  
of business in the PRC*

Bohai Avenue  
Jinzhou Economic & Technical  
Development Zone  
Jinzhou  
Liaoning Province  
PRC

*Principal place of business  
in Hong Kong:*

Unit 1203, 12th Floor  
Crocodile House II  
55 Connaught Road Central  
Hong Kong

7 July 2006

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING FORMATION OF A JOINT VENTURE COMPANY AND CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

By an announcement dated 16 June 2006, the Board announced that the Group has entered into the JV Arrangement, pursuant to which the JV Company will be established in Shenyang, Liaoning Province, the PRC. By the same announcement, the Company has further announced the entering into of the Hafei Supply Agreement and the Jinbei Supply Agreement. The JV Arrangement constitutes a discloseable and connected transaction whereas each of the Hafei Supply Agreement and the Jinbei Supply Agreement constitutes continuing connected transactions under the GEM Listing Rules.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with further details of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) together with a letter from the Independent Board Committee to the independent Shareholders and a letter of advice from Nuada Limited as the independent financial adviser to the Independent Board Committee and the independent Shareholders.

### THE JV ARRANGEMENT

#### Date

16 June 2006

#### Parties

1. Jinheng HK, an indirect wholly-owned subsidiary of the Company
2. Jinzhou Jinheng, an indirect wholly-owned subsidiary of the Company
3. Shenyang Auto Parts, a connected person of the Company
4. Shanxi Electrical, an Independent Third Party

Jinheng HK engages principally in investment holdings whereas Jinzhou Jinheng carries on mainly businesses of the design, manufacture and sale of safety airbag systems used in automobiles.

Shenyang Auto Parts engages principally in the design, research and development, manufacture and sale of automotive parts and electronics. Shenyang Auto Parts is owned as to 45% by Shenyang Electricity and 55% by Jinbei Automotive. Shenyang Electricity and Jinbei Automotive, both being state-owned enterprises established in the PRC with Jinbei Automotive's shares being listed on the Shanghai Stock Exchange, are substantial shareholders owning respectively 22.22% and 14.81% of Jinbei Jinheng, a non wholly-owned subsidiary of the Company. The remaining 62.97% of Jinbei Jinheng is owned as to 55.56% by the Group and as to 7.41% by an Independent Third Party. By virtue of Shenyang Electricity and Jinbei Automotive being substantial shareholders of Jinbei Jinheng, Shenyang Auto Parts, Shenyang Electricity and Jinbei Automotive are considered connected persons of the Company.

Shenyang Electricity engages principally in investment holding with its subsidiaries engage in power supply whereas Jinbei Automotive's main businesses include the manufacture and design of automobiles in the PRC. Other than being a substantial shareholder of Jinbei Jinheng, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Shenyang Electricity and Jinbei Automotive and their respective ultimate beneficial owners are Independent Third Parties.

Shanxi Electrical was established in the PRC which engages principally in the design, manufacture and sale of automotive parts. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Shanxi Electrical and its ultimate beneficial owner(s) are Independent Third Parties.

#### Term of the JV Arrangement

30 years commencing from the date on which the business license of the JV Company is obtained.



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## LETTER FROM THE BOARD

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### **Scope of business of the JV Company**

The JV Company will be engaged principally in the design, manufacture and sale of automotive electronic parts in Shenyang, Liaoning Province, the PRC.

### **Total investment and registered capital of the JV Company**

Pursuant to the JV Arrangement, the total investment will be RMB36,000,000 (equivalent to approximately HK\$34,615,385) and the registered capital of the JV Company will be RMB30,000,000 (equivalent to approximately HK\$28,846,154), of which RMB12,000,000 (equivalent to approximately HK\$11,538,462), RMB4,500,000 (equivalent to approximately HK\$4,326,923), RMB9,000,000 (equivalent to approximately HK\$8,653,846), and RMB4,500,000 (equivalent to approximately HK\$4,326,923) will be contributed by Jinheng HK, Jinzhou Jinheng, Shenyang Auto Parts, and Shanxi Electrical respectively in proportion to their respective holding of the JV Company. Pursuant to the JV Arrangement, Shenyang Auto Parts and Shanxi Electrical will contribute by way of cash whereas Jinheng HK will make its portion of contribution by acquiring new production facilities for the JV Company and Jinzhou Jinheng will contribute by injecting non-patented technology/know-how, which will be valued by an independent valuer, into the JV Company. The Group intends to finance its portion of contribution to the JV Company from the proceeds received from the issue of the convertible note; details of which have been disclosed in the announcement of the Company dated 3 May 2006. Such application of proceeds of the convertible note is consistent with the proposed use of proceeds as announced.

Pursuant to the JV Arrangement, the JV Company will be owned beneficially as to 40% by Jinheng HK, 15% by Jinzhou Jinheng, 30% by Shenyang Auto Parts, and the remaining 15% by Shanxi Electrical. Upon establishment, the JV Company will become an indirect non-wholly owned subsidiary of the Company whose earnings, assets and liabilities will be consolidated into the books of the Company.

Apart from the contribution commitments above, there are no further material commitments that are required to be contributed by the parties to the JV Arrangement at this stage. Depending on the magnitude of and the way in which any further material commitments is to be put up by the parties to the JV Arrangement, the Company will comply with the reporting, announcement and Shareholders' approval requirements under the GEM Listing Rules.

### **Board of directors of the JV Company**

The board of directors of the JV Company is the highest governing authority within the JV Company which shall comprise five (5) directors of whom one (1) will be the chairman. Each of Jinheng HK and Shenyang Auto Parts shall be entitled to appoint two (2) members to the board of directors of the JV Company and Jinzhou Jinheng shall be entitled to appoint one (1) member to the board of directors of the JV Company. The chairman of the board of directors of the JV Company will be elected by the board of directors of the JV Company with terms of three years and may be re-elected.

Save for resolutions regarding amendments to the articles of the JV Company, increase or decrease in registered capital and matters relating to mergers, segregation, change of nature and dissolution of the JV Company which require unanimous consent from the board of directors of the JV Company, resolutions of the board of directors of the JV Company shall be effective when passed by two-thirds of the members of the board of directors of the JV Company.

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## LETTER FROM THE BOARD

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### **Profit Sharing in JV Company**

The profits of the JV Company will be shared among the parties to the JV Arrangement in proportion to their respective interests in the JV Company.

### **Transfer of interests in the JV Company**

The parties to the JV Arrangement may transfer their interests in the JV Company among themselves. However, none of the parties to the JV Arrangement are entitled to transfer all or any part of their respective interests in the JV Company to a third party unless consents from the other parties to the JV Arrangement are obtained. Consents of transfer to third parties are deemed to have been obtained if the objecting party to the JV Arrangement does not take up the interest under the transfer. The parties to the JV Arrangement shall have priority in taking up the interest being offered.

### **Condition of JV Arrangement**

The JV Arrangement is conditional upon the approval by way of passing of an ordinary resolution of those Shareholders (including their associates) who do not have any a material interest in the JV Arrangement and are not required to be abstained from voting on the resolution approving thereof under the GEM Listing Rules. The Directors confirm that none of the Shareholders have any material interests in the JV Arrangement and as such no Shareholders are required to abstain from voting on the relevant resolutions to approve the JV Arrangement.

## **CONTINUING CONNECTED TRANSACTIONS**

### **(1) Hafei Supply Agreement**

*Date*

16 June 2006

*Parties*

Suppliers: (a) Jinzhou Jinheng, an indirect wholly-owned subsidiary of the Company;  
(b) Hafei Jinheng, a 90% owned subsidiary of the Company; and

Purchaser: (c) Hafei Motor, a connected person of the Company which owns 10% of the equity interest in Hafei Jinheng.

Pursuant to the Hafei Supply Agreement, Jinzhou Jinheng and Hafei Jinheng will manufacture and sell to Hafei Motor automotive safety airbag systems which can be installed in automobiles manufactured by Hafei Motor. All orders under the Hafei Supply Agreement are placed to Hafei Jinheng. The Hafei Supply Agreement is to renew the existing similar supply agreement entered into between Jinzhou Jinheng, Hafei Jinheng and Hafei Motor dated 22 November 2004 which is due to expire on 31 December 2006. The fees chargeable by the Group will not be less favourable than those which will be charged by Jinzhou Jinheng or Hafei Jinheng (if any) against other independent customers for the same or similar products. The Hafei Supply Agreement also provides that the price and size of the products to be supplied to Hafei Motor will be determined between Hafei Motor and the Group on an order-by-order basis.

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## LETTER FROM THE BOARD

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Based on (i) the historical sales to Hafei Motor of automotive safety airbag systems by Jinzhou Jinheng for the three financial years ended 31 December 2005; (ii) the estimated increase in joint development of safety airbag systems for new models of the automobile between Hafei Motor and Jinzhou Jinheng; (iii) the launching of new models of automobiles manufactured by Hafei Motor, to be installed with airbag systems jointly developed by Hafei Motor and Jinzhou Jinheng; and (iv) the estimated maximum orders to be placed to Hafei Jinheng as indicated by Hafei Motor, the Directors estimate that the total amount of products to be sold by Jinzhou Jinheng and Hafei Jinheng to Hafei Motor for the three years ending 31 December 2008 will not be more than HK\$41.5 million, HK\$53.4 million and HK\$70.4 million respectively. No maximum orders are provided in the Hafei Supply Agreement although the estimated annual figures (i.e. Hafei Sales Caps) are mentioned.

### (2) Jinbei Supply Agreement

#### *Date*

16 June 2006

#### *Parties*

- Suppliers: (a) Jinzhou Jinheng, an indirect wholly-owned subsidiary of the Company;
- (b) Jinbei Jinheng, a 55.56% owned subsidiary of the Company; and
- Purchaser: (c) Jinbei Automotive, a connected person of the Company which owns approximately 14.81% of the equity interest in Jinbei Jinheng.

Pursuant to the Jinbei Supply Agreement, Jinzhou Jinheng and Jinbei Jinheng will manufacture and sell to Jinbei Automotive (or its subsidiaries and related companies) automotive safety airbag systems which can be installed in automobiles manufactured by Jinbei Automotive (or its subsidiaries and related companies). All orders under the Jinbei Supply Agreement are placed to Jinbei Jinheng. The fees chargeable by the Group will not be less favourable than those which will be charged by Jinzhou Jinheng or Jinbei Jinheng (if any) against other independent customers for the same or similar products. The Jinbei Supply Agreement also provides that the price and size of the products to be supplied to Jinbei Automotive will be determined between Jinbei Automotive and the Group on an order-by-order basis.

Based on (i) the estimated joint development of safety airbag systems for new models of the automobile between Jinbei Automotive and Jinzhou Jinheng; (ii) the launching of new models of automobiles manufactured by Jinbei Automotive, to be installed with airbag systems jointly developed by Jinbei Automotive and Jinzhou Jinheng; and (iii) the estimated maximum orders to be placed to Jinbei Jinheng as indicated by Jinbei Automotive, the Directors estimate that the total amount of products to be sold by Jinzhou Jinheng and Jinbei Jinheng to Jinbei Automotive for the three years ending 31 December 2008 will not be more than HK\$43.0 million, HK\$64.0 million and HK\$67.0 million respectively. No maximum orders are provided in the Jinbei Supply Agreement although the estimated annual figures (i.e. Jinbei Sales Caps) are mentioned. All orders under the Hafei Supply Agreement and the Jinbei Supply Agreement are placed to Hafei Jinheng and Jinbei Jinheng respectively.

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## LETTER FROM THE BOARD

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### INFORMATION ABOUT THE GROUP

The Group is principally engaged in the design, research and development, manufacture and sale of automotive safety systems. The Group's major product includes safety airbag systems used in automobiles.

### REASONS FOR ENTERING INTO THE JV ARRANGEMENT

As stated in the Prospectus, the business objectives of the Group are (i) to further strengthen its market position of manufacturing automotive safety airbag systems in the PRC, (ii) to strengthen its technical research and development capabilities and (iii) to become one of the prominent manufacturers of comprehensive automobiles safety devices and systems.

To this end, it is one of the Group's business strategies to strengthen and develop its strategic alliances with major automobile manufacturers in the PRC so as to enhance the Group's business relationship with various automobile manufacturers and increase the Group's market share in the automotive safety systems market. As further disclosed in the Prospectus, the Group also plans to commence production of key components of the Group's safety airbag systems by establishing joint ventures with its suppliers and/or strategic partners so to localize and capitalise the cost advantages of production in the PRC while securing the supply of major components of the Group's major products.

Further to the formation of 北京錦恆世嘉零部件有限責任公司 (Beijing Jinheng Sega Automotive Spare Parts Limited) as a joint venture in August 2005, details of which have been disclosed in an announcement of the Company dated 17 August 2005, the Directors (including the independent non-executive Directors) consider that the JV Arrangement which involves the design, manufacture and sale of automotive electronic parts is in the ordinary course of business of the Group and another business pursuit of the Company and the terms of which are fair and reasonable and on normal commercial terms which are in the interests of the Company and the Shareholders as a whole.

### REASONS FOR ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

As stated in the Prospectus, Hafei Jinheng is formed between Jinzhou Jinheng and Hafei Motor as a joint venture pursuant to the joint venture agreement dated 17 September 2003 for the purposes of manufacturing automotive safety airbag systems and other automotive spare parts and provision of after sales services. To further strengthen the business relationship between Hafei Jinheng and Hafei Motor, a similar tri-parties supply contract, which has been disclosed as continuing connected transactions under the section headed "Connected transaction" in the Prospectus, was entered into between Jinzhou Jinheng, Hafei Jinheng and Hafei Motor on 22 November 2004 for a term ending on 31 December 2006 for the supply of automotive airbag systems to Hafei Motor up to a maximum value of HK\$40 million, HK\$50 million and HK\$80 million for each of the three years ending 31 December 2006. The reduction of the previous maximum amount of HK\$80 million as set out in the tri-parties supply contract dated 22 November 2004 to HK\$41.5 million for the year ending 31 December 2006 under the Hafei Supply Agreement is mainly due to a revision of the sales target as a result of the delay in launching of some automobile models brought about by the unfavourable automobile industry since the second half of 2004.

For each of the three years ended 31 December 2005, actual sales of automotive airbag systems by the Group to Hafei Motor amounted to approximately HK\$35.0 million, HK\$25.6 million and HK\$25.1 million respectively. The sales to Hafei Motor have been disclosed in the Prospectus and the annual reports of the Company for 2005. Based on the unaudited figures for the three months ended 31 March 2006 (which is historically the slack season), actual sales of automotive airbag systems to Hafei Motor amounted to approximately HK\$3.5 million.

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## LETTER FROM THE BOARD

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As the original supply contract dated 22 November 2004 will soon expire within a few months on 31 December 2006 and it is expected that the Group will continue its business with Hafei Motor in the foreseeable future, the Directors consider it beneficial to enter into the Hafei Supply Agreement to renew the original supply contract and to secure a stable turnover from Hafei Motor. Renewal of the Hafei Supply Agreement at the same time of the Jinbei Supply Agreement and the JV Arrangement is also expected to minimise the administrative costs and to give the Shareholders a better picture of the development of the Company.

Similarly, Jinbei Jinheng was formed between Jinzhou Jinheng, Jinbei Automotive and Shenyang Electricity as a joint venture on 11 December 2003 for the purposes of design, manufacturing and sales of automotive safety airbag systems and related automotive spare parts and provision of after sales services. Jinbei Jinheng has just commenced its business in May 2006 and no supply agreement other than the Jinbei Supply Agreement has been entered into before. As it is expected that the Group will commence its business with Jinbei Automotive in the foreseeable future, the Directors consider it beneficial to enter into the Jinbei Supply Agreement to secure a stable turnover from Jinbei Automotive in view of the Group's strategic relationship with Jinbei Automotive through Jinbei Jinheng which was formed for such purposes.

Based on the above, the Directors consider that the entering into of the Hafei Supply Agreement and the Jinbei Supply Agreement are in the ordinary course of business of the Group and that the terms of such agreements are determined on an arm's length basis with the Hafei Motor and Jinbei Automotive respectively. Accordingly, the Directors (including the independent non-executive Directors) are of the view that the terms and conditions of the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### **IMPLICATION UNDER THE GEM LISTING RULES**

As the two (2) shareholders of Shenyang Auto Parts, namely Shenyang Electricity and Jinbei Automotive, are both substantial shareholders of Jinbei Jinheng, a non wholly-owned subsidiary of the Company, Shenyang Auto Parts, Shenyang Electricity and Jinbei Automotive are considered connected persons of the Company and based on the relevant percentage ratios, the JV Arrangement constitutes a discloseable and connected transaction on the part of the Company under Chapters 19 and 20 of the GEM Listing Rules which is subject to the reporting, announcement and the independent Shareholders' approval requirements pursuant to Rule 20.16 of the GEM Listing Rules.

As Hafei Motor is interested in 10% of Hafei Jinheng which is a subsidiary of the Company, Hafei Motor is a connected person of the Company within the meaning of the GEM Listing Rules. Accordingly, any continuing transactions between any members of the Group on the one part, and Hafei Motor on the other part will constitute continuing connected transactions subject to the requirements under the GEM Listing Rules. As the Hafei Sales Caps exceed HK\$10,000,000 per annum, the sales of automotive safety airbag systems under the Hafei Supply Agreement constitute a non-exempt continuing connected transaction under the GEM Listing Rules. The Hafei Supply Agreement including the Hafei Sales Caps is therefore subject to the reporting, announcement and the independent Shareholders' approval requirements pursuant to Rule 20.35 of the GEM Listing Rules.

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## LETTER FROM THE BOARD

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As Jinbei Automotive is interested in 14.81% of Jinbei Jinheng which is a subsidiary of the Company, Jinbei Automotive (or its subsidiaries) is a connected person of the Company within the meaning of the GEM Listing Rules. Accordingly, any continuing transactions between any members of the Group on the one part, and Jinbei Automotive (or its subsidiaries) on the other part will constitute continuing connected transactions subject to the requirements under the GEM Listing Rules. As the Jinbei Sales Caps exceed HK\$10,000,000 per annum, the sales of automotive safety airbag systems under the Jinbei Supply Agreement constitute a non-exempt continuing connected transaction under the GEM Listing Rules. The Jinbei Supply Agreement including the Jinbei Sales Caps is therefore subject to the reporting, announcement and the independent Shareholders' approval requirements pursuant to Rule 20.35 of the GEM Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Shenyang Auto Parts, Shenyang Electricity, Hafei Motor, Jinbei Automotive and their respective associates do not hold any interests in the Company.

### **WAIVER FOR CONVENING SHAREHOLDERS' MEETING**

According to Rule 20.43 of the GEM Listing Rules, where independent Shareholders' approval of a connected transaction is required, such approval shall be given by a majority vote at a general meeting of Shareholders unless (1) no Shareholders is required to abstain from voting if the Company were to convene a general meeting for the approval of the connected transaction; and (2) a written Shareholders' approval has been obtained from a Shareholder or closely allied group of Shareholders who (together) hold more than 50% in nominal value of the Shares giving the right to attend and vote at that general meeting to approve the connected transaction, in which case a written Shareholders' approval may be accepted in lieu of holding a general meeting. In this regard, the Stock Exchange may, under Rule 20.53 of the GEM Listing Rules, consider waiving the requirement to hold a Shareholders' meeting and permitting Shareholders' approval to be given in writing in the circumstances set out in Rule 20.43 of the GEM Listing Rules.

As each of Shenyang Auto Parts, Shanxi Electrical, Shenyang Electricity, Jinbei Automotive, Hafei Motor and their respective associates have no interests in the Company, no Shareholders are required to abstain from voting on the relevant resolutions to approve the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) (as the case may be). Given further that the Company has obtained a written approval from Applaud Group, the controlling Shareholder which holds more than 50% in nominal value of the total issued share capital of the Company, in respect of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps), the Company has made an application to and has been granted by the Stock Exchange for a waiver from the requirement to convene a general meeting on those grounds pursuant to Rule 20.53 of the GEM Listing Rules.

### **GENERAL**

An Independent Board Committee comprising Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong, being all independent non-executive Directors, has been formed to advise the independent Shareholders as to the terms of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps). Nuada Limited has been appointed as the independent financial adviser to the Company to advise the independent board committee and the independent Shareholders in relation to the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps).

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## LETTER FROM THE BOARD

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### PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 66, of the Articles of Association, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or
- (e) if required by the rules of the designated stock exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five per cent (5%) or more of the total voting rights at such meeting.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as demand by a member.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 13 of this circular. The Independent Board Committee, having taken into account of the advice of Nuada Limited, the independent financial adviser to the Company to advise the Independent Board Committee and the independent Shareholders in relation to the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps), the text of which is set out on pages 14 to 21 of this circular, considers the terms of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) are fair and reasonable so far as the independent Shareholders are concerned.

### FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully  
For and on behalf of the Board of  
**Jinheng Automotive Safety Technology Holdings Limited**  
**Li Feng**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

7 July 2006

*To the independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING  
FORMATION OF A JOINT VENTURE COMPANY  
AND  
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 7 July 2006 (the “Circular”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to the Independent Board Committee and to advise you on the terms of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) as to whether such terms are fair and reasonable and in the interests of the Company and the independent Shareholders as a whole.

Nuada Limited has been appointed as an independent financial adviser to advise the Independent Board Committee and the independent Shareholders in such regard. Details of its advice, together with the principal factors and reasons considered in arriving at such advice, is set out in the letter from the independent financial adviser on pages 14 to 21 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 12 of the Circular and the additional information set out in the appendix of the Circular.

Having considered the terms of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) and the advice of Nuada Limited in relation thereto, we are of the opinion that the terms of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) are fair and reasonable so far as the independent Shareholders are concerned and are in the interests of the Company and the independent Shareholders as a whole.

Yours faithfully

Independent Board Committee of

**Jinheng Automotive Safety Technology Holdings Limited**

**Chan Wai Dune**

*Independent*

*non-executive Director*

**Huang Shilin**

*Independent*

*non-executive Director*

**Zhu Tong**

*Independent*

*non-executive Director*



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## LETTER FROM NUADA LIMITED

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*The following is the text of a letter of advice from Nuada Limited in connection with the terms of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) which has been prepared for inclusion in this circular.*

Nuada Limited

7th Floor  
New York House  
60 Connaught Road Central  
Hong Kong

7 July 2006

*To the Independent Board Committee and  
the independent Shareholders of  
Jinheng Automotive Safety Technology Holdings Limited*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING FORMATION OF A JOINT VENTURE COMPANY AND CONTINUING CONNECTED TRANSACTIONS**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the independent Shareholders in respect of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps), details of which have been set out in letter from the board (the "Letter") in the circular to the Shareholders dated 7 July 2006 (the "Circular"), of which this letter forms part. Unless otherwise stated, terms used in this letter have the same meanings as those defined in the Circular.

On 16 June 2006, the Company announced that the Group entered into the JV Arrangement with Shenyang Auto Parts and Shanxi Electrical, pursuant to which the JV Company will be established in Shenyang, Liaoning Province, the PRC to engage principally in the design, manufacture and sale of automotive electronic parts. Pursuant to the JV Arrangement, the JV Company will be owned beneficially as to 40% by Jinheng HK (an indirect wholly-owned subsidiary of the Company), 15% by Jinzhou Jinheng (an indirect wholly-owned subsidiary of the Company), 30% by Shenyang Auto Parts and the remaining 15% by Shanxi Electrical. Shenyang Auto Parts is a connected person of the Company by virtue of its two substantial shareholders, namely Shenyang Electricity and Jinbei Automotive, being substantial shareholders of Jinbei Jinheng (a non-wholly-owned subsidiary of the Company). To the best of the Directors' knowledge, information and belief having made all reasonable inquiries, Shanxi Electrical and its ultimate beneficial owner(s) are Independent Third Parties.

As Shenyang Auto Parts is a connected person of the Company and based on the relevant percentage ratios, the JV Arrangement constitutes a discloseable and connected transaction on the part of the Company under Chapters 19 and 20 of the GEM Listing Rules and is subject to the reporting, announcement and independent Shareholders' approval requirement under the GEM Listing Rules.

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## LETTER FROM NUADA LIMITED

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The Company further announced on 16 June 2006 that the Group entered into the Hafei Supply Agreement with Hafei Motor, pursuant to which, Jinzhou Jinheng and Hafei Jinheng will manufacture and sell to Hafei Motor automotive safety airbag systems which can be installed in automobiles manufactured by Hafei Motor. As Hafei Jinheng is owned as to 90% by the Company and 10% by Hafei Motor, Hafei Motor is a connected person of the Company under the GEM Listing Rules. As the Hafei Sales Caps exceeds 10,000,000 per annum, the Hafei Supply Agreement constitutes a non-exempt continuing connected transaction under the GEM Listing Rules. The Hafei Supply Agreement (including the Hafei Sales Caps) is therefore subject to reporting, announcement and independent Shareholders' approval requirement pursuant to Rule 20.35 of the GEM Listing Rules.

The Company further announced on 16 June 2006 that the Group entered into the Jinbei Supply Agreement with Jinbei Automotive, pursuant to which, Jinzhou Jinheng and Jinbei Jinheng will manufacture and sell to Jinbei Automotive (or its subsidiaries and related companies) automotive safety airbag systems which can be installed in automobiles manufactured by Jinbei Automotive (or its subsidiaries and related companies). As Jinbei Automotive is a substantial shareholder of Jinbei Jinheng, which is a non-wholly-owned subsidiary of the Company, Jinbei Automotive (or its subsidiaries) is a connected person of the Company under the GEM Listing Rules. As the Jinbei Sales Caps exceeds 10,000,000 per annum, the Jinbei Supply Agreement constitutes a non-exempt continuing connected transaction under the GEM Listing Rules. The Jinbei Supply Agreement (including the Jinbei Sales Caps) is therefore subject to reporting, announcement and independent Shareholders' approval requirement pursuant to Rule 20.35 of the GEM Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquires, Shenyang Auto Parts, Shanxi Electrical, Shenyang Electricity, Jinbei Automotive, Hafei Motor and their respective associates did not hold any interest in the Company as at the Latest Practicable Date. As such, no Shareholder is required to abstain from voting on the relevant resolutions to approve the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and Jinbei Supply Agreement (including the Jinbei Sales Caps) (as the case may be). Given further that the Company has obtained a written approval from Applaud Group, the controlling Shareholder which holds more than 50% in nominal value of the total issued share capital of the Company, in respect of the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps), the Company has made an application pursuant to Rule 20.53 of the GEM Listing Rules to the Stock Exchange for a waiver from the requirement to convene a general meeting on those grounds.

The Independent Board Committee has been formed to advise the independent Shareholders as to whether the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) are in the interests of the Company and the Shareholders as a whole and whether their respective terms are fair and reasonable. We have been appointed to advise the Independent Board Committee and the independent Shareholders as to whether the JV Arrangement, the Hafei Supply Agreement (including the Hafei Sales Caps) and the Jinbei Supply Agreement (including the Jinbei Sales Caps) are in the interests of the Company and the Shareholders as a whole and whether their respective terms are fair and reasonable.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company and the Directors and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be so at the date hereof. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

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## LETTER FROM NUADA LIMITED

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The Directors collectively and severally accept full responsibility for the accuracy of the information contained in the Circular. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to form a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business and affairs of the Group and the parties involved in the JV arrangement, the Hafei Supply Agreement and the Jinbei Supply Agreement or the prospects of the markets in which they operate.

### **THE JV ARRANGEMENT**

In formulating our opinion regarding the JV Arrangement, we have taken into consideration the following principal factors:

#### **Background of and reasons for entering into the JV Arrangement**

The Group is principally engaged in the design, research and development, manufacture and sale of automotive safety systems. The major product of the Group includes safety airbag systems used in automobiles. The Company was listed on GEM in December 2004. As stated in the Prospectus, the business objectives of the Group are (i) to further strengthen its market position of manufacturing automotive safety airbag systems in the PRC; (ii) to strengthen its technical research and development capabilities and (iii) to become one of the prominent manufacturers of comprehensive automobiles safety devices and systems. As the JV Company will be engaged principally in the design, manufacture and sale of automotive electronic parts in Shenyang, we consider that the JV Arrangement is in line with the business objectives of the Group.

As stated in the Letter, it is one of the Group's business strategies to strengthen and develop strategic alliances with major automobile manufacturers in the PRC so as to enhance the Group's business relationship with various automobile manufacturers and increase the Group's market share in the automotive safety system market. As further disclosed in the Prospectus, the Group also plans to commence production of key components of the Group's safety airbag systems by establishing joint ventures with its suppliers and/or strategic partners so as to localized and capitalize the cost advantages of production in the PRC while securing the supply of major component of the Group's major products.

Based on the above, we consider that the JV Arrangement is in line with the business objectives of the Group as well as the strategies of the Group to form joint ventures with suppliers and/or strategic partners for secured component supply and production cost advantage as well as enhancing business relationship with the parties to the JV Arrangement. As such, we are of the view that the entering into of the JV Arrangement is in the interests of the Company and the Shareholders as a whole.

#### **Principal terms of the JV Arrangement**

##### *Shareholding interest in the JV Company*

Pursuant to the JV Arrangement, the total investment for the JV Company will be RMB36,000,000 and the registered capital of the JV Company will be RMB30,000,000, of which RMB12,000,000, RMB4,500,000, RMB9,000,000 and RMB4,500,000 will be contributed by Jinheng HK, Jinzhou Jinheng, Shenyang Auto Parts and Shanxi Electrical respectively in proportion to their respective holding of the

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## LETTER FROM NUADA LIMITED

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JV Company. Pursuant to the JV Arrangement, Shenyang Auto Parts and Shanxi Electrical will contribute by way of cash whereas Jinheng HK will make its portion of contribution by acquiring new production facilities for the JV Company and Jinzhou Jinheng will contribute by injecting non-patented technology/know-how, which will be valued by an independent valuer, into the JV Company. As confirmed by the Company, the valuation shall not be prepared until proper registration of the JV Company has been done and the injection of non-patented technology/know-how, the value of which will be valued by an independent valuer, shall be governed by the articles of the JV Company.

As the contribution amounts to be made by Jinheng HK, Jinzhou Jinheng, Shenyang Auto Parts and Shanxi Electrical are in the proportion to their respective shareholding interests in the registered capital of the JV Company under the JV Arrangement, we are of the view that the proposed investment of RMB12,000,000 by Jinheng HK and RMB4,500,000 by Jinzhou Jinheng, being an aggregate of 55% of the registered capital of the JV Company, has been arrived at on a fair and reasonable basis.

### *Profit sharing arrangement and board composition*

As stated in the Letter, the profits of the JV Company will be shared among the parties to the JV Arrangement in proportion to their respective interests in the JV Company. As such, we consider the profit sharing arrangement of the JV Company fair and reasonable so far as the Company and the independent Shareholders are concerned.

As stated in the Letter, the board of directors of the JV Company (the "JV Board") shall comprise five directors of whom one will be the chairman. Each of Jinheng HK and Shenyang Auto Parts shall be entitled to appoint two members to the JV Board and Jinzhou Jinheng shall be entitled to appoint one member to the JV Board. As the Group will have majority control over the JV Board, we consider that board composition arrangement of the JV Company is fair and reasonable so far as the Company and the independent Shareholders are concerned.

### *Transfer of interests in the JV Company*

As stated in the Letter, the parties to the JV Arrangement may transfer their interests in the JV Company among themselves. However, none of the parties to the JV Arrangement are entitled to transfer all or any part of their respective interests in the JV Company to a third party unless consents from the other parties to the JV Arrangement are obtained. Consents of transfer to third parties are deemed to have been obtained if the objecting party to the JV Arrangement does not take up the interest under the transfer. The parties to the JV arrangement shall have priority in taking up the interests being offered.

As the rights and restrictions to transfer interests in the JV Company apply to all the parties to the JV Arrangement, we consider such arrangement in relation to the transfer of interests in the JV Company fair and reasonable so far as the Company and the independent Shareholders are concerned.

### **Financial effects of the JV Arrangement**

Upon completion of the JV Arrangement, the JV Company will become a 55%-owned subsidiary of the Company and its financial results will be consolidated with that of the Group. As the JV Company is a newly formed company which has yet to commence its business operation, there will be no immediate effect on the earnings of the Group upon the establishment of the JV Company.

The Group intends to finance its portion of contribution to the JV Company from the proceeds received from the issue of the convertible note, the details of which were disclosed in the announcement of the Company dated 3 May 2006. The Company has advised that immediately upon completion of the JV Arrangement, there will not be any significant impact on the net asset value of the Group.

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## LETTER FROM NUADA LIMITED

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### THE HAFEI SUPPLY AGREEMENT

In formulating our opinion regarding the Hafei Supply Agreement, we have taken into consideration the following principal factors:

#### **Background and reasons for entering into the Hafei Supply Agreement**

As mentioned above, the Group is principally engaged in the design, research and development, manufacture and sale of automotive safety systems and the Group's major products includes safety airbag systems used in automobiles. The Group has been supplying automotive safety airbag systems for installing in automobiles manufactured by Hafei Motor. As stated in the Prospectus, Hafei Jinheng was formed between Jinzhou Jinheng and Hafei Motor as a joint venture pursuant to the joint venture agreement dated 17 September 2003 for the purpose of manufacturing automotive safety airbag systems and other automotive spare parts and provision of after-sales services. It was also disclosed in the Prospectus that Jinzhou Jinheng, Hafei Jinheng and Hafei Motor entered into a tri-parties supply contract on 22 November 2004 (the "Original Contract") for the sales of automotive airbag systems by the Group to Hafei Motor.

As the Original Contract will be expire on 31 December 2006 and it is expected that the Group will continue its business with Hafei Motor in the foreseeable future, the Directors consider that it is beneficial to the Group to enter into the Hafei Supply Agreement to renew the Original Contract and to secure a stable turnover from Hafei Motor. Pursuant to the Hafei Supply Agreement, Jinzhou Jinheng and Hafei Jinheng will manufacture and sell to Hafei Motor automotive safety airbag systems which can be installed in automobiles manufactured by Hafei Motor. All orders under the Hafei Supply Agreement are placed to Hafei Jinheng. The Directors also consider that the entering into of the Hafei Supply Agreement is in the ordinary course of business of the Group and the terms of Hafei Supply Agreement are determined on an arm's length basis with Hafei Motor.

Given (1) the sale of automotive safety systems is the principal business of the Group; (ii) automotive safety airbag systems are major products of the Group; (iii) Hafei Motor has been purchasing automotive safety airbag systems from Hafei Jinheng for the past few years; and (iv) the Hafei Supply Agreement would continue to enhance the business relationship with and secure turnover from Hafei Motor, we consider that the entering into of the Hafei Supply Agreement is in line with the Group's business and in the interests of the Company and the Shareholders as a whole.

#### **Principal terms of the Hafei Supply Agreement**

Pursuant to the Hafei Supply Agreement, Jinzhou Jinheng and Hafei Jinheng will manufacture and sell to Hafei Motor automotive safety airbag systems which can be installed in automobiles manufactured by Hafei Motor. The fees chargeable by the Group will not be less favourable than those which will be charged by Jinzhou Jinheng or Hafei Jinheng (if any) to other independent customers for the same or similar products.

Under the Original Contract, the Group has been supplying automotive safety airbag systems to Hafei Motor. As disclosed in the annual report 2004 and 2005 of the Company, the independent non-executive directors of the Company had reviewed and confirmed that the continuing connected transactions under the Original Contract were entered into either on commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties. For reference purpose, we have compared the estimated prices for similar products to be offered by the Group to Hafei Motor and that to other independent customers for the year ended 31 December 2005. We note that the estimated unit sale price for similar products to be offered by the Group to Hafei Motor was comparable to that offered to other independent customers.

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## LETTER FROM NUADA LIMITED

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We consider the term as stipulated in the Hafei Supply Agreement that the fees chargeable by the Group will not be less favourable than those which will be charged by Jinzhou Jinheng or Hafei Jinheng (if any) to other independent customers for the same or similar products is fair and reasonable so far as the Company and the independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### **The Hafei Sales Caps**

As stated in the Letter, the Hafei Sales Caps contemplated under the Hafei Supply Agreement for each of the three years ending 31 December 2008 is HK\$41.5 million, HK\$53.4 million and HK\$70.4 million respectively. As stated in the Letter, the Hafei Sales Caps is determined based on (i) the historical sales of automotive safety airbag systems by Jinzhou Jinheng to Hafei Motor for the three financial years ended 31 December 2005; (ii) the estimated increase in joint development of safety airbag systems for new models of automobiles between Hafei Motor and Jinzhou Jinheng; (iii) the launching of new models of automobiles manufactured by Hafei Motor, to be installed with airbag systems jointly developed by Hafei Motor and Jinzhou Jinheng; and (iv) the estimated maximum orders to be placed to Hafei Jinheng as indicated by Hafei Motor.

As stated in the Prospectus, the maximum annual sales caps for the sale of automotive safety airbag systems by the Group to Hafei Motor under the Original Contract was HK\$40 million, HK\$50 million and HK\$80 million respectively for each of the three years ending 31 December 2006. It is noted that for each of the three years ended 31 December 2005, the actual sales of automotive safety airbag systems by the Group to Hafei Motor amounted to approximately HK\$35.0 million, HK\$25.6 million and HK\$25.1 million respectively. Based on the unaudited figures for the three months ended 31 March 2006 (which is historically the slack season), the actual sales of automotive safety airbag systems to Hafei Motor amounted to approximately HK\$3.5 million. Taking into account the actual sales for the past few years and the revision of the sales target by the Group as a result of the delay in launching of some automobile models brought about by the unfavourable automobile industry since the second half of 2004, we consider that it is prudent and reasonable for the Group to reduce the maximum annual sales caps of automotive safety airbag systems by the Group to Hafei Motor for the year ending 31 December 2006 to HK\$41.5 million under the Hafei Supply Agreement from HK\$80 million under the Original Contract.

Despite the sales of automotive safety airbag systems by the Group to Hafei Motor for the three years ended 31 December 2005 which is affected by the unfavourable automobile industry since the second half of 2004, the automobile industry in the PRC has been showing a sign of recovery and growth recently. According to the China Association of Automobile Manufacturers (中國汽車業協會), the total sales volume of automobiles in the PRC reached approximately 5.92 million vehicles in 2005, taking over Japan to rank the world's second behind Germany. China Association of Automobile Manufacturers also expected that the sales of automobiles in the PRC would increase to approximately 9.0 million vehicles in 2010. In fact, the total sales volume of automobiles in the PRC has already reached approximately 2.97 million vehicles for the first five months in 2006, representing an increase of 30.84% as compared to the corresponding period in the preceding year, according to the China Association of Automobile Manufacturers.

Taking into account (a) the actual sales of automotive safety airbag systems by the Group to Hafei Motor for the three years ended 31 December 2005; (b) the recent sign of recovery and growth of the automobile industry in the PRC; (c) the purpose of entering into the Hafei Supply Agreement is to renew the Original Contract and to secure turnover from Hafei Motor; and (d) the fees chargeable by the Group will not be less favourable than those which will be charged by Jinzhou Jinheng or Hafei Jinheng (if any) to other independent customers for the same or similar products, we consider that the Hafei Sales Caps,

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## LETTER FROM NUADA LIMITED

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which is determined based on (i) the historical sales of automotive safety airbag systems to Hafei Motor by the Group for the three years ended 31 December 2005; (ii) the estimated increase in joint development of safety airbag systems for new models of automobiles between Hafei Motor and Jinzhou Jinheng; (iii) the launching of new models of automobiles manufactured by Hafei Motor, to be installed with airbag systems jointly developed by Hafei Motor and Jinzhou Jinheng; and (iv) the estimated maximum order amount to be placed to Hafei Jinheng as indicated by Hafei Motor, is fair and reasonable, and is in the interests of the Company and the Shareholders as a whole.

### **THE JINBEI SUPPLY AGREEMENT**

In formulating our opinion regarding the Jinbei Supply Agreement, we have taken into consideration the following principal factors:

#### **Background and reasons for entering into the Jinbei Supply Agreement**

The Jinbei Supply Agreement was entered into between Jinzhou Jinheng, Jinbei Jinheng and Jinbei Automotive, pursuant to which, Jinzhou Jinheng and Jinbei Jinheng will manufacture and sell to Jinbei Automotive (or its subsidiaries and related companies) automotive safety airbag systems which can be installed in automobiles manufactured by Jinbei Automotive (or its subsidiaries and related companies). All orders under the Jinbei Supply Agreement are placed to Jinbei Jinheng. Jinbei Jinheng was formed between Jinzhou Jinheng, Jinbei Automotive and Shenyang Electricity as a joint venture on 11 December 2003 for the purposes of design, manufacture and sale of automotive safety airbag systems and related automotive spare parts and provision of after-sales services. Jinbei Jinheng has just commenced its business in May 2006. As it is expected that the Group will commence its business with Jinbei Automotive in the foreseeable future, the Directors consider it beneficial to enter into the Jinbei Supply Agreement to secure a stable turnover from Jinbei Automotive in view of the Group's strategic relationship with Jinbei Automotive through Jinbei Jinheng which was formed for such purposes. The Directors also consider that the entering into of the Jinbei Supply Agreement is in the ordinary course of business of the Group and the terms of the Jinbei Supply Agreement are determined on an arm's length basis with Jinbei Automotive.

Given (a) the sale of automotive safety systems is the principal business of the Group; (b) automotive safety airbag systems are major products of the Group; (c) the purpose of the formation of Jinbei Jinheng between Jinzhou Jinheng, Jinbei Automotive and Shenyang Electricity is to develop strategic relationship with Jinbei Automotive; and (d) turnover will be secured from Jinbei Automotive, we consider that the entering into of the Jinbei Supply Agreement is in line with the Group's business, and in the interests of the Company and the Shareholders as a whole.

#### **Principal terms of the Jinbei Supply Agreement**

Pursuant to the Jinbei Supply Agreement, Jinzhou Jinheng and Jinbei Jinheng will manufacture and sell to Jinbei Automotive (or its subsidiaries) automotive safety airbag systems which can be installed in automobiles manufactured by Jinbei Automotive (or its subsidiaries). The fees chargeable by the Group will not be less favourable than those which will be charged by Jinzhou Jinheng or Jinbei Jinheng (if any) to other independent customers for the same or similar products.

We consider the term as stipulated under the Jinbei Supply Agreement that the fees chargeable by the Group will not be less favourable than those which will be charged by Jinzhou Jinheng or Jinbei Jinheng (if any) to other independent customers for the same or similar products is fair and reasonable so far as the Company and the independent Shareholders are concerned, on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM NUADA LIMITED

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### **The Jinbei Sales Caps**

As stated in the Letter, the Jinbei Sales Caps contemplated under the Jinbei Supply Agreement for each of the three years ending 31 December 2008 is HK\$43.0 million, HK\$64.0 million and HK\$67.0 million respectively. The Jinbei Sales Caps is determined based on (i) the estimated joint development of safety airbag systems for new models of automobiles between Jinheng Automotive and Jinzhou Jinheng; (ii) the launching of new models of automobiles manufactured by Jinheng Automotive, to be installed with safety airbag systems jointly developed by Jinbei Automotive and Jinzhou Jinheng for the three years ending 31 December 2008; and (iii) the estimated maximum orders to be placed to Jinbei Jinheng as indicated by Jinbei Automotive for the three years ending 31 December 2008.

As mentioned above, the automobile industry in the PRC has been showing a sign of recovery and growth recently. According to China Association of Automobile Manufacturers, the total sales volume of automobiles in the PRC reached approximately 5.92 million vehicles in 2005, taking over Japan to rank the world's second behind Germany. China Association of Automotive Manufacturers also expected that the sales of automobiles in the PRC would increase to approximately 9.0 million vehicles in 2010. In fact, the total sales volume of automobiles in the PRC has already reached approximately 2.97 million vehicles for the first five months in 2006, representing an increase of 30.84% as compared to the corresponding period in the preceding year, according to China Association of Automobile Manufacturers.

Taking into account (a) the recent sign of recovery and growth of the automobile industry; (b) the purpose of the formation of Jinbei Jinheng for joint development of safety airbag systems for new models of automobiles manufactured by Jinheng Automotive; (c) the entering into of the Jinbei Supply Agreement for securing turnover from Jinbei Automotive; and (d) the fees chargeable by the Group will not be less favourable than those which will be charged by Jinzhou Jinheng or Jinbei Jinheng (if any) to other independent customers for the same or similar products, we consider that the Jinbei Sales Caps, which is determined based on (i) the estimated joint development of safety airbag systems for new models of automobiles between Jinbei Automotive and Jinzhou Jinheng; (ii) the launching of new models of automobiles manufactured by Jinbei Automotive, to be installed with airbag systems jointly developed by Jinbei Automotive and Jinzhou Jinheng and (iii) the estimated maximum orders to be placed to Jinbei Jinheng as indicated by Jinbei Automotive, is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

### **RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the opinion that the entering into of the JV Arrangement, Hafei Supply Agreement (including the Hafei Sales Caps) and Jinbei Supply Agreement (including the Jinbei Sales Caps) are in the interests of the Company and the Shareholders as a whole, on normal commercial terms, in the ordinary course of business of the Group and the terms of which are fair and reasonable so far as the Company and the independent Shareholders are concerned.

Independent Shareholders should, however, note that the Company has made an application pursuant to Rule 20.53 of the GEM Listing Rules to the Stock Exchange for a waiver from the requirement to convene a general meeting on the grounds as detailed in the Letter.

Yours faithfully,  
For and on behalf of  
**Nuada Limited**  
**Bernard Chan**  
*Director*



**1. RESPONSIBILITY STATEMENT**

This circular, 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:

- (a) the information contained in this circular is accurate and complete in all material respects and is not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**2. DISCLOSURE OF INTERESTS****(a) Director's interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

*(i) Long positions in issued Shares*

Name of Director	Capacity	Number of Shares	Approximate percentage of shareholding
Li Feng	Interest of a controlled corporation <i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 1)</i>
	Beneficial owner <i>(Note 2)</i>	1,040,000 <i>(Note 2)</i>	0.27%
Xing Zhanwu	Interest of a controlled corporation <i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 1)</i>
	Beneficial owner <i>(Note 2)</i>	800,000 <i>(Note 2)</i>	0.21%

Name of Director	Capacity	Number of Shares	Approximate percentage of shareholding
Li Hong	Interest of a controlled corporation (Note 1)	(Note 1)	(Note 1)
Yang Donglin	Interest of a controlled corporation (Note 1)	(Note 1)	(Note 1)
Zhao Qingjie	Interest of a controlled corporation (Note 1)	(Note 1)	(Note 1)
Foo Tin Chung, Victor	Beneficial owner (Note 2)	320,000 (Note 2)	0.08%

Notes :

1. The following Directors held an indirect interest in the Company through their interests in Applaud Group which held approximately 61.89% shareholdings in the Company:

Shareholder	Number of shares held in Applaud Group	Approximate percentage of shareholding (%)
Li Feng	2,286	22.86
Xing Zhanwu	1,281	12.81
Li Hong	616	6.16
Yang Donglin	565	5.65
Zhao Qingjie	1,750	17.50
Others	3,502	35.02
Total	<u>10,000</u>	<u>100</u>

2. On 29 March 2006, each of Mr. Li, Mr. Xing and Mr. Foo exercised their respective share options granted to them under the Pre-IPO Share Options Scheme.

(ii) *Long positions in underlying Shares of equity derivatives*

The following Directors have been granted options under the Pre-IPO Share Option Scheme, details of which are set out below:

Name of Director	No. of options	Date granted	Period during which options are exercisable	Exercise price per Share
Li Feng	1,560,000	22 November 2004	9 December 2005 to 9 December 2008	HK\$0.38
Xing Zhanwu	1,200,000	22 November 2004	9 December 2005 to 9 December 2008	HK\$0.38
Foo Tin Chung, Victor	480,000	22 November 2004	9 December 2005 to 9 December 2008	HK\$0.38

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of shareholding/ equity interest in a member of the Group/ an associated corporation of the Company
Applaud Group	Beneficial owner	238,620,000	61.89%
Hafei Motor ( <i>Note 1</i> )	shareholder of a member of the Group	0	10%
Shenyang Electricity ( <i>Note 2</i> )	shareholder of a member of the Group	0	22.22%
Jinbei Automotive ( <i>Note 3</i> )	shareholder of a member of the Group	0	14.81%
Taiyuan Aero-Instruments Co., Ltd. ( <i>Note 4</i> )	shareholder of an associated corporation of the Company	0	40%
Winner Investment Limited ( <i>Note 5</i> )	shareholder of an associated corporation of the Company	0	25%

*Notes:*

1. Hafei Motor., a joint venture company established in the PRC with limited liability, holds 10% equity interest in Harbin Hafei Jinheng Automotive Safety System Co. Ltd.
2. Shenyang Electricity, a state-owned enterprise established in the PRC with limited liability, holds 22.22% equity interest in Jinbei Jinheng.
3. Jinbei Automotive, a state-owned enterprise established in the PRC with limited liability, the issued shares of which are listed on the Shanghai Stock Exchange, holds 14.81% equity interest in Jinbei Jinheng.
4. Taiyuan Aero-Instruments Co., Ltd., a state-owned enterprise established in the PRC with limited liability, holds 40% equity interest in Shanxi Jinheng Automotive Spare Parts Co. Ltd.
5. Winner Investment Limited, incorporated in Hong Kong with limited liability, holds 25% equity interest in Shanxi Jinheng Automotive Spare Parts Co. Ltd.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

### 3. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or the management Shareholders (as defined in the GEM Listing Rules) or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up.

There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

### 4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

## 5. SERVICE CONTRACTS

On 22 November 2004, all executive Directors entered into a service contract with the Company for an initial term of three years effective from 9 December 2004, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to a basic salary as follows:

<b>Name of Director</b>	<b>Annual salary (HK\$)</b>
Li Feng	700,008
Zhao Qingjie	500,004
Xing Zhanwu	500,004
Yang Donglin	180,000
Foo Tin Chung, Victor	624,000

All executive Directors are also entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the Group attributable to Shareholders. The percentage shall be determined by the Board but in any case the aggregate amount payable for each financial year to all executive Directors shall not exceed 4% of such profit.

Save and except the above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## 6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest audited financial statements of the Company were made up.

## 7. EXPERT

Nuada Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter(s) and/or references to its name in the form and context in which they respectively appear.

The following is the qualification of the expert who has provided its advice and reports (as the case may be), which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Nuada Limited	a licensed corporation to conduct type 6 of the regulated activities registered under the SFO

As at the Latest Practicable Date, Nuada Limited was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group, or any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up.

## 8. GENERAL

- (a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (b) The head office and principal place of business of the Company in the PRC is at Bohai Avenue, Jinzhou Economic & Technical Development Zone, Jinzhou, Liaoning Province, PRC and the principal place of business of the Company in Hong Kong is at Unit 1203, 12th Floor, Crocodile House II, 55 Connaught Road Central, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The compliance officer, company secretary and qualified accountant of the Company is Mr. Foo Tin Chung, Victor who is graduated from the University of New South Wales in Australia. Mr. Foo is a member of the Australia Society of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (e) The Company has established an audit committee on 22 November 2004 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The audit committee comprises the three independent non-executive Directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong. Mr. Chan Wai Dune is the chairman of the audit committee.

Mr. Chan Wai Dune, aged 53, is a fellow member of the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Certified Public Accountants. Mr. Chan is the managing director of CCIF CPA Limited, a firm of certified public accountants in Hong Kong. Mr. Chan is currently a member of CPPCC of Guangzhou Municipal Committee and the Executive Council of China Overseas Friendship Association. Mr. Chan was a member of the Selection Committee for the First Government of The Hong Kong Special Administrative Region. Mr. Chan currently serves as an independent non-executive director of the Company, Chuang's China Investments Limited, Hualing Holdings Limited, Hunan Nonferrous Metals Corporation Limited, Mexan Limited, Minmetals Resources Limited, Sam Woo Holdings Limited, Sino Union Petroleum & Chemical International Limited and Zhongda International Holdings Limited, all are listed on the Stock Exchange. In the past three years, Mr. Chan has had, at different times, held

directorships at China Treasure (Greater China) Investments Limited, Eva Precision Industrial Holdings Limited and IIN International Limited, all are listed on the Stock Exchange, and as of the Latest Practicable Date, he has resigned from these three companies. Mr. Chan was appointed as independent non-executive Director in March 2004.

Mr. Huang Shilin, aged 73, graduated from 莫斯科汽車機械學院 (Moscow State Academy of Automobile Engineering) in 1957 and obtained an associate doctoral degree in 1959. Mr. Huang started working in the department of automobile engineering of Tsing Hua University, PRC in 1960. In 1987, he became a professor and doctoral tutor, deputy head of 汽車研究所 (Automobile Research Center) at Tsing Hua University, as well as the supervisor of 汽車碰撞實驗室 (Vehicle Collision Laboratory) of National Laboratory in Automotive Safety and Energy. He is currently the honorary supervisor of the 汽車安全技術分會 (Chapter of Automobile Safety Technology) of The Society of Automotive Engineers of China. Mr. Huang was appointed as an independent non-executive Director in November 2005.

Mr. Zhu Tong, aged 34, is currently the assistant general manager of 興業證券股份有限公司 Xing Ye Securities Co., Ltd. Mr. Zhu graduated from the Research Institute of the People's Bank of China in 1998 with a master's degree in international finance. Mr. Zhu was appointed as an independent non-executive Director in March 2004.

Save as disclosed above, the members of the audit committee have no other directorship in other listed company.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to 24 July 2006:

- (a) the joint venture agreement and the articles of the JV Company, both dated 16 June 2006 and entered into among Jinheng HK, Jinzhou Jinheng, Shenyang Auto Parts, and Shanxi Electrical in respect of the establishment of the JV Company to engage in the design, manufacture and sale of automotive electronic parts;
- (b) the Hafei Supply Agreement;
- (c) the Jinbei Supply Agreement;
- (d) the letter of advice from Nuada Limited to the Independent Board Committee, the text of which is set out on pages 14 to 21 in this circular;
- (e) the letter of recommendation from the Independent Board Committee to the independent Shareholders, the text of which is set out on page 13 in this circular;
- (f) the written consent from Nuada Limited as referred to in the paragraph headed "Expert" above;
- (g) the service agreements referred to in the section headed "Service Contracts" in this Appendix;

- (h) the joint venture agreement dated 17 September 2003 made between Jinzhou Jinheng and Hafei Motor for the formation of Hafei Jinheng as a joint venture for the purposes of manufacturing automotive safety airbag systems and other automotive spare parts and provision of after sales services;
- (i) the tri-parties supply contract entered into between Jinzhou Jinheng, Hafei Jinheng and Hafei Motor on 22 November 2004 for a term ending on 31 December 2006 for the supply of automotive airbag systems to Hafei Motor;
- (j) the joint venture agreement dated 5 September 2003 made between Jinzhou Jinheng, Jinbei Automotive and Shenyang Electricity for the formation of Jinbei Jinheng as a joint venture for the purposes of manufacturing automotive safety airbag systems and other automotive spare parts and provision of after sales services; and
- (k) the joint venture agreement dated 17 August 2005 made between Handful Investments Limited and Beijing Jin Chuang Li Technology Limited for the formation of 北京錦恆世嘉零部件有限責任公司(Beijing Jinheng Sega Automotive Spare Parts Limited) as a joint venture for the purposes of manufacturing and sale of automotive steering wheels, which forms part of an automotive safety system.