

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8293)



2006
THIRD QUARTERLY REPORT

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

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

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

CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2006

	Note	Three months ended 30 September		Nine months ended 30 September	
		2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Turnover	3	75,054,591	47,109,750	215,514,704	141,739,778
Cost of sales		(50,326,860)	(34,392,438)	(152,416,327)	(100,187,333)
Gross profit		24,727,731	12,717,312	63,098,377	41,552,445
Other revenue		1,798,584	317,950	2,961,315	676,633
Other net (loss)/income		(197,956)	20,167	(224,693)	(105,931)
Research and development expenses		(1,225,168)	(834,814)	(2,781,428)	(2,429,374)
Distribution costs		(1,411,289)	(387,339)	(4,013,691)	(2,297,348)
Administrative expenses		(6,703,061)	(4,513,106)	(19,432,570)	(13,446,812)
Recognition of negative goodwill		–	–	79,442	–
Profit from operations		16,988,841	7,320,170	39,686,752	23,949,613
Finance costs		(2,717,657)	(718,292)	(5,470,301)	(1,911,566)
Share of profits/(losses) of jointly controlled entities		191,210	(102,312)	1,526,075	(87,012)
Profit before taxation		14,462,394	6,499,566	35,742,526	21,951,035
Income tax	4	(2,186,289)	(16,177)	(5,192,578)	42,901
Profit for the period		12,276,105	6,483,389	30,549,948	21,993,936
Attributable to:					
Equity shareholders of the Company		12,374,347	6,477,107	29,800,237	22,004,907
Minority interests		(98,242)	6,282	749,711	(10,971)
Profit for the period		12,276,105	6,483,389	30,549,948	21,993,936
Earnings per share					
– Basic	5(a)	HK3.22 cents	HK1.70 cents	HK7.76 cents	HK5.78 cents
– Diluted	5(b)	HK3.19 cents	HK1.67 cents	HK7.67 cents	HK5.67 cents

The notes on pages 3 to 7 form part of this financial report.

Notes:

1. Basis of preparation

This quarterly report has been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies adopted in the preparation of this 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 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. Changes in accounting policies

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

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

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

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

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

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

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

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

2. Changes in accounting policies (continued)*(b) Employee share option scheme (HKFRS 2, Share-based payment) (continued)*

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

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

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

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

3. Turnover

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

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

Turnover recognised during the period may be analysed as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Sales of mechanical airbag systems	11,468,478	18,035,279	55,201,183	50,560,523
Sales of electronic airbag systems	53,050,677	23,514,991	132,379,139	53,065,344
Sales of automotive safety system components and other safety products	10,535,436	5,559,480	27,934,382	38,113,911
	75,054,591	47,109,750	215,514,704	141,739,778

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

4. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Three months ended 30 September		Nine months ended 30 September	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Current tax				
PRC income tax for the period	(1,718,933)	(18,232)	(4,130,872)	(66,029)
	(1,718,933)	(18,232)	(4,130,872)	(66,029)
Deferred tax				
Origination and reversal of temporary differences	(467,356)	2,055	(1,061,706)	108,930
Total income tax (expense)/credit	(2,186,289)	(16,177)	(5,192,578)	42,901

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits subject to Hong Kong profits tax during the period.

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

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

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

5. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for each of the three months and nine months ended 30 September 2006 are based on the profit attributable to ordinary equity shareholders of the Company HK\$12,374,347 and HK\$29,800,237 respectively (for each of the three months and nine months ended 30 September 2005: HK\$6,477,107 and HK\$22,004,907 respectively) and the weighted average of 384,106,813 and 384,106,813 (for each of the three months and nine months ended 30 September 2005: 381,000,000 and 381,000,000 respectively) ordinary shares respectively in issue during the period, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares Three months ended 30 September		Number of shares Nine months ended 30 September	
	2006	2005	2006	2005
Issued ordinary shares at 1 January	381,000,000	381,000,000	381,000,000	381,000,000
Effect of shares issued pursuant to the exercise of share options	3,106,813	–	3,106,813	–
Weighted average number of ordinary shares (basic) at 30 September	384,106,813	381,000,000	384,106,813	381,000,000

(b) Diluted earnings per share

The calculation of diluted earnings per share for each of the three months and nine months ended 30 September 2006 are based on the profit attributable to ordinary equity shareholders of the Company HK\$12,374,347 and HK\$29,800,237 respectively (for each of the three months and nine months ended 30 September 2005: HK\$6,477,107 and HK\$22,004,907 respectively) and the weighted average of 388,005,006 and 388,736,224 (for each of the three months and nine months ended 30 September 2005: 388,152,941 and 388,152,941 respectively) ordinary shares respectively in issue during the period, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Number of shares Three months ended 30 September		Number of shares Nine months ended 30 September	
	2006	2005	2006	2005
Weighted average number of ordinary shares at 30 September	384,106,813	381,000,000	384,106,813	381,000,000
Effect of deemed issue of ordinary shares under the Company's share option scheme for Company's nil consideration	3,898,193	7,152,941	4,629,411	7,152,941
Weighted average number of ordinary shares (diluted) at 30 September	388,005,006	388,152,941	388,736,224	388,152,941

6. Reserves

	Attributable to equity shareholders of the Company											Total
	Share premium	Merger reserve	Statutory		Convertible				Retained profits	Sub-total	Minority interests	
			surplus reserve	public welfare fund	Capital reserve	notes reserve	Revaluation reserve	Exchange reserve				
			HK\$	HK\$	HK\$	HK\$	HK\$	HK\$				
At 1 January 2005												
- as previously report	80,168,124	36,341,236	8,749,449	4,374,723	-	-	-	-	43,283,556	172,917,088	1,187,182	174,104,270
- prior period adjustment in respect of:												
- HKFRS 2	-	-	-	-	345,000	-	-	-	(345,000)	-	-	-
- HKAS 31	-	-	-	-	3,403,757	-	-	-	-	3,403,757	-	3,403,757
- as restated	80,168,124	36,341,236	8,749,449	4,374,723	3,748,757	-	-	-	42,938,556	176,320,845	1,187,182	177,508,027
Equity settled share-based transactions	-	-	-	-	4,347,750	-	-	-	-	4,347,750	-	4,347,750
Dividend approved in respect of prior years	-	-	-	-	-	-	-	-	(20,955,000)	(20,955,000)	-	(20,955,000)
Exchange differences arising on translation of accounts of overseas subsidiaries	-	-	-	-	-	-	-	2,457,478	-	2,457,478	-	2,457,478
Profit/(loss) for the period	-	-	-	-	-	-	-	-	22,004,907	22,004,907	(10,971)	21,993,936
At 30 September 2005	80,168,124	36,341,236	8,749,449	4,374,723	8,096,507	-	-	2,457,478	43,988,463	184,175,980	1,176,211	185,352,191
At 1 January 2006	80,168,124	36,341,236	12,616,183	6,308,089	9,545,757	-	-	2,357,650	48,199,626	195,536,665	10,640,264	206,176,929
Equity settled share-based transactions	-	-	-	-	1,711,500	-	-	-	-	1,711,500	-	1,711,500
Dividend approved in respect of prior years	-	-	-	-	-	-	-	-	(12,723,480)	(12,723,480)	-	(12,723,480)
Profit for the period	-	-	-	-	-	-	-	-	29,800,237	29,800,237	749,711	30,549,948
Exercise of share options	5,279,600	-	-	-	(3,592,400)	-	-	-	-	1,687,200	-	1,687,200
Capital contribution from minority shareholders	-	-	-	-	-	-	-	(1,484,235)	-	(1,484,235)	12,163,048	10,678,813
Recognition of equity component of convertible notes	-	-	-	-	-	5,150,126	-	-	-	5,150,126	-	5,150,126
Recognition of fair value revaluation of acquired subsidiary	-	-	-	-	-	-	-	3,445,895	-	3,445,895	-	3,445,895
At 30 September 2006	85,447,724	36,341,236	12,616,183	6,308,089	7,664,857	5,150,126	1,961,660	2,357,650	65,276,383	223,123,908	23,553,023	246,676,931

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

4,560,000 options were exercised during the nine months ended 30 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the nine months ended 30 September 2006 was approximately HK\$215.5 million, representing an increase of approximately 52.0% as compared to the corresponding period in 2005. With a number of new automotive safety airbag products launch in the third quarter, and the commencement of commercial production for four new customers as well as localization of another customer in its production of automobile in the first half of this year, the Group's turnover for the nine months ended 30 September 2006 significantly increased. With a new customer of the Group commenced commercial production in the fourth quarter of this year, the directors of the Company believe that turnover for the year will increase tremendously.

For the nine months ended 30 September 2006, profit before taxation increased by approximately 62.8% to approximately HK\$35.7 million as compared to the corresponding period of 2005. Due to the fact that Jinheng Automotive had commenced paying PRC income tax at 13.5% from this year, the Group's profit after taxation was approximately HK\$30.5 million, representing an increase of approximately 38.9% as compared to the corresponding period of 2005.

The Group also achieved great progress in product and customer market development during the last 3 months. The Group's seat belt products have obtained 3C safety verification from the PRC government, and will commence production of seat belts to a PRC customer in the fourth quarter of this year. The Group has passed the ISO 14000 environment verification, implying the Group's ability in meeting the requirements of corporate manufacturing criteria in developed countries, and laid a solid foundation for the Group in entering the international market.

The Group has signed a supply agreement with an internationally renowned safety system supplier. Commercial supply will begin from the fourth quarter, and is expected to supply over 400,000 safety airbag bodies per year. The directors of the Company believe that the entering into this agreement will lead the Group into the world of global automotive safety systems supply.

During the three months ended 30 September 2006, the Group has also secured four safety airbag systems development contracts for new models from three customers, one of which is even a new customer of the Group.

The Group continues to keep in touch with an internationally renowned automobile manufacturer, whose global sourcing division has paid a visit to the Group and gave good remarks. The Group will continue to explore the international market actively, and will establish an international market development division specializing in international market development works during the year.

The Group is in the process of acquiring 49% equity interest in Jinheng Segal, which is expected to complete during the year. Subject to the completion of this acquisition, Jinheng Segal will be wholly-owned by the Group. The acquisition will be more favourable in terms of cost-saving and control on production quality of the safety airbag business.

Furthermore, the Group is in the process of acquiring 30% equity interest in YanTai Vast Co., Ltd. ("YanTai Vast"), which is expected to complete during the year. YanTai Vast is principally engaged in manufacturing and sale of cylinder liners and spare parts of automotive engines. The directors of the Company believe that the acquisition of YanTai Vast will help diversify the product range of the Group and broaden the customer base of the Company by virtue of its reputation in the automotive engines industry.

In addition, the research and development works of a newly set up automobile electronics company progresses smoothly, which will provide strong support to the development of the Group in future.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review

For the three months and nine months ended 30 September 2006, the Group reported turnover of approximately HK\$75.1 million and HK\$215.5 million respectively, representing an increase of approximately 59.3% and 52.0% from the corresponding periods of last year. The increase was mainly due to several new models have launched during this year, while there are 4 new customers have commenced the commercial sales and a customer started its localized production. The subsidiaries of the Group also made satisfactory contribution to the overall results. It is expected that a constant and healthy growth can be maintained through out the year.

For the three months ended 30 September 2006, the Group's overall gross profit margin recorded 32.9%, which was 5.9% higher than the corresponding period of last year. It was mainly contributed by the launch of certain models with comparatively higher gross profit margin. Over the current nine months period under review, overall gross profit margin of the Group was 29.3%.

The profits from operation of the three and nine months ended 30 September 2006 were approximately HK\$17.0 million and HK\$39.7 million respectively, representing an increase of approximately 1.3 times and 65.7% respectively as compared to the same period of previous year. This was mainly resulted from the continuing improvement of turnover and the gross profit margin.

Other revenue increased mainly because of the increase in interest income and testing income. For the three and nine months period ended 30 September 2006, it was approximately HK\$1.8 million and HK\$3.0 million.

Distribution costs were increased by HK\$1.7 million to approximately HK\$4.0 million during the nine months reviewing period. The increase was mainly due to the increased marketing activities in order to capture opportunities offered by the fast growing automobile industry and follow the Group's strategy to explore more new customers.

For the three and nine months ended 30 September 2006, the research and development expenses increased slightly by approximately HK\$0.4 million to HK\$1.2 million and HK\$0.4 million to HK\$2.8 million respectively as compared with the corresponding periods of last year.

Administrative expenses were approximately HK\$19.4 million for the nine months ended 30 September 2006, representing an increase of approximately HK\$6.0 million in comparison with the corresponding period of last year. Such increases were mainly contributed by the commencement of operations of 2 new subsidiaries of the Group, Jinheng Segal and Jinbei Jinheng, after the third quarter of last year.

The finance costs for the current nine months period under review increased approximately HK\$3.6 million to HK\$5.5 million. It was mainly contributed by the interest expenses incurred from the newly issued convertible notes.

Share of profits or losses of jointly controlled entities was recorded a profit of approximately HK\$1.5 million for nine months ended 30 September 2006, which was increased from the losses of approximately HK\$0.09 million by approximately HK\$1.6 million in comparison with the corresponding period of previous year. Such increase was contributed by the substantial results improvement contributed to the Group by Jinheng Parts, a 35% owned jointly controlled entity of the Group.

The income tax expenses for the nine months ended 30 September 2006 increased to approximately HK\$5.2 million. This was due to Jinheng Automotive commenced its first year of 50% tax reduction benefit, while its income tax was fully exempted last year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Profit for the three and nine months period ended 30 September 2006 were substantially increased by approximately 89.3% and 38.9% to approximately HK\$12.3 million and HK\$30.5 million respectively in comparison with the corresponding period of last year. Such increase was mainly due to the substantial increase in turnover and higher overall gross profit margin resulted by the launch of several new models.

Outlook and Future Prospects

The year 2006 will soon come to the end. The directors of the Company believe that the business planning and development of the Group over the past two years have brought about its effectiveness during this year. With the successful implementation of the cost control strategies, we believe that the development of the Group in the coming years should be in an advantageous position.

In order to be in line with the standard of international automotive spare parts suppliers, the Group will continue to enhance its internal management and implement the strategic plan, laying a solid foundation for further development of the Group.

The Group will focus on automotive electronics and engine spare parts industry and strive for greater breakthrough in the coming year. Thus the business of the Group can be further expanded based on the demand in strategic development, which pave the way for its rapid growth.

Leveraging on the remarkable development trend of the automobile industry in the PRC and the competitive edge of the Group, the directors of the Company believe that the Group will definitely have a prosperous outlook in future.

INTERIM DIVIDEND

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

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

As at 30 September 2006, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 the GEM Listing Rules were as follows:

(a) Long positions in issued shares

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

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

(a) Long positions in issued shares (Continued)

Note: As at 30 September 2006, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited which held approximately 59.30% in the Company:

Shareholder	Number of shares held in Applaud Group Limited		%
The controlling group	5,269		52.69
Li Feng	2,386	23.86	
Xing Zhanwu	900	9.00	
Xu Jianzhong	750	7.50	
Li Hong	643	6.43	
Yang Donglin	590	5.90	
Zhao Qingjie	1,827		18.27
Gao Xiangdong	1,566		15.66
Zhao Jiyu	417		4.17
Lin Qing	233		2.33
Zhou Yuquan	223		2.23
Cao Feng	139		1.39
Zhang Chengyu	134		1.34
Zhang Chenye	104		1.04
Zhang Meina	88		0.88
Total	10,000		100

(b) Interests in underlying shares

The directors and chief executive of the Company have been granted options under the Pre-IPO Employee Share Option Scheme, 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 of the Company dated 30 November 2004 (the "Prospectus") which were adopted on 22 November 2004. A summary of principal terms of the share option schemes were disclosed in Appendix VI to the Prospectus.

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

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

SHARE OPTION SCHEMES (Continued)

(a) Pre-IPO Employee Share Option Scheme

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

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 30 September 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 (郝靄卿)	Employee, general manager of Jinheng Automotive	1,080,000	648,000	22 November 2004	9 December 2005 to 9 December 2008	432,000	HK\$0.38	HK\$0.788	HK\$0.75
Mr. Xing Zhanwen (邢占文)	Employee, deputy general manager of Jinheng Automotive	880,000	528,000	22 November 2004	9 December 2005 to 9 December 2008	352,000	HK\$0.38	HK\$0.788	HK\$0.75
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

SHARE OPTION SCHEMES (Continued)

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

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 30 September 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. 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.

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:

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

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

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

(b) Share Option Scheme

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

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 September 2006, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Capacity	Number of ordinary shares of the Company held	Number of the underlying shares of the Company held under equity derivatives	Approximately percentage of the total issued shares of the Company before full conversion of all convertible notes	Approximately percentage of the total issued shares of the Company after full conversion of all convertible notes	
Applaud Group Limited	Beneficial owner	228,620,000	-	59.30%	49.22%
Value Partners Limited (Note 1)	Investment manager	-	51,111,111	13.26%	11.00%
Mr. Cheah Cheng Hye (Note 1)	Interests of controlled corporation	-	51,111,111	13.26%	11.00%
Sagemore Assets Limited (Note 2)	Beneficial Owner	-	27,777,778	7.20%	5.98%
CDS International Limited (Note 2)	Interest of controlled corporation	-	27,777,778	7.20%	5.98%
TNS Services Limited (Note 2)	Nominee shareholder of beneficial owner	-	27,777,778	7.20%	5.98%

Note 1: Mr. Cheah Cheng Hye is the beneficial owner of 32.77% of the total issued share capital of Value Partners Limited and therefore is deemed to be interested in the underlying shares to be held by Value Partners Limited pursuant to the SFO.

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

Short positions in shares

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

Short positions in underlying shares

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

Save as disclosed above, as at 30 September 2006, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

COMPETING INTERESTS

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the businesses of the Group as at 30 September 2006.

SPONSOR'S INTEREST

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 30 September 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 the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the nine months ended 30 September 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 CODE OF CORPORATE GOVERNANCE PRACTICES *(Continued)*

The audit committee had reviewed the Group's unaudited results for the three months and nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2006, the Company has appointed three independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong.

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

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

Hong Kong, 13 November 2006