



**JIN HENG 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)

FIRST QUARTERLY REPORT 2007



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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 the three months ended 31 March 2007, together with the comparative unaudited consolidated results for the corresponding period in 2006 as follows:

## CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the three months ended 31 March 2007

	Notes	Three months ended 31 March	
		2007 HK\$	2006 HK\$
<b>Turnover</b>	2	<b>128,466,159</b>	65,253,165
<b>Cost of sales</b>		<b>(91,959,899)</b>	(48,894,407)
<b>Gross profit</b>		<b>36,506,260</b>	16,358,758
<b>Other revenue</b>		<b>301,255</b>	251,971
<b>Other net income/(loss)</b>		<b>536,372</b>	(14,712)
<b>Research and development expenses</b>		<b>(5,502,579)</b>	(637,939)
<b>Distribution costs</b>		<b>(4,209,421)</b>	(1,097,489)
<b>Administrative expenses</b>		<b>(11,488,260)</b>	(5,576,652)
<b>Profit from operations</b>		<b>16,143,627</b>	9,283,937
<b>Finance costs</b>		<b>(4,055,612)</b>	(854,324)
<b>Share of profits of associates</b>		<b>937,335</b>	–
<b>Share of profits of jointly controlled entities</b>		<b>963,080</b>	399,049
<b>Profit before taxation</b>		<b>13,988,430</b>	8,828,662
<b>Income tax</b>	3	<b>(2,994,957)</b>	(901,083)
<b>Profit for the period</b>		<b>10,993,473</b>	7,927,579
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>12,852,169</b>	8,007,312
Minority interests		<b>(1,858,696)</b>	(79,733)
<b>Profit for the period</b>		<b>10,993,473</b>	7,927,579
<b>Earnings per share</b>	4		
– Basic		<b>HK3.30 cents</b>	HK2.10 cents
– Diluted		<b>HK3.03 cents</b>	HK2.07 cents

Notes:

### 1. Basis of preparation

This quarterly report has been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies adopted in the preparation of this quarterly report are consistent with those adopted by the Group in the 2006 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 2006 annual financial statements. This consolidated quarterly financial results and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Report Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The financial information relating to the financial year ended 31 December 2006 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 2006 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 March 2007.

### 2. Turnover

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

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

Turnover recognised during the period may be analysed as follows:

	<b>Three months ended 31 March</b>	
	<b>2007</b>	2006
	<b>HK\$</b>	<b>HK\$</b>
Sales of mechanical airbag systems	<b>23,941,855</b>	17,900,059
Sales of electronic airbag systems	<b>74,330,045</b>	36,741,358
Sales of automotive safety system components and other automotive spare parts	<b>30,194,259</b>	10,611,748
	<b>128,466,159</b>	65,253,165

Segment information is presented in respect of the Group’s geographical segments. Information relating to geographical segments based on the location of assets is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

No business segment information is presented as the Group’s turnover and operating result are mainly generated from the production and sales of automotive safety products.

## 2. Turnover (continued)

*Geographical segments by the location of assets and by the location of customers*

As the Group's business fundamentally participates in one geographical location classified by the location of assets, i.e. the PRC, no separate geographical segment analysis based on the location of assets is presented.

The Group's geographical segments are also classified according to the location of customers. There are four customer-based geographical segments. The PRC is the major market for the Group's business. Segment revenue from external customers by the location of customers is analysed as follows:

	Three months ended 31 March	
	2007 HK\$	2006 HK\$
PRC	115,673,594	61,159,023
Malaysia	9,829	3,654,295
Italy	9,911,428	150,883
Others	2,871,308	288,964
	<b>128,466,159</b>	<b>65,253,165</b>

## 3. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Three months ended 31 March	
	2007 HK\$	2006 HK\$
<b>Current tax</b>		
PRC income tax for the period	3,573,998	643,976
	<b>3,573,998</b>	<b>643,976</b>
<b>Deferred tax</b>		
Reversal and origination of temporary differences	(579,041)	257,107
Total income tax expense	<b>2,994,957</b>	<b>901,083</b>

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 years 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 fourth year following the first profit-making year.

Income tax for other subsidiaries established and operating in the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC.

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

#### 4. Earnings per share

##### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the three months ended 31 March 2007 amounted HK\$12,852,169 (three months ended 31 March 2006: HK\$8,007,312) and the weighted average of 389,360,000 (three months ended 31 March 2006: 381,152,000) ordinary shares in issue during the period, calculated as follows:

*Weighted average number of ordinary shares (basic)*

	Number of shares	
	Three months ended 31 March	
	2007	2006
Issued ordinary shares at 1 January	385,560,000	381,000,000
Effect of shares issued pursuant to the exercise of share options	3,800,000	152,000
Weighted average number of ordinary shares (basic) at 31 March	389,360,000	381,152,000

##### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the three months ended 31 March 2007 amounted HK\$14,449,539 (three months ended 31 March 2006: HK\$8,007,312) and the weighted average number of 476,691,707 (three months ended 31 March 2006: 387,455,916) ordinary shares, calculated as follows:

##### (i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	Three months ended 31 March	
	2007	2006
	HK\$	HK\$
Profit attributable to ordinary equity shareholders	12,852,169	8,007,312
After tax effect of effective interest on the liability component of convertible notes	1,597,370	–
Profit attributable to ordinary equity shareholders (diluted)	14,449,539	8,007,312

## 4. Earnings per share (continued)

(b) Diluted earnings per share (continued)

(ii) Weighted average number of ordinary shares (diluted)

	Number of shares	
	Three months ended 31 March 2007	2006
Weighted average number of ordinary shares at 31 March	389,360,000	381,152,000
Effect of conversion of convertible notes	85,555,556	–
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	1,776,151	6,303,916
Weighted average number of ordinary shares (diluted) at 31 March	476,691,707	387,455,916

## 5. Reserves

## Attributable to equity shareholders of the Company

	Share premium HK\$	Merger reserve HK\$	Statutory surplus reserve HK\$	Statutory public welfare fund HK\$	Capital reserve HK\$	Exchange reserve HK\$	Other reserve HK\$	Retained profits HK\$	Sub-total HK\$	Minority interests HK\$	Total HK\$
At 1 January 2006	80,168,124	36,341,236	12,616,183	6,308,089	9,545,757	2,357,650	–	48,199,626	195,536,665	10,640,264	206,176,929
Equity settled share-based transactions	–	–	–	–	570,500	–	–	–	570,500	–	570,500
Profit/(loss) for the period	–	–	–	–	–	–	–	8,007,312	8,007,312	(79,733)	7,927,579
Shares issued under share option scheme	5,279,600	–	–	–	(3,592,400)	–	–	–	1,687,200	–	1,687,200
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	10,768,986	10,768,986
At 31 March 2006	85,447,724	36,341,236	12,616,183	6,308,089	6,523,857	2,357,650	–	56,206,938	205,801,677	21,329,517	227,131,194
At 1 January 2007	85,447,724	36,341,236	17,686,404	8,843,201	13,311,975	9,817,164	2,141,065	73,479,070	247,067,839	30,397,915	277,465,754
Equity settled share-based transactions	–	–	–	–	139,250	–	–	–	139,250	–	139,250
Profit/(loss) for the period	–	–	–	–	–	–	–	12,852,169	12,852,169	(1,858,696)	10,993,473
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	–	–	–	–	–	(400,561)	–	–	(400,561)	–	(400,561)
Shares issued under share option scheme	5,279,600	–	–	–	(3,592,400)	–	–	–	1,687,200	–	1,687,200
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	(408,178)	(408,178)
Equity component of convertible notes	–	–	–	–	4,084	–	–	–	4,084	–	4,084
At 31 March 2007	90,727,324	36,341,236	17,686,404	8,843,201	9,862,909	9,416,603	2,141,065	86,331,239	261,349,981	28,131,041	289,481,022

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Following the brilliant results made in the year 2006, the Group recorded remarkable results again in the first quarter of 2007. During this quarter, the turnover of the Group increased by 96.9% to approximately HK\$128.5 million in comparison with the same period of 2006. The profit after taxation was approximately HK\$12.9 million, which was 60.5% increment in comparison with the corresponding period of last year. The overall results of the Group recorded a substantial growth in comparison with same period of last year due to the efforts made by the Group in the past years. The Group has commenced supply of automotive safety systems to a few new models since the end of last year. The investment made by the Group in the past years also commenced to provide returns to the Group. Directors expect that the Group can maintain a steady business growth as the supply to those models launched last year will be continued and certain new models will commence commercial sales in this year.

Furthermore, other products of the Group have commenced to provide positive contributions to the turnover of the Group. The Group has launched the export of automotive safety airbag bodies to a world-class automotive safety system manufacturer in the fourth quarter of last year and we have stabilized the commercial production. We will continuously expand the production capacity to achieve the objective of 650,000 units per annum

The Group launched self-developed safety belt in the current quarter and it becomes a member of the Group's safety product pool. Directors believe that the market shares of the Group's automotive safety products will grow steadily because of the expansion of our product kinds.

The Group has completed the fundamental structure settings for achieving the strategic objective of expanding business to automotive electronic products. During the current quarter, the Group has completed the acquisition 61.5% equity interest of Troitec Automotive Electronics Co., Ltd. ("Troitec"). Troitec specializes in research and development, manufacturing and sales of engine management system for automotives. This company is supplying products to different automobile manufacturers such as Chery Automobile Co., Ltd. Joining of Troitec will provide contributions to the results of the Group and expand the product ranges of the Group. It may also strengthen the relationship between automobile manufacturers and the Group.

The Beijing Jinheng Great Idea Automotive Electronic Systems Co., Ltd. ("Beijing Great Idea") and the Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd. ("Jinheng Jinsida") have completed the preparation works of development and manufacturing electronic control units. Trial production has been commenced during this quarter, and it is expected to start supplying to other subsidiaries of the Group in the coming few months. This may enhance the localization effect on reducing the production cost of automotive safety systems.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

The Group will accelerate the development progress of the electronic inflators used in automotive safety airbag systems. More benefit of seamless supply chain can be reflected and the long term objective of localizing spare parts to control production costs and products quality can be achieved when it is completed.

### Financial Review

For the three months ended 31 March 2007, the Group recorded significant increase of turnover by approximately 96.9% from the same period of last year to approximately HK\$128.5 million. Such significant increase was mainly due to the commencement of sales to a PRC localized production of an international brand in the fourth quarter of 2006 and the commencement of the supply of automotive safety system to one of the biggest PRC automobile manufacturers at the end of this quarter. The newly acquired subsidiary, Troitec also commenced its contribution to the overall turnover of the Group. A continuous growth in turnover is expected in the forthcoming quarters.

During the quarter under review, the average gross profit margin of both mechanical and electric airbag systems was recorded as 28.4%, which is slightly decreased by 2.3% in comparison with the average rate of last year. This was mainly due to the change of sales mix. The overall average gross profit margin of the Group recorded 28.4%, which can maintain nearly constant as the average rate in 2006.

For the three months ended 31 March 2007, the profits from operation were increased by approximately 73.9% to approximately HK\$16.1 million as compared to the corresponding period of last year. This was mainly resulted from the continuing improvement of turnover and the effective cost control resulted from the localization of spare parts of safety systems.

For the first quarter of 2007, the other revenue was increased by 19.6% to approximately HK\$0.3 million as compared with the same period of last year. The reason for such increment was mainly due to the increase in interest income.

The research and development expenses during the quarter under review were increased by HK\$4.9 million to HK\$5.5 million as compared with the corresponding period of 2006. This was because during the current period 2 new subsidiaries Beijing Great Idea and Troitec invested substantial amount to develop electronic control units and engine management systems, which may allow the Group to reduce the cost of automobile safety system more effectively and expand the Group's product range in the coming future.

For the three months ended 31 March 2007, the distribution costs of the Group were approximately HK\$4.2 million, which was approximately HK\$3.1 million more than the same period of the same period of last year. Such increase was mainly contributed by the increased turnover of the Group and increased marketing activities for the Group's new products.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

Administrative expenses for the three months ended 31 March 2007 were increased by approximately HK\$5.9 million to approximately HK\$11.5 million in comparison with the same period of last year. The increase was mainly due to the commencement of operations of 2 new subsidiaries during the second half of last year. Also the newly acquired subsidiary, Troitec, was not reflected in the results of the same period of last year.

The finance costs during the current quarter under review increased approximately HK\$3.2 million to HK\$4.1 million. It was mainly contributed by the interest expenses incurred from the HK\$77 million convertible notes issued in the middle of last year.

Share of profits of jointly controlled entities and associates were recorded approximately HK\$1.9 million during the three months ended 31 March 2007, which is approximately 3.8 times more than the same period of 2006. Such increase was mainly resulted from the Shanxi Jinheng Automotive Spare Parts Co., Ltd. a 35% owned jointly controlled entity of the Group, and the newly acquired 30% owned associate YanTai Vast Co., Ltd. in October 2006. Both of them made continuing improvement in operations and provide positive contributions to the Group.

Profit attributable to equity shareholders of the Company were substantially increased by approximately 60.5% to approximately HK\$12.9 million in comparison with the corresponding period of last year. This has already included the increased profit tax expenses of approximately HK\$3.0 million as the Group recorded a substantial increase in profit. The increase in overall profit for the period was mainly due to the substantial increase in turnover resulted from the launch of new models and commencement of contributions from new subsidiaries and associate.

### Outlook and Future Prospects

Directors believe that with the excitement atmosphere of the automobile industry of PRC, the market demands of sedans will increase steadily. The demands of automotive safety systems will thus increase and provide unprecedented opportunities to the Group.

The Group can grasp the opportunities provided by the market and expand the business scope of the Group with the gradually emerged results of investment and strategic corporate restructuring invested by the Group in the past years, completed development activities of different product kinds and the existed large customer bases.

This year is named as the "Management Year" of the Group. We will strengthen the control on the internal operations and enhance the efficiency of the information dissemination processes. As a result the management team can make effective control on cost, products and markets in order to cope with the challenges brought by the rapid growth of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Outlook and Future Prospects (continued)

Directors believe that with the implementation of business objectives, and the management team devoting its best endeavor and efforts to enhance the Group's competitiveness, the Group can become a world-class automotive spare parts manufacturer and bring fruitful return to investors.

### INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2007 (three months ended 31 March 2006: HK\$ Nil).

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

As at 31 March 2007, 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	2,080,000	0.53%
	Interest of a controlled corporation (Note)	(Note)	(Note)
Xing Zhanwu	Beneficial owner	1,600,000	0.41%
	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	640,000	0.16%

Note: As at 31 March 2007, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited which held approximately 58.60% in the Company:

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(a) Long positions in issued shares (continued)

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 dated 30 November 2004 issued by the Company (the "Prospectus"), which were adopted on 22 November 2004. A summary of principal terms of the share option schemes were disclosed in Appendix VI to the Prospectus.

The total number of securities available for issue under the share option schemes as at 31 March 2007 was 40,380,000 shares (including options for 2,280,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 10.35% of the issued share capital of the Company as at 31 March 2007.

## SHARE OPTION SCHEMES (continued)

As at 31 March 2007, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 March 2007 is HK\$1.03) granted for at a consideration of HK\$1 under the share option schemes of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 each of the Company.

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

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

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 31 March 2007	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the period	Exercise price per share	*Market value per share at date of grant of options	*Market value per options share on exercise of options
Mr. Li Feng (李峰)	Executive director and chairman of the Company	1,560,000	520,000	22 November 2004	9 December 2005 to 9 December 2008	1,040,000	HK\$0.38	HK\$0.788	HK\$0.83
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	1,200,000	400,000	22 November 2004	9 December 2005 to 9 December 2008	800,000	HK\$0.38	HK\$0.788	HK\$0.83
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	480,000	160,000	22 November 2004	9 December 2005 to 9 December 2008	320,000	HK\$0.38	HK\$0.788	HK\$0.83
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	648,000	216,000	22 November 2004	9 December 2005 to 9 December 2008	432,000	HK\$0.38	HK\$0.788	HK\$0.83
Mr. Xing Zhanwen (邢占文)	Employee, general manager of Jinheng Sega	528,000	176,000	22 November 2004	9 December 2005 to 9 December 2008	352,000	HK\$0.38	HK\$0.788	HK\$0.83
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	600,000	200,000	22 November 2004	9 December 2005 to 9 December 2008	400,000	HK\$0.38	HK\$0.788	HK\$0.83
Mr. Zhu Jiangbin (朱江濱)	Employee, general manager of Beijing Great Idea	528,000	176,000	22 November 2004	9 December 2005 to 9 December 2008	352,000	HK\$0.38	HK\$0.788	HK\$0.83
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	504,000	168,000	22 November 2004	9 December 2005 to 9 December 2008	336,000	HK\$0.38	HK\$0.788	HK\$0.83
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	432,000	144,000	22 November 2004	9 December 2005 to 9 December 2008	288,000	HK\$0.38	HK\$0.788	HK\$0.83
Mr. Chen Lixin (沈立新)	Employee, deputy general manager of Jinheng Automotive	360,000	120,000	22 November 2004	9 December 2005 to 9 December 2008	240,000	HK\$0.38	HK\$0.788	HK\$0.83
		6,840,000	2,280,000			4,560,000			

## SHARE OPTION SCHEMES (continued)

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:

	<b>2007</b>
Risk-free interest rate	2.1%
Expected life (in years)	4 years
Volatility	50.0%
Expected dividend per share	2.3%

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

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

(b) *Share Option Scheme*

As at 31 March 2007, no option has been granted under the Share Option Scheme.

## SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 March 2007, 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	-	58.60%	48.06%
Value Partners Limited (Note 1)	Investment manager	-	51,111,111	13.10%	10.74%
Mr. Cheah Cheng Hye (Note 1)	Interests of controlled corporation	-	51,111,111	13.10%	10.74%
Sagmore Assets Limited (Note 2)	Beneficial Owner	-	27,777,778	7.12%	5.84%
CDS International Limited (Note 2)	Interest of controlled corporation	-	27,777,778	7.12%	5.84%
TNS Services Limited (Note 2)	Nominee shareholder of beneficial owner	-	27,777,778	7.12%	5.84%

*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 Sagmore Assets Limited and TNS Services Limited is a nominee shareholder of Sagmore Assets Limited and therefore both of them are deemed to be interested in the underlying shares to be held by Sagmore 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.

## **SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY (continued)**

Save as disclosed above, as at 31 March 2007, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **COMPETING INTERESTS**

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the businesses of the Group as at 31 March 2007.

## **DIRECTORS' INTERESTS IN CONTRACTS**

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

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

During the three months ended 31 March 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## **PRE-EMPTIVE RIGHTS**

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

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

The Company has complied with all the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the three months ended 31 March 2007.

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 ended 31 March 2007 and had provided advice and recommendation to the Board.

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

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

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors of the Company adopted by the Company throughout the three months ended 31 March 2007.

The Company has complied with the requirement to appoint a sufficient number of independent non-executive director as set out in Rule 5.05(1) of the GEM Listing Rules. Throughout the three months ended 31 March 2007, 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, 9 May 2007