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## THE 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.

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

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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 TRANSACTION:

#### ACQUISITION OF 51.20% EQUITY INTERESTS OF HONEST BRIGHT GROUP LIMITED, PROVISION OF LOAN FACILITIES AND INCREASE IN REGISTERED CAPITAL AND CAPITAL RESERVE OF THE JOINT VENTURE

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A letter from the board of directors of the Company is set out on page 4 to 11 of this circular.

This circular will remain on the “Latest Company Announcements” page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and on the website of the Company at <http://www.jinhengairbag.com>.

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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 publication 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 requires otherwise, the following expressions shall have the following meanings when used herein:*

“Acquisition”	the acquisition of the Sale Shares under the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 17 November 2006 and entered into between the Purchaser and the Vendor in relation to the Acquisition
“associates”	has the meaning ascribed to this term under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day except Saturdays and Sundays on which banks in Hong Kong are open for business
“Company”	Jinheng Automotive Safety Technology Holdings Limited (錦恆汽車安全技術控股有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
“Directors”	the directors (including the independent non-executive directors) of the Company from time to time
“First Acquisition”	the acquisition of 43.80% equity interests of the Joint Venture from the PRC Partners by Sure Lucky at a consideration of HK\$20,000,000
“First Acquisition Agreement”	the agreement to be entered into between Sure Lucky and the PRC Partners for the First Acquisition
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“Guarantor”	Zhao Yumin 趙予民, an Independent Third Party
“Honest Bright”	Honest Bright Group Limited 誠明集團有限公司, a company incorporated on 6 September 2006 in the British Virgin Islands with limited liability and is wholly and beneficially owned by the Vendor as at the Latest Practicable Date

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its subsidiaries and connected persons (as defined under the GEM Listing Rules) of the Company and its subsidiaries and are not connected persons (as defined under the GEM Listing Rules) of the Company and its subsidiaries
“Joint Venture”	北京銳意泰克汽車電子有限公司, a PRC company to be reorganized as an Chinese-foreign equity joint venture after the Transaction
“Latest Practicable Date”	12 December 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Loan Agreement”	the loan agreement dated 17 November 2006 entered into between the Vendor and the Purchaser in relation to the grant by the Purchaser to the Vendor of the Loan Facilities
“Loan Facilities”	the loan facilities of HK\$20,000,000 to be granted by the Purchaser to the Vendor pursuant to the Loan Agreement
“PRC”	the People’s Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Partners”	蕪湖奇瑞科技有限公司 (Beijing Troitec Automotive Electronic Co., Ltd.)* and 蕪湖鑫源投資管理有限公司, two PRC companies, being Independent Third Parties
“Properline”	Properline Investments Limited 永皓投資有限公司, a company incorporated in Hong Kong with limited liability and is wholly and beneficially owned by Honest Bright as at the Latest Practicable Date
“Purchaser”	Jinheng EMS (BVI) Limited 錦恆電控(BVI)有限公司, a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of the Company
“Sale Shares”	512 ordinary shares of US\$1 each in the issued share capital of Honest Bright and registered in the name and beneficially owned by the Vendor

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## DEFINITIONS

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“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Share Charge”	a share charge to be executed by the Vendor in favour of the Purchaser in respect of the Loan Facilities
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sure Lucky”	Sure Lucky Investments Limited 鵬永投資有限公司, a company incorporated in Hong Kong with limited liability and is wholly and beneficially owned by Honest Bright as at the Latest Practicable Date
“Transaction”	the Acquisition together with the granting of Loan Facilities and the increase in the registered capital and capital reserve of the Joint Venture
“Vendor”	Charlotte Huxia Wang, an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

\* For identification purpose only

*For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of HK\$1.00 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:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

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

Unit 2, Building 38  
No. 2 Jing Yuan North Street  
Beijing Economic Technological  
Development Area  
Beijing  
PRC

*Principal place of business in  
Hong Kong:*

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

14 December 2006

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTION:**

### **ACQUISITION OF 51.20% EQUITY INTERESTS OF HONEST BRIGHT GROUP LIMITED, PROVISION OF LOAN FACILITIES AND INCREASE IN REGISTERED CAPITAL AND CAPITAL RESERVE OF THE JOINT VENTURE**

#### **INTRODUCTION**

By the announcement dated 23 November 2006, the Board announced that the Purchaser, a wholly owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor to acquire the Sale Shares for a total cash consideration of HK\$3,983.

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## LETTER FROM THE BOARD

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In addition to the Acquisition, the Purchaser entered into the Loan Agreement on 17 November 2006 with the Vendor pursuant to which the Purchaser has agreed to grant the Loan Facilities to the Vendor. The Vendor shall on-lend the proceeds of the Loan Facilities to Honest Bright and, Honest Bright, in turn, will lend to Sure Lucky such proceeds for financing the First Acquisition.

It is also provided in the Acquisition Agreement that the Purchaser shall advance a sum of HK\$20,000,000 to Honest Bright and Honest Bright, in turn shall advance the same to Properline for injection into the Joint Venture as the registered capital and the capital reserve of the Joint Venture will correspondingly be increased by RMB4,600,000 and by RMB15,400,000 respectively.

Upon completion of the Transaction, the Group shall become interested in 61.50% equity interests of the Joint Venture and the Joint Venture will become an indirect and non-wholly owned subsidiary of the Company.

The Transaction constitutes a discloseable transaction on the part of the Company under Rule 19.06 of the GEM Listing Rules.

The purpose of this circular is to provide you with, among other things, further details on the Transaction.

### THE ACQUISITION AGREEMENT

**Date:** 17 November 2006

**Parties:** (1) The Vendor (as vendor)  
(2) The Purchaser (as purchaser)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is an Independent Third Party.

### Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser agreed to purchase and the Vendor agreed to sell the Sale Shares subject to and upon the terms of the Acquisition Agreement.

### The Sale Shares

The Sale Shares comprise 512 shares of US\$1 each in the share capital of Honest Bright, representing 51.20% issued share capital of Honest Bright. As at the date of the Acquisition Agreement, the Sale Shares are beneficially owned by the Vendor.



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## LETTER FROM THE BOARD

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### Consideration

The consideration for the Acquisition is HK\$3,983 and shall be payable by the Purchaser to the Vendor in cash upon Completion.

The consideration for the Acquisition was arrived at after arm's length negotiations between the parties to the Acquisition Agreement. It was determined based upon the nominal value of the Sale Shares. The Directors consider the consideration for the Acquisition to be fair and reasonable.

### Conditions

The Completion is conditional upon the following conditions having been fulfilled within 180 days from the date of the Acquisition Agreement or such later date as may be agreed by the parties in writing:

- (a) the Purchaser being satisfied with the results of the due diligence review to be conducted on Honest Bright and its subsidiaries;
- (b) if necessary, the passing by the Shareholders at an extraordinary general meeting of the Company to be convened and held of the necessary resolutions to approve the Acquisition Agreement and the transactions contemplated hereunder;
- (c) all necessary consents and approvals required to be obtained on the part of the Vendor in respect of the Acquisition Agreement and the transactions contemplated hereby having been obtained;
- (d) the entering into the First Acquisition Agreement on such terms and subject to such conditions as the Purchaser may approve and completion of the First Acquisition Agreement in accordance with its terms; and
- (e) legal opinion issued by a firm of PRC lawyers acceptable to the Purchaser covering such matters of the PRC laws relevant to the transactions contemplated under the Acquisition Agreement in such form and substance to the absolute satisfaction of the Purchaser having been obtained.

As at the Latest Practicable Date, no condition has been fulfilled.

### Completion

Completion is conditional upon the completion of the Loan Agreement as well as the First Acquisition Agreement.

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## LETTER FROM THE BOARD

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Completion will take place on the first Business Day after the fulfilment or waiver by the Purchaser of all the conditions (except for condition (a) which cannot be waived in any event) of the Acquisition Agreement. There is no restriction as to subsequent sale of the Sale Shares.

### GRANT OF LOAN FACILITIES

Immediately upon signing of the Acquisition Agreement, the Purchaser and the Vendor entered into the Loan Agreement on 17 November 2006 pursuant to which the Purchaser has agreed to grant the Loan Facilities to the Vendor. The Vendor shall on-lend the proceeds of the Loan Facilities to Honest Bright and, Honest Bright, in turn, will lend to Sure Lucky for the First Acquisition. The Loan Facilities will be secured by a personal guarantee from the Guarantor and the Share Charge to be executed by the Vendor in favour of the Purchaser, pursuant to which the Vendor will charge the remaining 48.80% issued share capital of the Honest Bright which is beneficially owned by the Vendor after Completion.

The Loan Facilities are for a term of 5 years and carry interest at a rate of 2.5% per annum. The proceeds of the Loan Facilities will be financed by the internal resources of the Group.

The interest for the first four years shall be paid on the fourth anniversary and the remaining interest shall be paid at the end of the term. All the dividends and bonuses declared by the Joint Venture during the term of the Loan Facilities will be vested to the Purchaser for the repayment of the Loan Facilities. In any event, the balance of the principal of the Loan Facilities shall be repaid in full before the end of the term. If condition (d) of the Acquisition Agreement mentioned above cannot be fulfilled at the end of the term, or should there be any event of default occur during the term of the Loan Facilities, the Loan Facilities shall be immediately due and repayable to the Purchaser.

The Directors consider that the terms of the Loan Agreement (including but not limited to the interest rate of 2.5% and the repayment terms) are entered into after arm's length negotiations and are in the interest of the Company and the Shareholders as a whole. In agreeing to grant to the Vendor the Loan Facilities, the Group has taken into account, among other factors: (i) the continued involvement and commitment of both the Group and the Vendor in the future development and operation of the Joint Venture; (ii) the formation of a strategic alliance with the Vendor through their co-investments in the Joint Venture for future co-operation and business opportunities which may be available to the Group and the Vendor; (iii) the nature and the security of the Loan Facilities. The Purchaser considers the personal guarantee and the Share Charge provide sufficient security for the repayment of the Loan Facilities. As such, the Directors consider that the terms of the Loan Agreement are fair and reasonable.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Guarantor is an Independent Third Party. The Vendor, as an investor and the Guarantor, being the general manager of the Joint Venture, has no relationship and are independent from each others. The Guarantor provide such personal guarantee in favour of the Purchaser as security for the Vendor's obligation under the Loan Facilities as a confidence gesture to both the Vendor and the Purchaser for their investment in the Joint Venture and such personal guarantee is acceptable to the Vendor and the Purchaser.

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## LETTER FROM THE BOARD

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### **INCREASE IN REGISTERED CAPITAL AND THE CAPITAL RESERVE OF THE JOINT VENTURE**

It is also provided in the Acquisition Agreement that the Purchaser shall advance a sum of HK\$20,000,000 to Honest Bright and Honest Bright, in turn shall advance the same to Properline for injection into the Joint Venture. The registered capital and the capital reserve of the Joint Venture will correspondingly be increased by RMB4,600,000 and by RMB15,400,000 respectively. The amount of HK\$20,000,000 will be financed by the internal resources of the Group.

The increase in registered capital and capital reserve of the Joint Venture is conditional upon the completion of the Loan Agreement as well as the First Acquisition Agreement.

Immediately after the increase in the registered capital and the capital reserve of the Joint Venture, the Group shall become interested in 61.50% equity interests of the Joint Venture (as to 31.50% by Properline, as to 30% by Sure Lucky of the equity interests of the Joint Venture respectively). The Joint Venture will become an indirectly and non-wholly owned subsidiary of the Company and its accounts will be consolidated into the financial statements of the Group.

### **INFORMATION ON THE JOINT VENTURE**

The Joint Venture is principally engaged in the research and development, manufacture and sale of engine management system used in automobiles. The Joint Venture was established on 5 August 2004 by the PRC Partners and was owned as to 40% of its equity interests by 蕪湖鑫源投資管理有限公司 and as to 60% of its equity interests by 蕪湖奇瑞科技有限公司 (Beijing Troitec Automotive Electronic Co., Ltd.)\*. The Joint Venture has a registered capital of RMB10,000,000 and has been fully paid up.

Since its establishment until the end of December 2005, the Joint Venture was at its development stage and did not have any sales activities. As such, the Joint Venture had no turnover for the two years ended 31 December 2005 and had a loss (before and after taxation) of about RMB1,165,312 and RMB10,824,191 for the year ended 31 December 2004 and 31 December 2005 respectively. The Joint Venture had a net liability of about RMB1,989,504 as at 31 December 2005.

The Joint Venture commenced sales in the first quarter of 2006.

Upon completion of the increase in registered capital and capital reserve of the Joint Venture, the registered capital of the Joint Venture will be increased by RMB4,600,000 and capital reserved will be increased to RMB15,400,000 and will become a Chinese-foreign equity joint venture owned as to 31.50% of its equity interests by Properline, as to 30% of its equity interests by Sure Lucky and as to 38.50% of its equity interests by 蕪湖奇瑞科技有限公司 (Beijing Troitec Automotive Electronic Co., Ltd.)\*. This structure of the Transaction was agreed by the parties after arm's length negotiations and was considered to be satisfactory to the parties.

It is expected that the completion of the Transaction will not have a material effect on the financial statements of the Group. Regarding the provision of the Loan Facilities to the Vendor, there is no impact on assets and liabilities, except for increase in interest income on the financial statements of the Group.

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## LETTER FROM THE BOARD

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Regarding the advancement for the increase in registered capital and the capital reserve of the Joint Venture, there is no impact on the earning, assets and liabilities on the financial statements of the Group. As for the acquisition of the Joint Venture, the Joint Venture had just commenced sales in the first quarter of 2006, as at December 31 2005, no earning has been recorded and the amount of the Joint Venture's assets (approximately RMB10,904,089) and liabilities (approximately RMB12,893,593), which will be consolidated into the Group's financial statements, are relatively small as compared to the Group's assets and liabilities.

### **INFORMATION ON HONEST BRIGHT**

Honest Bright and its subsidiaries will be principally engaged in the research and development, manufacture and sale of engine management system used in automobiles.

As Honest Bright was incorporated on 6 September 2006, it has yet to prepare any accounts, nor has any turnover, profit before and after taxation since its incorporation.

### **REASONS FOR THE TRANSACTION**

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.

The Joint Venture is principally engaged in the research and development, manufacture and sale of engine management system used in automobiles. The Directors consider that in view of the Group's competitive advantages and the enormous opportunities brought by the rapid growth of the automobile industry in the PRC, the Transaction is part of the Group's business strategies to expand its product range to capture the opportunities offered in the automobile market in the PRC.

The Directors, including the independent non-executive Directors, consider that the terms of the Transaction are entered into upon normal commercial terms following arm's length negotiations among the parties and that the terms of the Transaction are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

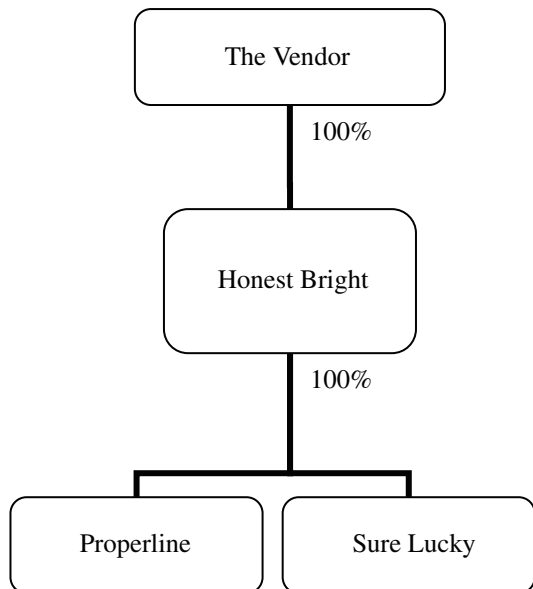
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## LETTER FROM THE BOARD

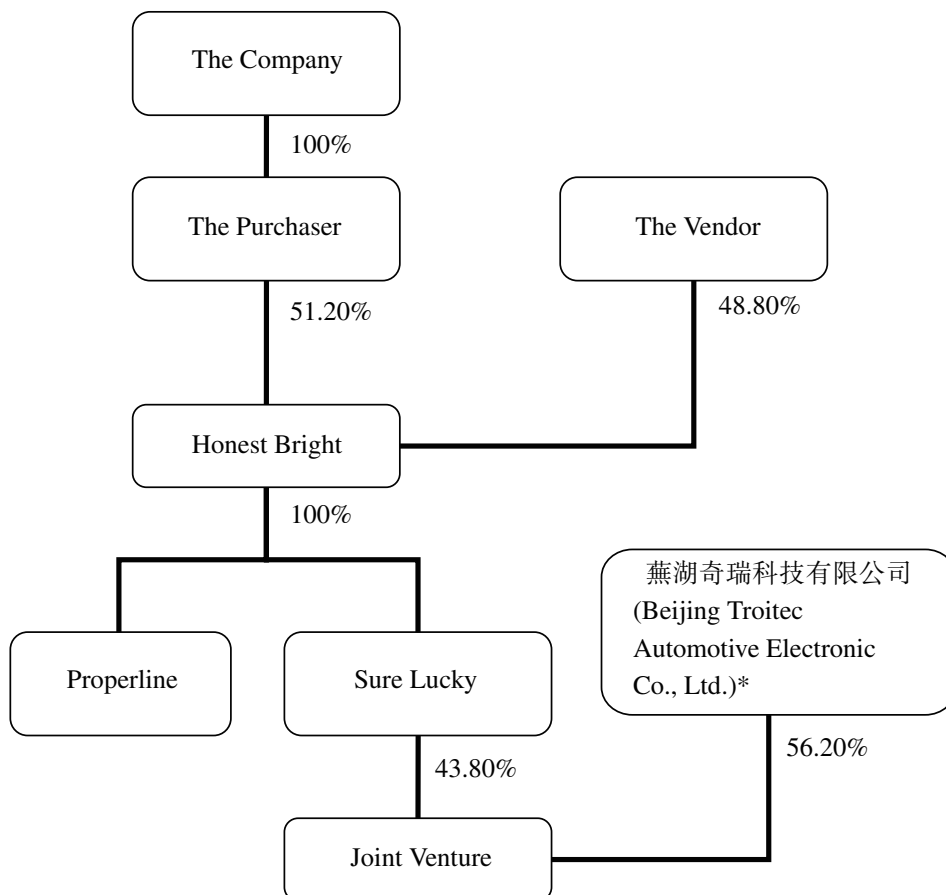
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### STRUCTURE OF THE GROUP BEFORE AND AFTER THE TRANSACTION

#### Before the First Acquisition



#### After Completion and before the increase in registered capital and capital reserve of the Joint Venture

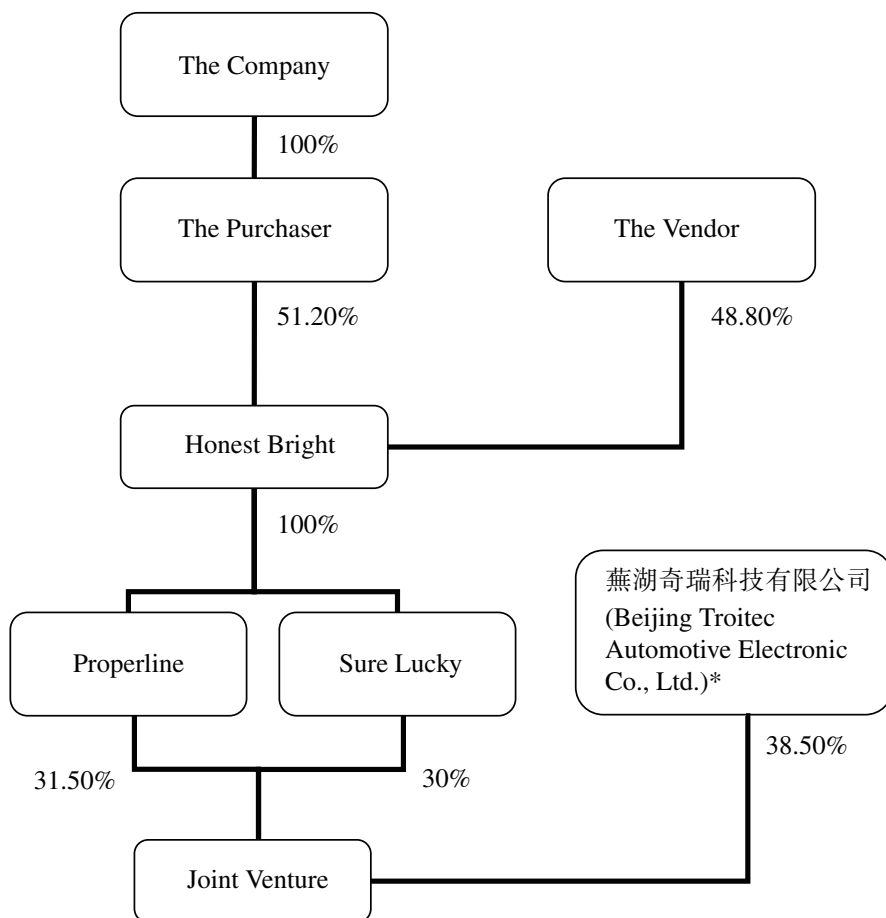


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## LETTER FROM THE BOARD

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### After the Transaction



### GEM LISTING RULES IMPLICATION

As the applicable percentage ratios under Rule 19.06 of the GEM Listing Rules in respect of the Transaction exceed 5% but are below 25%, the Transaction constitutes a discloseable transaction on the part of the Company under the GEM Listing Rules.

### ADDITIONAL INFORMATION

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

Yours faithfully  
For and on behalf of the Board of  
**JINHENG AUTOMOTIVE SAFETY  
TECHNOLOGY HOLDINGS LIMITED**  
**Li Feng**  
*Chairman*

\* for identification purpose only

## 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 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) Directors' 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 (i) 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 (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) 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 (Note 1)	(Note 1)	(Note 1)
	Beneficial owner (Note 2)	1,040,000 (Note 2)	0.27%
Xing Zhanwu	Interest of a controlled corporation (Note 1)	(Note 1)	(Note 1)
	Beneficial owner (Note 2)	800,000 (Note 2)	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:

- The following Directors held an indirect interest in the Company through their interests in Applaud Group Limited (“Applaud Group”) which held approximately 59.30% shareholding in the Company:

Shareholder	Number of shares held in Applaud Group	Approximate percentage of shareholding (%)
Li Feng	2,386	23.86
Xing Zhanwu	900	9.00
Li Hong	643	6.43
Yang Donglin	590	5.90
Zhao Qingjie	1,827	18.27
Others	<u>3,654</u>	<u>36.54</u>
Total	<u><u>10,000</u></u>	<u><u>100</u></u>

- 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 Option 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:

<b>Name of Director</b>	<b>No. of options</b>	<b>Date granted</b>	<b>Period during which options exercisable</b>	<b>Exercise price per Share</b>
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 and 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 (i) 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 (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) 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 and the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) or corporation 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	228,620,000	59.30%
Hafei Motor Co., Ltd. (Note 1)	shareholder of a member of the Group	0	10%
Shenyang Electricity Co., Limited (Note 2)	shareholder of an associated corporation of the Company	0	22.22%
Shenyang Jinbei Automotive Company Limited (Note 3)	shareholder of an associated corporation of the Company	0	14.81%
Taiyuan Aero-Instruments Co., Ltd. (Note 4)	shareholder of an associated corporation of the Company	0	40%
Winner Investment Limited (Note 5)	shareholder of an associated corporation of the Company	0	25%
Cheah Cheng Hye (Note 6)	Substantial shareholder of investment manager	51,111,111 (underlying Shares)	13.26%
Value Partners Limited (Note 6)	Investment manager	51,111,111 (underlying Shares)	13.26%
Sagemore Assets Limited (Note 7)	Beneficial owner	27,777,778 (underlying Shares)	7.20%
CDS International Limited (Note 7)	Interest of controlled corporation	27,777,778 (underlying Shares)	7.20%
TNS Services Limited (Note 7)	Nominee shareholder of beneficial owner	27,777,778 (underlying Shares)	7.20%

*Notes:*

1. Hafei Motor Co., Ltd., 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 Co., Limited, a state-owned enterprise established in the PRC with limited liability, holds 22.22% equity interest in Shenyang Jinbei Jinheng Automotive Safety System Co., Limited.
3. Shenyang Jinbei Automotive Company Limited, a state-owned enterprise established in the PRC with limited liability, the securities of which are listed on the Shanghai Stock Exchange, holds 14.81% equity interest in Shenyang Jinbei Jinheng Automotive Safety System Co., Limited.
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.
6. Value Partners Limited is an investment manager which will be interested in 13.26% underlying shares in the Company pursuant to a convertible note issued on 26 May 2006 and Mr. Cheah Cheng Hye, is the substantial shareholder of Value Partners Limited who holds 32.77% equity interest in Value Partners Limited. Therefore, Mr. Cheah Cheng Hye is deemed to be interested in 13.26% underlying shares to be held by Value Partners Limited.
7. Sagemore Assets Limited, incorporated in the British Virgin Islands with limited liability, will be interested in 7.20% underlying shares in the Company pursuant to a convertible note issue on 14 July 2006. CDS International Limited is a director of Sagemore Assets Limited and TNS Services Limited is a nominee shareholder of Sagemore Assets Limited. Therefore, CDS International Limited and TNS Services Limited is deemed interested in 7.20% underlying shares to be held by Sagemore Assets Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company 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, either directly or indirectly, with the business of the Group or any other conflicts of interest with the Group.

#### 4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Group is engaged in any litigation, arbitration or claim of material importance pending and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any member of the Group.

#### 5. SERVICE CONTRACTS

On 22 November 2004, all the 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:

Name of Director	Annual salary (HK\$)
Li Feng	700,008
Zhao Qingjie	500,004
Xing Zhanwu	500,004
	(which is revised to HK\$660,000 since 1 September 2006)
Yang Donglin	180,000
Foo Tin Chung, Victor	624,000
	(which is revised to HK\$715,000 since 1 September 2006)

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 the 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. GENERAL

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The head office and principal place of business of the Company in the PRC is at Unit 2, Building 38, No. 2 Jing Yuan North Street, Beijing Economic Technological Development Area, Beijing, PRC and the principal place of business of the Company in Hong Kong is located 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 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. Further details of the members of the audit committee are set out below:

**Mr. Chan Wai Dune**, aged 54, 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 a member of the Executive Council of China Overseas Friendship Association. Mr. Chan was a member of the Selection Committee for the establishment of 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, Chuang's Consortium International Limited, Hualing Holdings Limited, Hunan Nonferrous Metals Corporation Limited, Mexan Limited, Minmetals Resources Limited, Sam Woo Holdings Limited and Sino Union Petroleum & Chemical International 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, IIN International Limited and Zhongda International Holdings Limited but has resigned from them. 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 stated working in the department of automobile engineering of Tsing Hua University, the 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 興業証券股份有限公司 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.