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

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

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

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.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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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)

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION – ACQUISITION;  
(2) DISCLOSEABLE TRANSACTION – DISPOSAL; AND  
(3) MAJOR DISPOSAL – GRANT OF TRANCHE 2 SUBSCRIPTION OPTION**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**

**Nuada Limited**

*Corporate Finance Advisory*

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A letter of advice from the independent board committee of the Company is set out on page 30 of this circular.

A letter of advice of Nuada Limited, the independent financial adviser of the Company, containing its opinion and advice to the independent board committee and independent shareholders of the Company is set out on pages 31 to 40 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 33rd Floor, 9 Queen’s Road Central, Central, Hong Kong on Monday, 30 June 2008 at 10:00 a.m. is set out on pages 56 to 57 herein. A form of proxy for the extraordinary general meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the form of proxy and return the same to Computershare Hong Kong Investor Services Limited, the Company’s branch share registrar in Hong Kong, at Room 1806–1807, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

*This circular will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for seven days from the date of its publication and on the Company’s Website at [www.jinhengholdings.com](http://www.jinhengholdings.com).*

13 June 2008

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## CHARACTERISTICS OF GEM

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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## DEFINITIONS

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

“2008 Net Income”	the consolidated net profit after tax and extraordinary items of Target Group for the year ending 31 March 2009. For this purpose, any income or losses obtained or derived through or as the result of any merger, acquisition or business combination or any extraordinary or non-recurring earnings shall not be counted as income of Target Group
“Acquisition”	the acquisition by the Purchaser of the Sale Shares from the Vendor subject to and upon the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 22 May 2008 and entered into between the Vendor and the Purchaser in respect of the Acquisition
“Acquisition Completion”	completion of the Acquisition pursuant to the Acquisition Agreement
“Acquisition Conditions”	the conditions precedent to the Acquisition Agreement which are set out in the paragraph headed “Acquisition Conditions” in this circular
“associates”	has the meaning ascribed to this term under the GEM Listing Rules
“Beijing Troitec”	Troitec Automotive Electronics Co., Ltd., a sino-foreign equity joint venture company established in the PRC with limited liability and its principal business is research and development, manufacture and sale of engine management system used in automobiles
“Board”	the board of Directors
“Company”	Jinheng Automotive Safety Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed to this term under the GEM Listing Rules
“Consideration”	the consideration of RMB30,000,000 for the Acquisition

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## DEFINITIONS

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“Covenantors”	the Company, Mr. Zhao Yu Min, Mr. Chen Xiang Hui, Mr. Lu Bo, Mr. Yang Shao Long, Mr. Ling Feng, Freemind and Jinheng BVI. Mr Zhao Yu Min, Mr Chen Xiang Hui, Mr Lu Bo, Mr Yang Shao Long and Mr Ling Feng have no relationship with Group, save as they are shareholders of Freemind and the key management personnel of Beijing Troitec
“Directors”	directors of the Company
“Disposal”	the disposal by Honest Bright of the Selling Series A-1 Preferred Shares to the Investors subject to and upon the terms and conditions of the Disposal Agreement
“Disposal Agreement”	the sale and purchase agreement dated 23 May 2008 and entered into between the Investors as purchaser, Honest Bright as vendor, Shiny Bright and the Covenantors in respect of the Disposal
“Disposal Completion”	completion of the Disposal pursuant to the Disposal Agreement
“Disposal Conditions”	the conditions precedent to the Disposal Agreement which are set out in the paragraph headed “Disposal Conditions” in this circular
“EGM”	the extraordinary general meeting of the Company to be convened for the Shareholders to approve the Tranche 2 Subscription Agreement and the transactions contemplated thereunder (including the grant and exercise of the Tranche 2 Subscription Option)
“Enlarged Group”	the Group as enlarged by the Acquisition
“Freemind”	Freemind Technology Limited, a company incorporated in the British Virgin Islands
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Honest Bright”	Honest Bright Group Limited, a company incorporated in the British Virgin Islands with limited liability and a non wholly-owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Board Committee”	an independent board committee, comprising Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong, all being the independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than those who have an interest in the transactions contemplated under the Acquisition Agreement
“Independent Third Party”	independent third parties not acting in concert with or connected with any directors, chief executive, substantial shareholders and management shareholders of the Company and its subsidiaries or any of their respective associates, and are independent of the Company, its subsidiaries and its connected persons (as defined in the GEM Listing Rules)
“Investors”	Orchid Asia IV, LP, a limited partnership incorporated in the Cayman Islands with limited liability which is primarily focused on equity investment in PRC, and Orchid Asia IV Co-Investment, Limited, a company incorporated in the Cayman Islands with limited liability which is primarily engaged in investment holding. Orchid Asia IV, L.P. is a major shareholder of Orchid Asia IV Co-Investment, Limited
“Jinheng BVI”	Jinheng EMS (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, and which is interested in 51.2% of the issued share capital of Honest Bright as at the date hereof
“Latest Practicable Date”	11 June 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Nuada”	Nuada Limited, a licensed corporation to carry out type 6 (advising on corporate finance) of the regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Acquisition
“Ordinary Shares”	ordinary shares of US\$0.01 each in the share capital of Shiny Bright after adoption of the new memorandum and articles of association of Shiny Bright

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## DEFINITIONS

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“Purchaser” or “Properline”	Properline Investments Limited, a company incorporated in Hong Kong with limited liability and a non wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China, and for the purposes for this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Sale Shares”	38.50% of the registered capital of Beijing Troitec which is beneficially owned by the Vendor as at the Latest Practicable Date
“Series A Preferred Shares”	Series A-1 Preferred Shares and Series A-2 Preferred Shares
“Series A-1 Preferred Shares”	series A preferred shares of US\$0.01 each in the share capital of Shiny Bright after adoption of the new memorandum and articles of association of Shiny Bright to be acquired by the Investors upon the Disposal Completion
“Series A-2 Preferred Shares”	series A preferred shares of US\$0.01 each in the share capital of Shiny Bright after adoption of the new memorandum and articles of association of Shiny Bright to be acquired by the Investors upon exercise of Tranche 2 Subscription Option
“Selling Series A-1 Preferred Shares”	the 3,793,353 Series A-1 Preferred Shares to be sold by Honest Bright and to be purchased by the Investors at a consideration of RMB100,000,000
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shiny Bright”	Shiny Bright Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a non wholly-owned subsidiary of the Company, whose principal business is investment holdings
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Sure Lucky”	Sure Lucky Investments Limited, a company incorporated in Hong Kong and a non-wholly-owned subsidiary of the Company
“Target Group”	Shiny Bright, Sure Lucky, Properline, Beijing Troitec and its subsidiary
“Tranche 2 Subscription Agreement”	the agreement dated 23 May 2008 (which the same date as the Disposal Agreement) and entered into between the Investors as grantee, Shiny Bright as grantors, Honest Bright and the Covenantors in respect of the grant of the Tranche 2 Subscription Option by Shiny Bright to the Investors
“Tranche 2 Subscription Completion”	completion of the issue of the Series A-2 Preferred Shares to the Investors upon exercise of the Tranche 2 Subscription Option pursuant to the Tranche 2 Subscription Agreement
“Tranche 2 Subscription Option”	the option granted by Shiny Bright to the Investors, and to be exercised by the Investors at its sole discretion for subscription of Series A-2 Preferred Shares by the Investors at a maximum aggregate consideration of RMB80,000,000
“Vendor”	蕪湖奇瑞科技有限公司 (Wu Hu Qi Rui Technology Holdings Limited*), a company established in the PRC with limited liability and its principal business is investment holdings
“RMB”	Renminbi, the lawful currency for the time being of the PRC
“%”	per cent.

*For the purpose of this circular, unless otherwise specified, conversion of RMB into HK\$ is based on the approximate exchange rate of HK\$100 to RMB90. The exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been or may be exchanged at this or any other rates at all.*

\* *For identification purpose only*



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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  
Mr. Zhao Qingjie  
Mr. Yang Donglin  
Mr. Foo Tin Chung

*Registered office:*

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

*Non-executive Directors:*

Mr. Li Hong  
Mr. Zeng Qingdong

*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

*Independent non-executive Directors:*

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

*Principal place of business in Hong Kong:*

Unit 605  
6th Floor  
Beautiful Group Tower  
74-77 Connaught Road Central  
Hong Kong

13 June 2008

*To the Shareholders*

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION – ACQUISITION;  
(2) DISCLOSEABLE TRANSACTION – DISPOSAL; AND  
(3) MAJOR DISPOSAL – GRANT OF TRANCHE 2 SUBSCRIPTION OPTION**

### INTRODUCTION

Reference is made to the announcement of the Company dated 23 May 2008 in relation to (i) the Acquisition Agreement entered into by the Company pursuant to which the Group has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares (representing 38.50% of the registered capital of Beijing Troitec) at a consideration of RMB30,000,000; (ii) the Disposal Agreement pursuant to which the Investors have agreed to purchase and Honest Bright have agreed to sell the Selling Series A-1 Preferred Shares (representing 32.79% of the issued share capital of Shiny Bright)

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## LETTER FROM THE BOARD

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at a consideration of RMB100,000,000; and (iii) the Tranche 2 Subscription Agreement pursuant to which, subject to the Disposal Completion and the Shareholders' approval given under the Rule 17.39 of the GEM Listing Rules, Shiny Bright granted the Investors, at a consideration of HK\$1.00, an option to subscribe such number of Series A-2 Preferred Shares (as the Investors may decide in its discretion) at the price per share equal to 130% of the then applicable Conversion Price.

The purposes of this circular are, among others, (i) to provide you with further information in respect of the Acquisition, the Disposal and the grant of the Tranche 2 Subscription Option, (ii) the letter from independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Acquisition, (iii) the recommendation of the Independent Board Committee to the Independent Shareholders on the Acquisition, (iv) the information of the Group and (v) the notice of the EGM.

### ACQUISITION AGREEMENT

Date : 22 May 2008

Parties : Vendor : 蕪湖奇瑞科技有限公司(Wu Hu Qi Rui Technology Holdings Limited\*)

Purchaser : Properline Investments Limited

The Vendor is principally engaged in investment holding. Since the Vendor is holding 38.5% of the registered capital of Beijing Troitec, a non wholly-owned subsidiary of the Company, the Vendor is regarded as a substantial shareholder and a connected person of the Company under the GEM Listing Rules. The Vendor is beneficially owned as to 100% by 蕪湖瑞創投資有限公司 (Wu Hu Rui Chuang Investment Limited\*), which is principally engaged in investment holdings. 蕪湖瑞創投資有限公司 (Wu Hu Rui Chuang Investment Limited\*) is in turn beneficially owned as to 0.282% by Mr. Yin Tong Yao, a merchant, and as to the remaining 99.718% by 合肥興泰信托投資有限責任公司 (He Fei Xing Tai Trust Investment Limited\*), an investment holding company.

To the best of the Directors' knowledge, information and belief having made all necessary enquiries, as at the date hereof, the Vendor, its ultimate beneficial owners and their respective associates do not hold any Shares.

### Assets to be acquired

Pursuant to the Acquisition Agreement, the Group has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares (representing 38.50% of the registered capital of Beijing Troitec) at a consideration of RMB30,000,000. The original purchase cost of the Sale Shares by the Vendor was RMB6,000,000.

### Consideration

The Consideration shall be RMB30,000,000 which shall be satisfied in cash by internal resources of the Group as follows:

- (a) RMB20,000,000 shall be paid to the Vendor within one month of the date of the Acquisition Completion; and
- (b) RMB10,000,000 shall be paid to the Vendor within one year from the date of the Acquisition Completion.

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## LETTER FROM THE BOARD

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The Consideration was arrived at after arm's length negotiation between the parties to the Acquisition Agreement with reference to the business prospects of Beijing Troitec, and the fact that the Group will enter the Disposal Agreement with the Investors.

### Acquisition Conditions

The Acquisition is conditional upon the following conditions, among others, having been fulfilled:

- (i) a majority of the independent Shareholders approving the Acquisition; and
- (ii) all the necessary approvals for the Acquisition from the relevant PRC authorities having been obtained.

The condition (i) above has fully been fulfilled as at the Latest Practicable Date.

### Acquisition Completion

The Acquisition Completion is expected to take place on the date after the fulfillment of all the Acquisition Conditions (or such later date as may be agreed by the parties to the Acquisition Agreement in writing).

As at the date of hereof, Beijing Troitec is beneficially owned (i) as to 31.5% by the Purchaser, an indirect non wholly-owned subsidiary of the Company (ii) as to 30% by Sure Lucky, an indirect non wholly-owned subsidiary of the Company and (iii) as to the remaining 38.5% by the Vendor. Both the Purchaser and Sure Lucky is wholly-owned by Shiny Bright, which is in turn wholly owned by Honest Bright. Honest Bright is beneficially owned as to 51.20% by Jinheng BVI, a wholly owned subsidiary of the Company, and as to the remaining 48.80% by Freemind. Therefore, as at the date of hereof, the Company effectively owns 31.49% equity interest in Beijing Troitec, and its financial results are already consolidated into the books of the Group. Immediately after Acquisition Completion, Beijing Troitec is beneficially owned (i) as to 70% by the Purchaser and (ii) as to 30% by Sure Lucky, both of which will still be wholly-owned by Shiny Bright. Therefore, the Company will be effectively interested in 51.20% equity interest in Beijing Troitec.

### DISCLOSEABLE TRANSACTION – DISPOSAL

#### Disposal Agreement

Date : 23 May 2008

Parties : The Investors as the purchaser  
Shiny Bright as the company  
Honest Bright as the vendor  
The Covenantors

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## LETTER FROM THE BOARD

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To the best of the Directors' knowledge, information and belief having made all necessary enquiries, as at the date hereof, the Investors, their ultimate beneficial owners and their respective associates do not hold any Shares, and are Independent Third Parties.

Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited are parallel investors in relation to the transactions contemplated under the Disposal Agreement and the Tranche 2 Subscription Agreement. Approximately 99% of the Series A Preferred Shares to be obtained will be held by Orchid Asia IV, L.P. while the remaining approximately 1 % will be held by Orchid Asia IV Co-Investment, Limited.

Upon Disposal Completion, Orchid Asia IV, L.P. will hold 3,755,419 Series A-1 Preferred Shares and Orchid Asia IV Co-Investment, Limited will hold 37,934 Series A-1 Preferred Shares. (Please refer to page 17 of this circular for the total no. of Series A-1 Shares held by the Investors upon Disposal Completion).

To the best information of the Directors, the Vendor does not have any relationship with the Investors, and they are independent with respect to each other.

### **The Disposal**

Pursuant to the Disposal Agreement, the Investors have agreed to purchase and Honest Bright have agreed to sell the Selling Series A-1 Preferred Shares (representing 32.79% of the issued share capital of Shiny Bright on an as-fully-converted basis) at a consideration of RMB100,000,000.

### **Rights of Series A Preferred Shares**

Below is the table for comparison of the rights of Ordinary Shares and Series A Preferred Shares:

	<b>Ordinary Shares</b>	<b>Series A Preferred Shares</b>
Voting	The Ordinary Shares and the Series A Preferred Shares vote a single class on an as-fully-converted basis.  The voting right of the Ordinary Shares is the same of the Series A Preferred Shares (on an as-fully-converted basis)	The Ordinary Shares and the Series A Preferred Shares vote a single class on an as-fully-converted basis  The voting right of the Ordinary Shares is the same of the Series A Preferred Shares (on an as-fully-converted basis)

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## LETTER FROM THE BOARD

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	<b>Ordinary Shares</b>	<b>Series A Preferred Shares</b>
Protective Provisions	No special protective provisions	<p>Entitled to protective provisions.</p> <p>Certain actions of the member of the Target Group (including issuing any new shares, increasing authorized capital, changing the corporate form, entering into any contract involving a sum of more than US\$100,000, amending the memorandum and articles of association, altering the financial year end) cannot be carried out without the prior written approval of holders of more than 50% of the outstanding Series A Preferred Shares, and/or the approval of the majority of the respective board (which majority shall include a director nominated by the holders of Series A Preferred Shares).</p>
Conversion	No conversion rights	<p>Holders of Series A Preferred Shares (including both Series A-1 Preferred Shares and Series A-2 Preferred Shares) are entitled to convert the Series A Preferred Shares into Ordinary Shares at a conversion price (the “<b>Series A-1 Conversion Price</b>” and the “<b>Series A-2 Conversion Price</b>” respectively), which conversion price can be adjusted for share combinations, consolidations, subdivisions, share splits, share dividends or the like.</p> <p>In respect of Series A-1 Preferred Shares, each Series A-1 Preferred Share may be converted into a number of Ordinary Shares obtained by the following formula:</p> <p>No. of Ordinary Shares = Series A-1 Purchase Price/Series A-1 Conversion Price in effect at the time of conversion</p>

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## LETTER FROM THE BOARD

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### Ordinary Shares

### Series A Preferred Shares

In respect of Series A-2 Preferred Shares, each Series A-2 Preferred Share may be converted into a number of Ordinary Shares obtained by the following formula:

No. of Ordinary Shares = Series A-2 Purchase Price/Series A-2 Conversion Price in effect at the time of conversion

For Series A-1 Purchase Price and Series A-2 Purchase Price, please refer to page 12 and 17 of this circular.

The initial Series A-1 Conversion Price in respect of the Series A-1 Preferred Shares shall be equal to the Series A-1 Purchase Price, while the initial Series A-2 Conversion Price in respect of the Series A-2 Preferred Shares shall be equal to the Series A-2 Purchase Price.

For the avoidance of doubt, the Series A-1 Conversion Price and the Series A-2 Conversion Price is different.

Dividend	Not entitled to dividends unless all dividends accrued on Series A Preferred Shares have been paid	Entitled to receive non-cumulative dividends at the rate equal to the greater of (i) 8% per annum of the relevant purchase price of such Series A Preferred Shares, or (ii) the dividends which would be declared and paid on each Ordinary Share into which the Series A Preferred Shares may then be converted
Liquidation Preference	Following the distribution to all holders of the Series A Preferred Shares, any remaining assets of Shiny Bright shall be distributed pro rata among the holders of the Series A Preferred Shares (on an as-converted basis) together with the holders of the Ordinary Shares.	Entitled to receive in cash, prior to the holders of Ordinary Shares equal to an amount per Series A Preferred Share equal to the sum of 100% of the relevant purchase price of such Series A Preferred Shares, and any declared but unpaid dividends thereon.

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## LETTER FROM THE BOARD

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	<b>Ordinary Shares</b>	<b>Series A Preferred Shares</b>
Redemption	<p>Subject to the redemption right or repurchase right as provided under the newly adopted memorandum and articles of association of Shiny Bright. In other words, the Ordinary Shares (and the Series A Preferred Shares as well) can be redeemed by or repurchased by Shiny Bright under the provisions of the newly adopted memorandum and articles of association of Shiny Bright.</p>	<p>In addition to the redemption right or repurchase right as provided under the newly adopted memorandum and articles of association of Shiny Bright, in case the 2008 Net Income of Shiny Bright is less than RMB30,000,000 (the “<b>Profit Guarantee</b>”), the holders of Series A Preferred Shares may elect to cause Shiny Bright to redeem the Series A Preferred Shares held by them at the Series A Purchase Price plus a return of 15% per annum of such figure.</p> <p>If Shiny Bright fails to redeem the Series A Preferred Shares, the Series A Holders has a right to sell the Series A Preferred Shares to the Covenantors at the Series A Purchase Price plus a return of 15% per annum of such figure. The Company will make an announcement in compliance with the requirements of the GEM Listing Rules in case the Covenantors purchase the Series A Preferred Shares as aforesaid.</p>
Right to appoint directors of Shiny Bright	<p>Each of Freemind and Jinheng BVI is entitled to appoint 2 directors of Shiny Bright respectively. Therefore, the holders of Ordinary Shares are entitled to appoint 4 directors of Shiny Bright in total.</p>	<p>The holders of Series A Preferred Shares are entitled to appoint 2 directors of Shiny Bright in their complete discretion, and entitled to appoint another director jointly with Honest Bright.</p>

### **Disposal Consideration**

The total consideration (the “**Disposal Consideration**”) for the Disposal is RMB100,000,000. As the Selling Series A-1 Preferred Shares comprise 3,793,353 Series A-1 Preferred Shares, the purchase price of each Series A-1 Preferred Share of RMB26.36 (the “**Series A-1 Purchase Price**”) is derived by dividing RMB100,000,000 by 3,793,353.

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## LETTER FROM THE BOARD

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The Disposal Consideration shall be satisfied by the Investors upon the Disposal Completion. RMB50,000,000 shall be paid by telegraphic transfer to a designated bank account (the “**Designated Account**”) of Shiny Bright which shall be operated with the sole approval of the Investors, RMB30,000,000 shall be paid into another designated bank account which shall be operated with the approvals of both the Investors and Jinheng BVI respectively, while the remaining RMB20,000,000 shall be paid to Honest Bright.

The Disposal Consideration was arrived at after arm’s length negotiation between the parties to the Disposal Agreement with reference to the potential business prospects and the future earning potentials of Beijing Troitec, the rights attached to the Series A Preferred Shares. Moreover, when determining the amount of the Disposal Consideration the Investors have considered, (i) the fact that that Beijing Troitec is one of the few PRC local manufacturers which produces and sells engine management system used in automobiles in PRC, (ii) the leading position enjoyed by Beijing Troitec in the PRC engine management system markets, thus allowing Beijing Troitec to possess a large market share in PRC, (iii) the cost benefits currently enjoyed by Beijing Troitec, and (iv) the fact that Beijing Troitec has already entered into at least 5 substantial sales contracts with car manufacturers in PRC and is developing new products for over 10 new automobile models.

The Directors consider that the Disposal Consideration and the terms of the Disposal Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Disposal Conditions**

The Disposal is conditional upon the following conditions, among others, having been fulfilled:

- (i) all the necessary actions and approvals for the Investors to purchase the Selling Series A-1 Preferred Shares from Honest Bright and for Honest Bright to sell the Selling Series A-1 Preferred Shares to the Investors having been taken or obtained;
- (ii) all necessary PRC governmental approvals and consent for the Acquisition having been obtained, and the Acquisition Completion having taken place;
- (iii) each of the warranties and representations given by Honest Bright, Shiny Bright, and the Covenantors in the Disposal Agreement being true and correct as of the date of the Disposal Completion;
- (iv) all necessary governmental approvals for consummation of the transactions contemplated under the Disposal Agreement having been obtained;
- (v) the Investors being satisfied with the results of due diligence exercise;
- (vi) a legal opinion having been issued by a British Virgin Islands counsel to the Investors in relation to Shiny Bright;
- (vii) a legal opinion having been issued by a PRC counsel in relation to Beijing Troitec;



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## LETTER FROM THE BOARD

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- (viii) all actions necessary having been taken to appoint the persons nominated by the Investors as directors of each of Shiny Bright, Properline, Sure Lucky, Beijing Troitec and its subsidiary with effect from the date of the Disposal Completion;
- (ix) no event, circumstance, fact, condition having been occurred which would be materially adverse to the financial condition, business, prospects, operations of the Target Group;
- (x) Eight key individuals of the Target Group having executed an employment agreement (the form and substance of which is satisfactory to the Investors) with one or more companies of the Target Group;
- (xi) Eight key individuals of the Target Group having executed a proprietary information and invention agreement (the form and substance of which is satisfactory to the Investors) with one or more companies of the Target Group;
- (xii) A shareholders' agreement (the form and substance of which is satisfactory to the Investors) relating to the Company having been executed between, amongst others, Shiny Bright, Properline, Sure Lucky, Beijing Troitec, the Investors, Honest Bright and the Covenantors;
- (xiii) A shareholders' resolution of Shiny Bright for approval of matters contemplated under the Disposal Agreement having been executed; and
- (xiv) A directors' resolution of Shiny Bright for approval of matters contemplated under the Disposal Agreement having been executed.

None of the conditions mentioned above have been fulfilled as at the Latest Practicable Date.

The Investors may waive all or any of the conditions as stated in the Disposal Agreement. Shiny Bright, Honest Bright, the Covenantors shall use all reasonable endeavours to procure the fulfillment of all these conditions on or before 30 September 2008, or such other as may be agreed among the parties to the Disposal Agreement, failing which the Investors may not proceed to the Disposal Completion.

### **Disposal Completion**

For the avoidance of doubt, the Disposal Completion is conditional upon the Acquisition Completion, but not vice versa, the Disposal Completion shall take place as soon as practicable after the Acquisition Completion. Immediately after the Acquisition Completion but before the Disposal Completion, the Company will be interested in 51.20% equity interest in Beijing Troitec. Immediately after the Disposal Completion (at which time the Tranche 2 Subscription Option is not exercised), the Company will be interested in 34.41% of Beijing Troitec on a fully diluted basis.

As the Investors have the right to waive any conditions stated above, including the condition that the Acquisition Completion having taken place, it is possible for the Disposal Completion to proceed even if the Acquisition Completion does not proceed. However, the Board considers it is unlikely for the Investors to waive such a condition.

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## LETTER FROM THE BOARD

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### MAJOR DISPOSAL – GRANT OF TRANCHE 2 SUBSCRIPTION OPTION

On the date of the Disposal Agreement, the Group entered into the Tranche 2 Subscription Agreement with the Investors, details of which are set out below:

Date : 23 May 2008

Parties : The Investors as the grantee  
Shiny Bright as the grantor  
Honest Bright  
The Covenantors

#### Tranche 2 Subscription Option

Pursuant to this Tranche 2 Subscription Agreement, subject to the Disposal Completion (which has not taken place yet as at the Latest Practicable Date) and all the Series A-1 Preferred Shares purchased by the Investors upon Disposal Completion remaining in issue and outstanding (or to the extent any of Series A-1 Preferred Shares are converted into Ordinary Shares, such Ordinary Shares remaining in issue and outstanding), Shiny Bright granted the Investors, at a consideration of HK\$1.00, an option to subscribe such number of Series A-2 Preferred Shares (as the Investors may decide in its discretion) at the price (the “**Series A-2 Purchase Price**”) per share equal to 130% of the then applicable Series A-1 Conversion Price. Except for the Shareholders’ approval to be given by a majority vote in a duly convened general meeting of the Company, there are no other conditions precedent for the grant of the Tranche 2 Subscription Option. The Tranche 2 Subscription Option is exercisable by the Investors, at its sole discretion and not at the Group’s discretion, until the later of (i) 12 months after the Disposal Completion or (ii) 3 months after the audited accounts of the Shiny Bright and its subsidiaries for the year ending 31 March 2009 have been delivered to the Investors. Upon exercise of such Tranche 2 Subscription Option, the Investors shall subscribe the Series A-2 Preferred Shares for itself.

Save for the consideration of US\$1.00, there is not any premium for the grant of the Tranche 2 Subscription Option. The Company will comply with the requirements of Chapter 19 and Chapter 20 of the GEM Listing Rules upon exercise, transfer and termination of the Tranche 2 Subscription Option, and make appropriate announcements if required by the GEM Listing Rules.

For the avoidance of doubt, except for the difference of the Series A-1 Conversion Price and the Series A-2 Conversion Price, the rights of the Series A-2 Preferred Shares are the same as those of the Series A-1 Preferred Shares. Please refer to the table set out on pages 9 to 12 of this circular for details of rights of Series A-2 Preferred Shares.

#### Tranche 2 Subscription Consideration

The aggregate consideration for subscription of Series A-2 Preferred Shares shall not exceed RMB80,000,000 (the “**Tranche 2 Subscription Consideration**”), and the Tranche 2 Subscription Option is to be exercised to the extent that the Investors will not hold more than 49.90% of the issued share capital of Shiny Bright (on an as fully-converted basis).

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## LETTER FROM THE BOARD

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### Conditions for exercise of the Tranche 2 Subscription Option

The exercise of the Tranche 2 Subscription Option by the Investors, is conditional upon the following conditions, among others, having been fulfilled:

- (i) each of the warranties and representations given by Honest Bright, Shiny Bright, and the Covenantors in the Tranche 2 Subscription Agreement being true and correct as of the date of the Tranche 2 Subscription Completion;
- (ii) the approval of the Shareholders for entering into the Tranche 2 Subscription Agreement and carrying out the transactions contemplated thereunder having been obtained by the Company at the EGM;
- (iii) all necessary governmental approvals for consummation of the transactions contemplated under the Disposal Agreement having been obtained;
- (iv) a legal opinion having been issued by a British Virgin Islands counsel to the Investors in relation to Shiny Bright; and
- (v) no event, circumstance, fact, condition having been occurred which would be materially adverse to the financial condition, business, prospects, operations of the Target Group.

None of the conditions mentioned above have been fulfilled as at the Latest Practicable Date.

The Investors may waive all or any of the conditions for the exercise of the Tranche 2 Subscription Option as stated in the Tranche 2 Subscription Agreement.

### Tranche 2 Subscription Completion

Shiny Bright shall issue, and the Investors shall subscribe, such number of the Series A-2 Preferred Shares (obtained by dividing the Tranche 2 Subscription Consideration by the then applicable Series A-2 Purchase Price) to the Investors upon the Tranche 2 Subscription Completion. The entire sum of the Tranche 2 Subscription Consideration for subscription of the Series A-2 Preferred Shares shall be satisfied by the Investors upon the Tranche 2 Subscription Completion, and all of such sum shall be deposited by telegraphic transfer to the Designated Account.

The Series A-2 Purchase Price, the Tranche 2 Subscription Consideration and the terms of the Tranche 2 Subscription Agreement were arrived at after arm's length negotiation between the parties to the Tranche 2 Subscription Agreement with reference to the potential business prospects of Beijing Troitec, future earning potentials of Beijing Troitec, the rights attached to the Series A Preferred Shares, and the same factors considered by the Investors as mentioned under the section headed "Disposal Consideration" of this circular.

The Directors consider that the Tranche 2 Subscription Consideration and the terms of the Tranche 2 Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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Assuming the Conversion Price is not adjusted (i.e. equal to the current Series A-1 Purchase Price of RMB26.36), the Series A-2 Purchase Price will be RMB34.27 (i.e. 26.36 x 130%), and upon the Tranche 2 Subscription Option being exercised by the Investors as at the date hereof and at such Series A-2 Purchase Price, the Investors will hold 2,334,371 Series A-2 Preferred Shares (i.e. RMB80,000,000 divided by RMB34.27), representing 16.79% of the entire issued share capital of Shiny Bright (on an as fully-converted basis and a fully-diluted basis after the issue of the Series A-2 Preferred Shares by Shiny Bright). Together with the Series A-1 Preferred Shares acquired by the Investors upon Disposal Completion, the Investors will hold 44.07% of the issued share capital of Shiny Bright (on a fully-diluted basis after the issue of the Series A-2 Preferred Shares by Shiny Bright) upon Tranche 2 Subscription Completion.

As at the date hereof, Shiny Bright has 7,775,275 Ordinary Shares and 3,793,353 Series A Preferred Shares in issue, all of which are beneficially owned by Honest Bright. The following table shows the shareholding structure of Shiny Bright (i) as at the date hereof (on an as-fully-converted basis), (ii) after the Disposal Completion (on an as-fully-converted basis and assuming there is no adjustment to the Series A-1 Conversion Price), and (iii) after the Disposal Completion and the exercise of the Tranche 2 Subscription Option in full (on an as-fully-converted basis, a fully-diluted basis and assuming there is no adjustment to the Series A-1 Conversion Price and Series A-2 Conversion Price):

		As at the Latest Practicable Date		After Disposal Completion		After Disposal Completion and exercise of Tranche 2 Subscription Option	
		<i>No. of shares</i>	<i>%</i>	<i>No. of shares</i>	<i>%</i>	<i>No. of shares</i>	<i>%</i>
Honest Bright	Ordinary Shares	7,775,275	67.21	7,775,275	67.21	7,775,275	55.93
	Series A-1 Preferred Shares	3,793,353	32.79	–	–	–	–
Subtotal:		11,568,628	100.00	7,775,275	67.21	7,775,275	55.93
Investors	Series A-1 Preferred Shares	–	–	3,793,353	32.79	3,793,353	27.28
	Series A-2 Preferred Shares	–	–	–	–	2,334,371	16.79
Subtotal:		–	–	3,793,353	32.79	6,127,724	44.07
<b>Total</b>		<b>11,568,628</b>	<b>100.00</b>	<b>11,568,628</b>	<b>100.00</b>	<b>13,902,999</b>	<b>100.00</b>

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## LETTER FROM THE BOARD

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Please note that the figures shown under the column “After Disposal Completion” and the column “After Disposal Completion and exercise of Tranche 2 Subscription Option” in the table above are based on the assumption that the Series A-1 Conversion Price and/or Series A-2 Conversion Price have not been adjusted yet.

Under the newly adopted memorandum and articles of association of Shiny Bright, the number of Series A-1 Preferred Shares and Series A-2 Preferred Shares to be issued by Shiny Bright are fixed to be 3,793,353 and 2,334,371 respectively. Therefore, if the Series A-1 Conversion Price and/or Series A-2 Conversion Price are adjusted downwards, the number of Ordinary Shares (on an as-fully-converted basis) into which each Series A-1 Preferred Shares and/or Series A-2 Preferred Shares can be converted will increase. The end result will be the percentage of shareholding (on an as fully-converted basis) held by the Investors will increase. However, please be reminded that, as mentioned above, the Tranche 2 Subscription Option is to be exercised to the extent that the Investors will not hold more than 49.90% of the issued share capital of Shiny Bright (on an as fully-converted basis).

Further details of the Target Group structure immediately after the Acquisition Completion, the Disposal Completion, and the Tranche 2 Subscription Completion is shown in the chart on page 24 of this circular.

### **Financial effect and use of proceeds**

Upon the Disposal Completion, the Group is expected to record a net gain of about HK\$15 million. Such gain was calculated by deducting the provision of expenses (in the sum of about HK\$11 million) derived from the fair value of the Tranche 2 Subscription Option, the redemption right to the Investors if the Profit Guarantee is not satisfied and the employee share options to be granted by Shiny Bright (such provisions are required to be recognised under the generally accepted accounting principles in Hong Kong), from the gain on disposal of about HK\$26 million.

Such gain on disposal of HK\$26 million is calculated based on the net proceeds of about RMB100 million obtained from the Disposal, less the unaudited and consolidated net asset value of the Target Group (as at date of signing the Disposal Agreement) and the relevant expenses incurred for processing the Acquisition and Disposal. Such gain on disposal is calculated by the Company internally on a prudent basis, and it has not been agreed with auditors.

The Directors intend to apply RMB80 million out of the entire sale proceeds from the Disposal for full payment of the subscription price of the 7,675,275 Ordinary Shares and all the Series A-1 Preferred Shares (both of which were issued as payable upon subscription by Honest Bright). The directors of Shiny Bright intend to apply such RMB80 million for the Target Group’s general working capital. For the remaining RMB20 million, the Directors intend to use the same for the Group’s general working capital. Immediately after the Disposal Completion, Honest Bright, Shiny Bright, Sure Lucky, Properline and Beijing Troitec will remain subsidiaries of the Group and their financial results will continue to be consolidated into the books of the Group.

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## LETTER FROM THE BOARD

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The directors of Shiny Bright intend to apply the net proceeds of about RMB80,000,000 obtained from the exercise of the Tranche 2 Subscription Option by the Investors for the general working capital and further development of the Target Group, including expansion of research and production capacities, and introduction and development of new products. Immediately after the Tranche 2 Subscription Completion, Honest Bright, Shiny Bright, Sure Lucky, Properline and Beijing Troitec will remain subsidiaries of the Group and their financial results will continue to be consolidated into the books of the Group.

The gain or loss of the Group from the exercise of the Tranche 2 Subscription Option cannot be calculated as at the date hereof. The gain or loss will depend on the difference between the consideration (which is RMB80,000,000 at the maximum) paid by the Investors and the net asset value of the Target Group when exercising the Tranche 2 Subscription Option (which can any time before the later of (i) 12 months after the Disposal Completion or (ii) 3 months after the audited accounts of the Shiny Bright and its subsidiaries for the year ending 31 March 2009 have been delivered to the Investors). For the purpose of illustration, assuming the Tranche 2 Subscription Option is exercised by the Investors as at the date hereof, the Group will possibly record another gain of approximately HK\$15 million with reference to the net asset value of the Target Group as at the date hereof.

### INFORMATION ON SHINY BRIGHT, PROPERLINE AND SURE LUCKY

#### **Shiny Bright**

Shiny Bright is a company incorporated in the British Virgin Islands on 6 December 2007 and is principally engaged in investment holding. Other than its shareholding in Properline and Sure Lucky, Shiny Bright does not own any equity interest in other companies and does not have any other material assets. Shiny Bright has not recorded any turnover or profits since 6 December 2007 (i.e. the date of its corporation) up to 31 December 2007. Its unaudited unconsolidated net asset value as at 31 December 2007 is HK\$0.

#### **Properline**

Properline is a company incorporated in Hong Kong on 29 August 2006 and is principally engaged in investment holding. Other than its 31.5% (before the Acquisition Completion) or 70% (after the Acquisition Completion) equity interest in Beijing Troitec, Properline does not own any equity interest in other companies and does not have any other material assets.

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## LETTER FROM THE BOARD

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The following table shows the turnover, net losses before tax and net losses after tax of Properline based on its unaudited unconsolidated financial statements for the financial year ended 31 December 2006 and 2007 (prepared under the generally accepted accounting principles in Hong Kong):

	<b>For the year ended 31 December 2007</b>	<b>For the year ended 31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	0	0
Net losses before tax	11	19
Net losses after tax	11	19

The unaudited unconsolidated net liabilities value of Properline as at 31 December 2006 and as at 31 December 2007 were about HK\$0.02 million and HK\$0.03 million respectively.

### **Sure Lucky**

Sure Lucky is a company incorporated in Hong Kong on 29 August 2006 and is principally engaged in investment holding. Other than its 30% equity interest in Beijing Troitec, Sure Lucky does not own any equity interest in other companies and does not have any other material assets.

The following table shows the turnover, net losses before tax and net losses after tax of Sure Lucky based on its unaudited unconsolidated financial statements for the financial year ended 31 December 2006 and 2007 (prepared under the generally accepted accounting principles in Hong Kong):

	<b>For the year ended 31 December 2007</b>	<b>For the year ended 31 December 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	0	0
Net losses before tax	9	19
Net losses after tax	9	19

The unaudited unconsolidated net liabilities value of Sure Lucky as at 31 December 2006 and as at 31 December 2007 were about HK\$0.02 million and HK\$0.03 million respectively.

### **INFORMATION ON BEIJING TROITEC**

Beijing Troitec is a sino-foreign equity joint venture company established in the PRC in August 2004. It, together with its subsidiary, are principally engaged in the research and development, manufacture and sale of engine management system used in automobiles.

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## LETTER FROM THE BOARD

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The following table shows the turnover, net loss before tax and net loss after tax of the Beijing Troitec and its subsidiaries based on its consolidated audited financial statements for the financial year ended 31 December 2006 and 2007 (prepared under the generally accepted accounting principles in the PRC):

	<b>For the year ended 31 December 2007 (audited) <i>RMB'000</i></b>	<b>For the year ended 31 December 2006 (audited) <i>RMB'000</i></b>
Turnover	63,484	26,289
Net loss before tax	24,165	17,065
Net loss after tax	24,165	17,065

The audited consolidated net liabilities value of Beijing Troitec as at 31 December 2006 and as at 31 December 2007 were about RMB19.1 million and RMB23.2 million respectively.

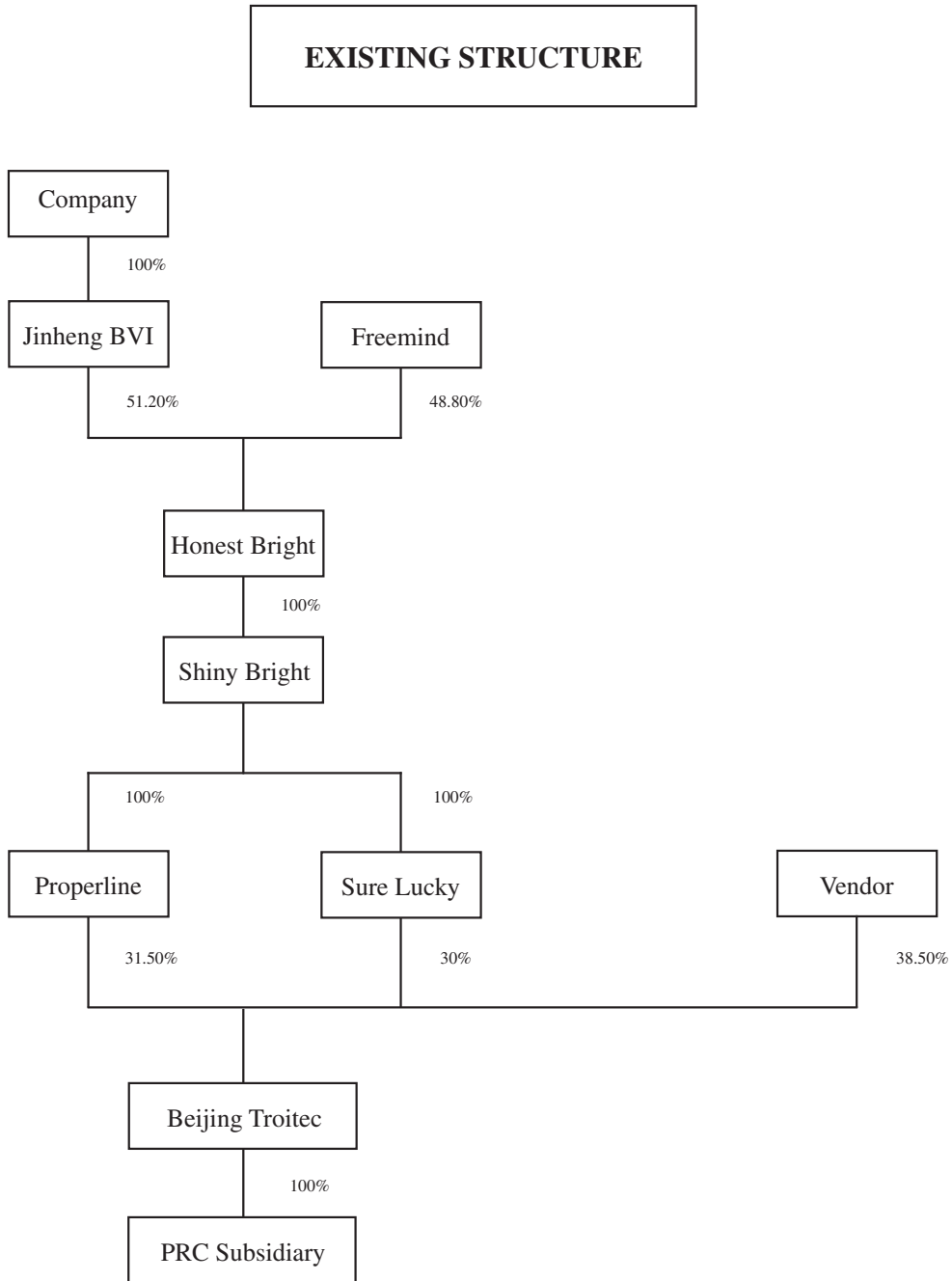


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## LETTER FROM THE BOARD

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### STRUCTURE BEFORE AND AFTER THE ACQUISITION COMPLETION, THE DISPOSAL COMPLETION AND THE TRANCHE 2 SUBSCRIPTION COMPLETION

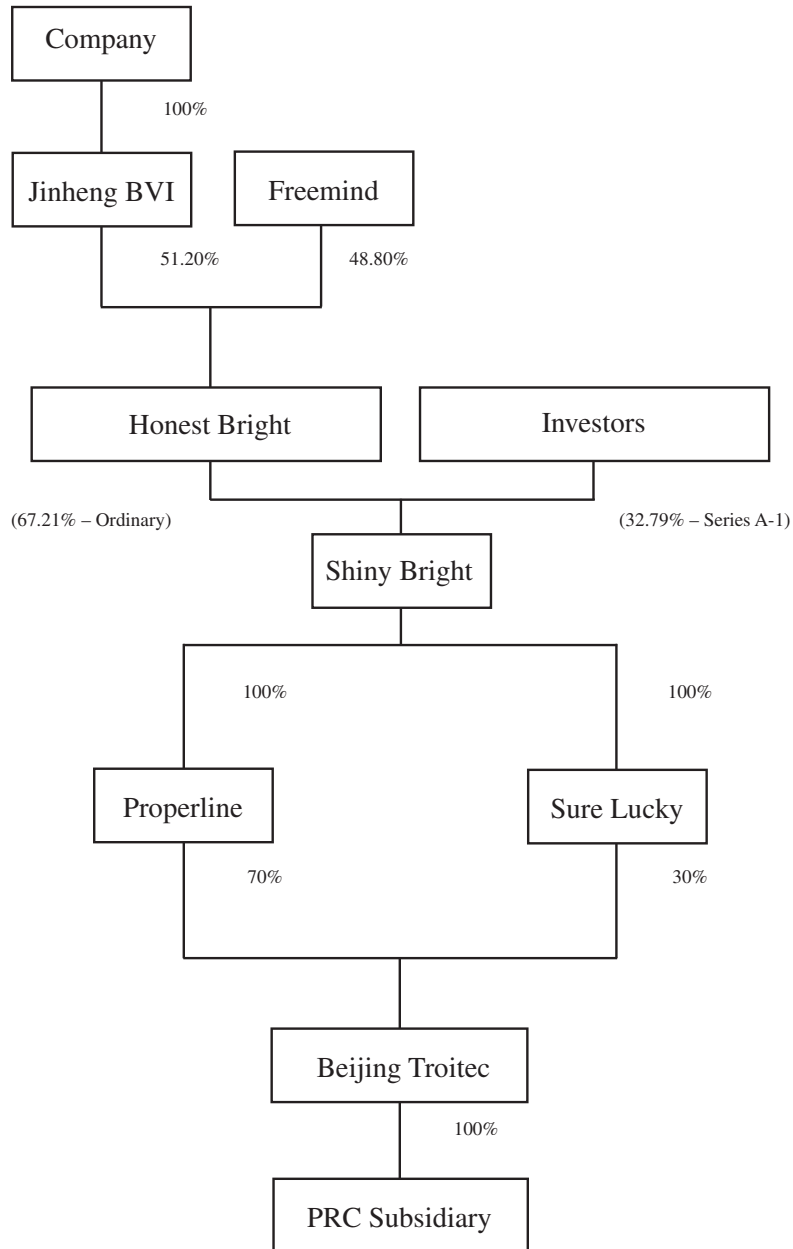


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**LETTER FROM THE BOARD**

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**STRUCTURE FOLLOWING ACQUISITION COMPLETION  
AND DISPOSAL COMPLETION BUT BEFORE THE  
EXERCISE OF TRANCHE 2 SUBSCRIPTION OPTION  
(ASSUMING THE SERIES A-1 CONVERSION PRICE IS  
NOT ADJUSTED)**

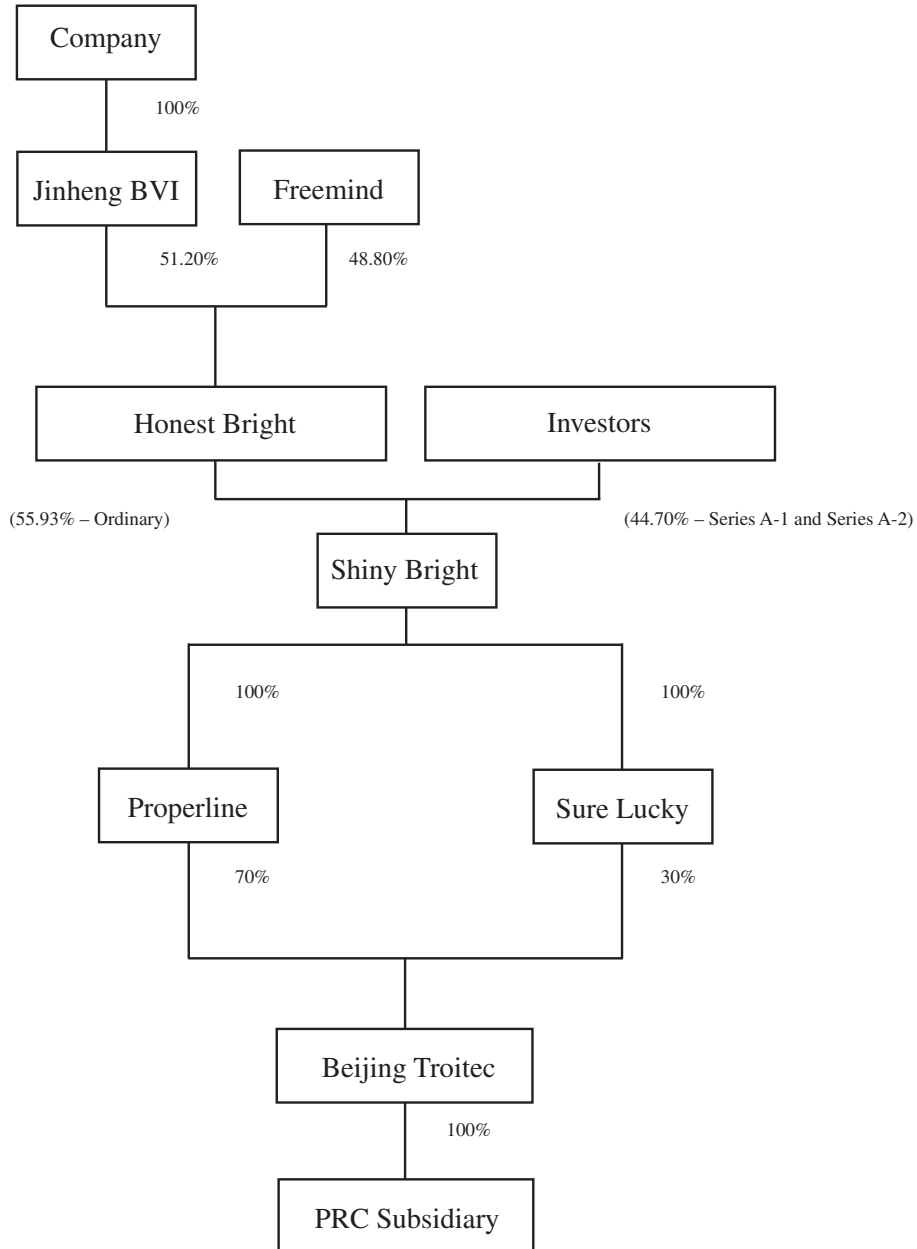


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**LETTER FROM THE BOARD**

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**STRUCTURE FOLLOWING ACQUISITION  
COMPLETION, THE DISPOSAL COMPLETION AND THE  
TRANCHE 2 SUBSCRIPTION COMPLETION (ASSUMING  
THE SERIES A-1 CONVERSION PRICE AND SERIES A-2  
CONVERSION PRICE ARE NOT ADJUSTED)**



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## LETTER FROM THE BOARD

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Below please find a table setting out the effective interest in Shiny Bright owned by the Company (i) as at the date hereof, (ii) immediately after the Disposal Completion and (iii) immediately after the Disposal Completion and Tranche 2 Subscription Completion:

As at the date hereof	Immediately after Disposal Completion (on an as-fully-converted basis)	Immediately after the Disposal Completion and Tranche 2 Subscription Completion (on an as-fully-converted basis and a fully-diluted basis)
51.20%	34.41%	28.64%

Below please find a table setting out the effective interest in Beijing Troitec owned by the Company (i) as at the date hereof, (ii) immediately after the Disposal Completion and (iii) immediately after the Disposal Completion and Tranche 2 Subscription Completion:

As at the date hereof	Immediately after Disposal Completion (on an as-fully-converted basis)	Immediately after the Disposal Completion and Tranche 2 Subscription Completion (on an as-fully-converted basis and a fully-diluted basis)
31.49%	34.41%	28.64%

For the avoidance of doubt, the financial results of Shiny Bright will be consolidated into the accounts of the Group as at the date hereof, after the Disposal Completion and after the exercise of the Tranche 2 Subscription Option.

### **REASONS FOR THE ACQUISITION, THE DISPOSAL AND THE GRANT OF THE TRANCHE 2 EXERCISE OPTION**

The Company is an investment holding company and its subsidiaries are principally engaged in design, research and development, manufacture and sale of automotive safety systems and other automotive electronic parts. Currently the Group's major products are safety airbag systems used in automobiles.

The reason for carrying out the Acquisition is to increase the Group's interest in Beijing Troitec so as to attract the Investors to enter into the Disposal Agreement. With regard to the huge automobile market in the PRC, the Group views it as a good opportunity to expand the business of Beijing Troitec. After careful consideration, the Board is of the view that entering into the Disposal Agreement with the Investors will be the most appropriate way to obtain funding to carry out such expansion. The proceeds from the Disposal will be used as the general working capital of the Target Group.

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## LETTER FROM THE BOARD

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The acquisition of the Series A Preferred Shares by the Investors are divided in 2 stages. The first stage is purchasing 32.79% interest in Shiny Bright from Honest Bright, while the second stage is the exercise of the Tranche 2 Subscription Option. The reason for such structure is that the Board considers the proceeds from the sale of the Selling Series A-1 Preferred Shares (i.e. RMB100,000,000) under the Disposal Agreement will be sufficient for Beijing Troitec to use as general working capital with regard to its current size.

Granting the Tranche 2 Subscription Option to Investors will provide the Target Group a certain degree of certainty in securing further funds to be injected into the Target Group in case the business of Beijing Troitec prospers.

### **FINANCIAL EFFECT ON THE GROUP**

After the Acquisition Completion but before the Disposal Completion, it is expected that the earnings of the Group will remain unchanged in all material aspects, and the assets and liabilities of the Group will increase, when compared with the financial position as at the Latest Practicable Date.

After the Disposal Completion and the Acquisition Completion but before the Tranche 2 Subscription Completion, it is expected the assets and earnings of the Group will increase while the liabilities of the Group will remain unchanged, when compared with the financial position as at the Latest Practicable Date.

After the Acquisition Completion, the Disposal Completion and the Tranche 2 Subscription Completion, it is expected that the assets and earnings of the Group will increase while the liabilities of the Group will remain unchanged, when compared with the financial position as at the Latest Practicable Date.

### **IMPLICATIONS UNDER THE GEM LISTING RULES**

#### **The Acquisition**

Since the Vendor is holding 38.5% of the registered capital of Beijing Troitec, a non wholly-owned subsidiary of the Company, the Vendor is regarded as a substantial shareholder and a connected person of the Company under the GEM Listing Rules. As such, the Acquisition constitutes a connected transaction for the purposes of the GEM Listing Rules. Since the relevant percentage ratios are more than 5% but less than 25%, the Acquisition is also a discloseable transaction on the part of the Company.

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## LETTER FROM THE BOARD

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The Acquisition is subject to the requirements of reporting, announcement and the approval of the independent Shareholders. Pursuant to Rule 20.43 of the GEM Listing Rules, the written Shareholders' approval may be accepted by the Stock Exchange in lieu of holding a general meeting for the approval of the Acquisition, if no Shareholders are required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition and a written Shareholders' approval has been obtained by the Company from a Shareholder holding more than 50% of the nominal share capital of the Company giving rights to attend and vote at general meeting for approval of the relevant transaction. As none of the Shareholders have a material interest in the Acquisition, none of the Shareholders is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition. Moreover, Applaud Group Limited, the controlling Shareholding holding 228,620,000 Shares as at the Latest Practicable Date, representing 51.60% of the issued Shares, has given its written Shareholders' approval for the Acquisition. An application has been made by the Company to the Stock Exchange to obtain such a waiver, and the Stock Exchange has granted such a waiver under Rule 20.43 of the GEM Listing Rules.

### **The Disposal**

The transaction contemplated under the Disposal Agreement is regarded as a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules, since the relevant percentage ratios are more than 5% but less than 25%. Therefore, no Shareholders' approval is required for the Disposal.

### **The grant of the Tranche 2 Subscription Option**

The transaction contemplated under the Tranche 2 Subscription Agreement is aggregated with the Disposal pursuant to Rule 19.22 of the GEM Listing Rules, since both the Disposal Agreement and the Tranche 2 Subscription Agreement involve the acquisition of interest in Shiny Bright by the Investors. As the allotment of the Series A-2 Preferred Shares to the Investors upon exercise of the Tranche 2 Subscription Option, the allotment of shares in Shiny Bright will reduce the Company's interest in Shiny Bright, such a transaction is a deemed disposal pursuant to Rule 19.29 of the GEM Listing Rules. The transaction under the Tranche 2 Subscription Agreement is thus regarded as a major disposal on the part of the Company under Chapter 19 of the GEM Listing Rules and Shareholders' approval to be given by a majority vote in a duly convened general meeting of the Company is required for such transaction pursuant to the GEM Listing Rules.

Moreover, pursuant to Rule 17.39 of the GEM Listing Rules, since Shiny Bright is major subsidiary of the Company and the aggregate effect of the Disposal and the grant of the Tranche 2 Subscription Option will materially dilute the Company's interest in Shiny Bright, Shareholders' approval to be given by a majority vote in a duly convened general meeting of the Company is required for the grant and the exercise of the Tranche 2 Subscription Option.

The EGM will be held by the Company for the Shareholders to approve the transaction under Tranche 2 Subscription Agreement pursuant to the GEM Listing Rules. As none of the Shareholders has a material interest in the Disposal and the grant and exercise of the Tranche 2 Subscription Option, no Shareholders will be required to abstain from voting at the EGM.

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## LETTER FROM THE BOARD

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### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder. Nuada has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Acquisition.

Your attention is drawn to the letter from the Independent Board Committee set out on page 30 of this circular. The Independent Board Committee, having taken into account the advice of Nuada, the text of which is set out on pages 31 to 40 of this circular, considers that the Acquisition Agreement is entered into upon normal commercial terms following arm's length negotiations between the parties to the Acquisition Agreement and that the terms of the Acquisition Agreement and the transaction contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. If a general meeting of the Company were to be convened for the approval of the Acquisition Agreement and the transactions contemplated thereunder, Shareholders are advised to vote in favour of such resolution after taking into account the recommendation of Nuada.

Taking into consideration of the reason set out in the paragraphs headed "Reason for the Acquisition" above and the recommendations of the Independent Board Committee and Nuada, the Directors (including independent non-executive Directors) consider that the Acquisition Agreement and the transaction contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### EGM

Set out on pages 56 to 57 of this circular is a notice convening the EGM which will be held at 33rd Floor, 9 Queen's Road Central, Central, Hong Kong at 10:00 a.m. on Monday, 30 June, 2008 at which resolutions will be proposed to approve, among others, the Tranche 2 Subscription Agreement and the transactions contemplated thereunder (including the grant by Shiny Bright, and exercise by the Investors, of the Tranche 2 Subscription Option).

A form of proxy for the EGM is enclosed. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy and return the same to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar in Hong Kong, at Room 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

All the Directors (including independent non-executive Directors) consider that the Disposal Agreement and the Tranche 2 Subscription Agreement are entered into upon normal commercial terms following arm's length negotiations between the parties thereto, and that the terms of the Disposal Agreement and those of the Tranche 2 Subscription Agreement are fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors (including independent non-executive Directors) recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Tranche 2 Subscription Agreement and the transaction contemplated thereunder (including the grant by Shiny Bright, and exercise by the Investors, of the Tranche 2 Subscription Option).

### PROCEDURE FOR DEMANDING A POLL AT THE EGM

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

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

### FURTHER INFORMATION

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

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



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8293)

13 June 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
FOR ACQUISITION OF 38.50% EQUITY INTEREST IN BEIJING TROITEC**

We refer to the circular dated 13 June 2008 issued by the Company (the “**Circular**”), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Acquisition and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition, and to recommend how the Independent Shareholders should vote at the EGM. Nuada has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 29 of the Circular, and the letter from Nuada to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Acquisition, as set out on pages 31 to 40 of the Circular.

Having taken into account of the advice of Nuada, we consider that the Acquisition Agreement are entered into upon normal commercial terms following arm’s length negotiations between the parties to the Acquisition Agreement, and that the terms of the Acquisition Agreement to be fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. If a general meeting of the Company were to be convened for the approval of the Acquisition Agreement and the transactions contemplated thereunder, Shareholders are advised to vote in favour of such resolution.

Yours faithfully,

**the Independent Board Committee**

**Chan Wai Dune**  
*Independent non-executive  
Director*

**Huang Shilin**  
*Independent non-executive  
Director*

**Zhu Tong**  
*Independent non-executive  
Director*

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## LETTER FROM NUADA

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*The following is the letter of advice from Nuada to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular:*

# Nuada Limited

*Corporate Finance Advisory*

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

13 June 2008

To the Independent Board Committee and  
the Independent Shareholders

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether entering into the Acquisition is in the usual and ordinary course of business of the Group, the terms of the Acquisition and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and whether the Independent Shareholders should vote in favour of the Acquisition and the transactions contemplated thereunder. Details of the Acquisition are set out in the letter from the board (the “Board’s Letter”) in the circular to the Shareholders dated 13 June 2008 (the “Circular”), of which this letter forms part. Unless otherwise stated, terms used in this letter have the same meanings as those defined in the Circular.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the terms of the Acquisition and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and the Directors. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which

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## LETTER FROM NUADA

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have been provided by the Company and the Directors and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be made the date hereof. We have also assumed the accuracy and truthfulness of the public information available from China Association of Automobile Manufacturers National Bureau of Statistics of China and Bureau of Transportation of the United State of America regarding the number of automobile available by household.

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

We have not studied, investigated nor verified the validity of all legal aspects of, and procedural aspects for, the Acquisition Agreement. We have further assumed that all material governmental, regulatory or other consents, rights, waivers, authorisations, licenses, clearances and approvals necessary for the effectiveness and implementation of the Acquisition Agreement have been or will be obtained and will not be withdrawn without any adverse effect on the Group, the assets and liabilities of the Group or the contemplated benefits to the Group as derived from the Acquisition Agreement.

Our opinion is necessarily based upon the financial, economic (including exchange rates and interest rates), market, regulatory and other conditions as they exist on, and the facts, information, representations and opinions made available to us as of the Latest Practicable Date. Our opinion does not in any manner address the Company's own decision to proceed with the Acquisition. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date.

### **BACKGROUND INFORMATION**

On 22 May 2008, Properline entered into a sale and purchase agreement pursuant to which the Group has conditionally agreed to purchase and the Vendor has agreed to sell the 38.5% of the registered capital of Beijing Troitec at a consideration of RMB30,000,000.

Pursuant to the Acquisition Agreement, 38.5% equity interests of the entire issued share capital of Beijing Troitec, are to be purchased by the Group from Vendor at a total consideration of RMB30,000,000, of which (i) RMB20,000,000 will be satisfied in cash within one month from the date of the Acquisition Completion; and (ii) the balance of RMB10,000,000 will be satisfied in cash within one year from the date of the Acquisition Completion.

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## LETTER FROM NUADA

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Since the Vendor is holding 38.5% of the registered capital of Beijing Troitec, a non wholly-owned subsidiary of the Company, the Vendor is regarded as a connected person of the Company. As such, the Acquisition constitutes a connected transaction as defined under Chapter 20 of the GEM Listing Rules and is subject to the reporting, announcement and the Independent Shareholders' approval requirements by way of poll under the GEM Listing Rules. In addition, since the relevant percentage ratios are more than 5% but less than 25%, the Acquisition is also a discloseable transaction on the part of the Company.

According to Rule 20.43 of the GEM Listing Rules, where independent shareholders' approval of a connected transaction is required, such approval shall be given by a majority vote at a general meeting of shareholders unless (i) no shareholder is required to abstain from voting at general meeting for the approval of the connected transaction; and (ii) the written shareholders' approval has been obtained from a shareholder or closely allied group of shareholders who (together) hold more than 50% in nominal value of the securities giving the right to attend and vote at that general meeting to approve the connected transaction, in which case a written shareholders' approval may be accepted in lieu of holding a general meeting.

As none of the Shareholder has material interest in the Acquisition, no Shareholder shall abstain from voting for the approval of the Acquisition. Applaud Group Limited, the controlling Shareholder holding of 228,620,000 Shares as at the Latest Practicable Date, representing approximately 51.60% of the issued share capital of the Company, has given its written approval of the Acquisition. An application has been made by the Company to the Stock Exchange to obtain such a waiver, and the Stock Exchange has granted such a waiver under Rule 20.43 of the GEM Listing Rules.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

The principal factors and reasons we have taken into account in assessing the Acquisition Agreement and in giving our advice to the Independent Board Committee and the Independent Shareholders are set out below:

#### **Reasons for the Acquisition**

The Company is an investment holding company and its subsidiaries are principally engaged in design, research and development, manufacture and sale of automotive safety systems and other automotive electronic parts. Currently the Group's major products are safety airbag systems used in automobiles. As at the Latest Practicable Date, the Company effectively owned 31.49% equity interest in Beijing Troitec. Beijing Troitec and its subsidiary are principally engaged in the research and development, manufacture and sale of engine management system used in automobiles.

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## LETTER FROM NUADA

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As mentioned in the Board's Letter, the Board considered the reason for carrying out the Acquisition is to increase the Group's interest in Beijing Troitec so as to attract the Investors to enter into the Disposal Agreement. Immediately after the Acquisition Completion, the Company will effectively own 51.20% equity interest in Beijing Troitec. With regard to the huge automobile market in the PRC, the Group views it as a good opportunity to expand the business of Beijing Troitec. After careful consideration by the Board, the entering into the Disposal Agreement with the Investors will be the most appropriate way to obtain funding to carry out such expansion. Upon completion of the Acquisition and the Disposal, the Company's equity interests in Beijing Troitec will change from 31.49% to 34.41% (assuming the Series A-2 Preferred Shares are not converted) and to 28.64% (assuming the Series A-2 Preferred Shares are fully converted).

Taking into account the business nature of Beijing Troitec and the intention of the Group to expand the business of Beijing Troitec, we are of the view that the Acquisition, which will provide a good opportunity to expand the Group's automobile business by inviting the Investors, a strategic partner, to conglomerate the management of the Group, is in line with the usual and ordinary course of business of the Group.

In assessing the fairness and reasonableness of the Acquisition, we do not perform comparison with acquisition by other listed issuers whose business are principally engaged in trading and manufacturing of automotive business as the terms of other acquisitions, the size of the acquired companies and the financial position of those listed issuers may vary. Having considered, such comparison may not present a meaningful reference to determine whether the Acquisition is fair and reasonable.

### **Business review and financial position of the Group**

Set out below is the summary of the audited operating results of the Group for each of the three years ended 31 December 2007, 2006 and 2005 and of the assets, liabilities and minority interests of the Group as extracted from the Company's respective annual reports for the three years ended 31 December 2007, 2006 and 2005:

	<b>For the three months ended 31 March</b>		<b>For the year ended 31 December</b>		
	<b>2008</b>	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	133,513	128,466	666,948	352,542	195,669
Profit before taxation	8,712	13,988	66,525	53,298	32,469
Profit after taxation	8,007	10,993	58,815	47,781	32,023
Net profit margin	6.00%	8.56%	8.82%	13.55%	16.37%
Attributable to:					
Equity shareholders of the Company	13,138	12,852	66,631	45,608	32,016
Minority interests	(5,131)	(1,859)	(7,816)	2,173	7

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## LETTER FROM NUADA

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	As at 31 December		
	2007	2006	2005
	(audited)	(audited)	(audited)
	HK\$'000	HK\$'000	HK\$'000
Total assets	1,029,929	627,743	314,975
Total liabilities	584,829	346,422	104,988
Net Assets	445,101	281,321	209,987
Minority interests	52,853	30,398	10,640

According to the annual report of the Company as at 31 December 2007 (the “2007 Annual Report”), the Group recorded an increase of approximately 89.2% in its turnover for the year ended 31 December 2007 to approximately HK\$666.9 million as compared to the previous corresponding year. Such increase in turnover was due to the increase in sales of new models of airbag system and the continuous growth in export business to overseas markets. The net profit margin (calculated as net profit after taxation divided by turnover) of the Group for the year ended 31 December 2007 was approximately 8.82%, which is lower than last year by 4.73%. According to the Board, the decrease was mainly due to the increased in the operating expenses of the Group, such as the cost to expand in overseas markets of the Group, the research and development expenses of new automotive electronic products, administrative expenses of Beijing Troitec since it was acquired. Although the net profit margin of the Group decreased, the profit attributable to the equity Shareholders were substantially increase by approximately HK\$21.0 million to approximately HK\$66.6 million as compared with last year. The Group recorded an increase of approximately 58.22% in its net assets for the year ended 31 December 2007 to approximately HK\$445.1 million as compared to the previous year.

According to the Company’s first quarterly report of the Company for the three months ended 31 March 2008 (the “First Quarterly Report”), the Group recorded an increase of approximately 3.93% in its turnover to approximately HK\$133.5 million as compared to the that of previous corresponding period. Such increase in turnover was due to the commencement of commercial production to a few car models since the end of last year, and the contribution from the automotive electronic business commenced in the middle of last year. The net profit margin (calculated as net profit after taxation divided by turnover) of the Group for the three months ended 31 March 2008 was approximately 6.0%, which is lower than last corresponding period of 8.56%. According to the Board, the decrease was mainly due to the relatively lower gross profit margin of the new automotive electronic products and spare part products since these were still in the newly launch stages.

As indicated in the 2007 Annual Report, the Group will not only refine its existing automobile airbag business and develop other advanced automobile safety products or system, but also introduce more strategic partners to strength the Group’s business foundations and reinforce the competitiveness of the Group in order to capture the business opportunity to the Group so as to optimize Shareholders’ interests.

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## LETTER FROM NUADA

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The Company intends to finance the Consideration from its internal resource. Based on the unaudited management account of the Group as at the 31 March 2008, the reserve of approximately HK\$53.44 million cash and cash equivalents is sufficient to satisfy the obligation under the Acquisition. We are of the view that the Acquisition will have no material impact to the Group.

### INFORMATION ON BEIJING TROITEC

As mentioned above, Beijing Troitec and its subsidiary are principally engaged in the research and development, manufacture and sale of engine management system used in automobiles. The Beijing Troitec was established on 5 August 2004 by the two PRC companies. Prior to the Acquisition, the Beijing Troitec was owned by Properline, Sure Lucky and the Vendor as to 31.50%, 30.00% and 38.50% respectively. As at the Latest Practicable Date, Beijing Troitec has a fully paid up registered capital of RMB14.60 million and a capital reserve of approximately RMB15.45 million.

According to the Board, there will also be major developments in the Group's automobile electronic business. The product of Beijing Troitec's core business, engine management system ("EMS"), has commenced sales in large quantity. Despite the volume of sales is small at present, it has entered into EMS development agreements for more than 20 automobile models, which proved that the demand for domestically developed EMS by the PRC automobile industry is great. Therefore, the Group is optimistic about the prospect of the EMS business, and believes that the EMS business will provide large contributions to the Group in the future. At the same time of doing the business refinement plan, the Group will continue to introduce more strategic partners and to strengthen the Group's business foundations and reinforce the competitiveness in order to capture the business opportunities brought by the PRC and overseas markets.

The following table shows the turnover, net loss before tax and net loss after tax of the Beijing Troitec and its subsidiaries based on its consolidated audited financial statements for the financial year ended 31 December 2006 and 2007 (prepared under the generally accepted accounting principles in the PRC):

	<b>For the year ended 31 December 2007</b>	<b>For the year ended 31 December 2006</b>
	<i>(audited)</i>	<i>(audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	63,484	26,289
Net loss before tax	24,165	17,065
Net loss after tax	24,165	17,065

The audited consolidated net liabilities value of Beijing Troitec as at 31 December 2006 and as at 31 December 2007 were about RMB19.1 million and RMB23.2 million respectively. Upon the Acquisition Completion (but before the Disposal Completion), Beijing Troitec will become a wholly-owned subsidiary of Shiny Bright and the Company will be effectively interested in 51.2%. The accounts of Beijing Troitec will continue be consolidated into the Group.

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## LETTER FROM NUADA

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Beijing Troitec has commenced sales in the first quarter of 2006. According to the unaudited management account of Beijing Troitec prepared in accordance with Hong Kong Financial Reporting Standards, Beijing Troitec had unaudited consolidated net asset value of approximately HK\$32.71 million as at 31 March 2008. As such, the Consideration represents a premium of approximately 1.65 times over the 38.5% of net asset value of Beijing Troitec as at 31 March 2008, being the share of net asset value of Beijing Troitec to be acquired by Shiny Bright from the Vendor (the “Acquisition Consideration Premium”). Despite the Consideration represents a premium to the net asset value of the Beijing Troitec, we considered such premium is justifiable taking into account the Disposal Consideration Premium as mentioned below.

### **INDUSTRY OVERVIEW OF AUTOMOTIVE INDUSTRY IN THE PRC**

According to the statistics from the China Association of Automobile Manufacturers and the relevant published information from Hong Kong Trade Development Council, China sold approximately 7.2 million units in year 2006, which was the second largest automobile market consumption in the world following United States, and produce approximately 7.3 million units in same year, which was the third largest automobile production in the world following Japan and United States.

According to the National Bureau of Statistics of China, the total number of automobile owned per 100 urban households in China increased from approximately 0.34 units in year 1999 to approximately 3.37 units in 2005. It has recorded a growth of double-digit percentage in the past seven years (i.e. 1999-2005).

Furthermore, as compared to the United States of America, a developed country of the world, it recorded 1.90 units owned by each of the household in 2001 (being the latest information released by Bureau of Transportation Statistics) according to the Transportation Statistics Annual Report December 2006 issued by the United States Department of Transportation. By making above the comparison between China, a developing county, and United States of America, a developed country, the sales in terms of unit of automobile in China will continue to grow in future in line with China’s rapid economic growth.

As indicated in 2007 Annual Report, over 90% of the Company’s products were sold to the PRC customers of the Group. In this regard, the Directors consider that it is a good opportunity to expand the business of Beijing Troitec to capture potential opportunities in the booming automobile market in the PRC and to achieve business growth for the Group. As such, we are of the view that the future prospect and market potential of the automobile business in PRC will remain strong, and the Acquisition provides the Group with opportunities to strengthen the Group’s automobile business’ foundation and profile in the long run by inviting strategic partner to the Group and thus is in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM NUADA

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### TERMS OF THE ACQUISITION

Pursuant to the Acquisition Agreement, the Consideration is RMB30,000,000, of which RMB20,000,000 will be paid to the Vendor within one month from the date of the Acquisition Completion, and the remaining balance of RMB10,000,000 will be paid to the Vendor within one year from the date of the Acquisition Completion. We consider that the remaining balance of RMB10,000,000 to be paid within one year from the date of the Acquisition Completion is cost benefit to the Group as it can be deferred, and thus is favourable to the Group. As stated in the Board's Letter, the Consideration was arrived at after arm's length negotiation between the parties to the Acquisition Agreement with reference to the business prospects of Beijing Troitec, and the fact that the Group would enter the Disposal Agreement with the Investors. As mentioned above, the reason for carrying out the Acquisition is to increase the Group's interest in Beijing Troitec so as to attract the Investors to enter into the Disposal Agreement.

On 23 May 2008, Honest Bright (a non-wholly owned subsidiary of the Company) entered into the Disposal Agreement pursuant to which the Investors have agreed to purchase and Honest Bright have agreed to sell the 3,793,353 Selling Series A-1 Preferred Shares, representing approximately 32.79% of the issued share capital of Shiny Bright (on a fully-converted basis), at a consideration of RMB100,000,000. The Disposal Completion is conditional upon the Acquisition Completion, but not vice versa. Accordingly, upon the Acquisition Completion and the Disposal Completion, the Investors, through its 32.79% interest in Shiny Bright, will be effectively interested in 32.79% of Beijing Troitec (which would have become the wholly-owned subsidiary of Shiny Bright upon the Acquisition Completion), while the Company (through its 51.2% interest in Honest Bright which in turn will be interested in 67.21% of Beijing Troitec) will be effectively interested in 34.41% of Beijing Troitec. For a pictorial presentation of the change in shareholding structure of Beijing Troitec, please refer to the section headed "Structure before and after the Acquisition Completion, the Disposal Completion and the Tranche 2 Subscription Completion" in the Board's Letter.

As stated in the Board's Letter, when determining the amount of the Disposal Consideration, the Investors have considered (i) the fact that Beijing Troitec is one of the few PRC local manufacturers which produces and sells engine management system used in automobiles in the PRC; (ii) the leading position enjoyed by Beijing Troitec in the PRC engine management system markets, thus allowing Beijing Troitec to possess a large market share in the PRC; (iii) the cost benefits currently enjoyed by Beijing Troitec; and (iv) the fact that Beijing Troitec has already entered into at least 5 substantial sales contracts with car manufacturers in the PRC and is developing new products for over 10 new automobiles models. According to the management accounts of the Target Group as at the Latest Practicable Date, the Target Group had unaudited net asset value approximately HK\$121.60 million (including the capital injection of RMB80 million by Honest Bright for subscription of 7,675,275 Ordinary Shares and 3,793,353 Selling Series A-1 Preferred Shares (the "Subscribed Shares") which were recorded as receivable as at the Latest Practicable Date). As such, the Disposal Consideration represents a premium of approximately 1.79 times over the 32.79% of the net asset value of the Target Group as at the Latest Practicable Date, being the share of net asset value of the Target Group to be disposed of by Honest Bright (the "Disposal Consideration Premium"). Taking into account the Disposal Consideration offered by the Investors under the Disposal Agreement at the Disposal Consideration Premium, we consider that the Acquisition Consideration Premium is justifiable, and thus fair and reasonable.

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## LETTER FROM NUADA

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It is noted that the Directors intend to apply RMB80 million out of the entire sale proceeds from the Disposal for full payment of the subscription price of the Subscribed Shares. The directors of Shiny Bright intends to apply such RMB80 million for the Target Group's general working capital. For the remaining RMB20 million, the Directors intend to use the same for the Group's general working capital. Taking into account the financial position and the future prospects of Beijing Troitec as detailed above, we consider that the Acquisition provides the Group with the opportunity to consolidate its interest in Beijing Troitec and thus facilitating the Disposal which would result in immediately cash inflow which would be particularly important to the operation and future development of the Target Group.

Taking into account (i) the future prospect and market potential of the automobile business in PRC and the intention of the Group to expand the business of Beijing Troitec; (ii) the reason for carrying out the Acquisition is to increase the Group's interest in Beijing Troitec so as to attract the Investors to enter into the Disposal Agreement; (iii) the Acquisition provides the Group with an opportunity to consolidate its interest in Beijing Troitec and thus facilitating the Disposal which would result in immediately cash inflow, which would be particularly important to the operation and future development of the Target Group; and (iv) the Disposal Consideration Premium outweigh the Acquisition Consideration Premium, we consider that the Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of the Acquisition are on normal commercial term and fair and reasonable.

Shareholders are, however, advised to refer to the section headed "Rights of Series A Preferred Shares" under the Board's Letter for the comparison of the rights of Ordinary Shares and Series A Preferred Shares.

### **FINANCIAL EFFECT ON THE GROUP**

#### **Effect on net asset value**

According to the 2007 Annual Report, the Group recorded an audited net asset value of approximately HK\$445.10 million as at 31 December 2007. According to the management accounts of the Beijing Troitec as at the 31 March 2008, Beijing Troitec had unaudited net asset value of approximately HK\$32.71 million.

As a result of the Acquisition Completion, the net asset value of the Group would have no effect as a positive goodwill will be created in its financial statements. According to the Board, the net asset value of the Group will improve and a net gain of approximately HK\$15 million is estimated be recognized eventually as a result of the Disposal Completion. As advised by the Company, such net gain is subject to review by the auditors of the Company.

#### **Effect on earnings**

Upon the Acquisition Completion, Beijing Troitec will continue to be accounted for as a subsidiary of the Company and the financial results of Beijing Troitec will continue to be consolidated into the financial statements of the Group. Accordingly, the earnings of the Group will remain unchange in all material aspects.

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## LETTER FROM NUADA

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### **Effect on working capital**

As aforementioned, the Directors confirm that the Group shall finance the Consideration by its internal resources. The Acquisition would therefore lead to a decrease in the Group's working capital level.

However, Independent Shareholders should note that the actual effect of the Acquisition on the financial performance and position of the Group will not be reflected until the actual results are published in the future.

### **RECOMMENDATION**

Given the principal factors and reasons mentioned above, we consider that the Acquisition, which is in line with the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole, and the terms of the Acquisition are on a normal commercial terms and fair and reasonable. As such, we advise the Independent Shareholder and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to approve the Acquisition if a general meeting were to convene. Shareholders should, however, note that the Company has made an application pursuant to Rule 20.43 of the GEM Listing Rules to the Stock Exchange for a waiver from the requirement to convene a general meeting on the grounds as detailed in the Board's Letter. Accordingly, the waiver was granted by the Stock Exchange to the Company and the general meeting to approve the Acquisition by Independent Shareholders is therefore waived.

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

**(A) WORKING CAPITAL STATEMENT**

The Directors are of the opinion that, in the absence of unforeseen circumstances and after taking into account the financial resources and banking facilities available to the Enlarged Group (including its internally generated funds), the Enlarged Group will have sufficient working capital to satisfy its present requirements and the requirements in the next 12 months commencing from the date of this circular.

**(B) INDEBTEDNESS STATEMENT**

As at 30 April 2008, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings as follow:

	<i>HK\$'000</i>
Bank loans	
– secured	21,111
– unsecured	197,556
Other loans	
– unsecured	22,388
Convertible notes	77,000
	<hr/>
	318,055
	<hr/> <hr/>

The secured bank loans were secured by mortgages over the Group's leasehold land and buildings with aggregate carrying value of approximately HK\$21.71 million as at 30 April 2008. The secured bank loans, unsecured other loans and the convertible notes in the total of HK\$120.50 million are not guaranteed. For the unsecured bank loans, there was a loan of approximately HK\$3.11 million which was guaranteed by a third party, and the remaining HK\$194.45 million of unsecured bank loans were guaranteed by the Jinheng (BVI) Limited, a wholly-owned subsidiary of the Company. The convertible notes were issued to third parties with principal amount of HK\$77 million at a conversion price of HK\$0.90 per Share.

Save as aforesaid, and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, term loans and bank overdrafts or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptance (other than normal trade bills) or acceptance credits, other borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities as at the close of business on 30 April 2008.

**(C) FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Enlarged Group is principally engaged in design, research and development, manufacture and sale of automotive safety systems and other automotive electronic parts. Since the date to which the latest published audited accounts of the Group were made up to 31 March 2008, the Group was recorded a growth in turnover by 3.9%, and an increase of net profit by 2.2% as compared with the same period of last year.

In the first quarter of this year, the Group had started the early stage research and development works for the new model of an overseas automobile manufacturer. The production for this is expected to realize in the near future, and will introduce the Enlarged Group into a new overseas market. Moreover, the Enlarged Group will put more efforts for expanding its domestic and overseas markets so as to enter the international supply system of automobile spare parts at the same time of capturing the business opportunities brought by the increase in the domestic demand.

During the first quarter of this year, the investment on expansion of automobile electronic spare parts business made by the Group in the past two years had commenced to make contribution. The Group has made the development of automobile electronic spare parts business as its long term business strategy and will invest more resources to strengthen the Enlarged Group's foundations in respect of this. The joining of the Investors may also introduce another type of management method for managing the fast growing automotive electronic business, and provide us their valuable experience and networks for financing the future growth of the said business. It is expected that the automobile electronic spare parts business will become another major product sector of the Enlarged Group and acting as an important role in the business of the Enlarged Group.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

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

## 2. DISCLOSURE OF INTERESTS

### (a) Director's interests and short positions in the securities of the Company and its associated corporations

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

#### (i) Long positions in issued Shares

Name of Director	Capacity	Number of Shares	Approximate percentage of shareholding
Li Feng	Interest of a controlled corporation (Note 1)	228,620,000 (Note 1)	51.60% (Note 1)
	Beneficial owner	2,600,000	0.59%
Xing Zhanwu	Interest of a controlled corporation (Note 1)	228,620,000 (Note 1)	51.60% (Note 1)
	Beneficial owner	8,420,000	1.90%
Li Hong	Interest of a controlled corporation (Note 1)	228,620,000 (Note 1)	51.60% (Note 1)
Yang Donglin	Interest of a controlled corporation (Note 1)	228,620,000 (Note 1)	51.60% (Note 1)
Zhao Qingjie	Interest of a controlled corporation (Note 1)	228,620,000 (Note 1)	51.60% (Note 1)
	Beneficial owner	4,280,000	0.97%
Foo Tin Chung, Victor	Beneficial owner	800,000	0.18%

Notes:

1. The following Directors held an indirect interest in the Company through their interests in Applaud Group Limited (“Applaud Group”) which held approximately 51.60% 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	3,654	36.54
Total	10,000	100

(ii) Long positions in underlying Shares of equity derivatives

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

Name of Director	Capacity	No. of options outstanding	Date granted	Period during which options exercisable	Exercise price per Share
Xing Zhanwu	Beneficial Owner	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	HK\$1.60
Foo Tin Chung, Victor	Beneficial Owner	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	HK\$1.60
Zeng Qingdong	Beneficial Owner	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	HK\$1.60
Li Hong	Beneficial Owner	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	HK\$1.60
Chan Wai Dune	Beneficial Owner	400,000	23 August 2007	23 August 2007 to 22 August 2012	HK\$1.60

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

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

So far as is known to the Directors 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) 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 expected to be 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 Enlarged Group:

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Position</b>	<b>Number of shares held</b>	<b>Approximate percentage of shareholding/ equity interest in a member of the Group/ an associated corporation of the Company</b>
Applaud Group Limited	Beneficial owner	Long	228,620,000 Shares	51.60%
Hafei Motor Co., Ltd. (Note 1)	Beneficial shareholder of a member of the Enlarged Group	Long	RMB1.3 million out of RMB13.0 million registered capital	10%
Shenyang Electricity Co., Limited (Note 2)	Beneficial shareholder of a member of the Enlarged Group	Long	RMB6.0 million out of RMB27.0 million registered capital	22.22%
Shenyang Jinbei Automotive Company Limited (Note 3)	Beneficial shareholder of a member of the Enlarged Group	Long	RMB4.0 million out of RMB27.0 million registered capital	14.81%
瀋陽金思達汽車零部件有限公司 (Shenyang Jinsida Automotive Spare Parts Limited*) (Note 4)	Beneficial shareholder of a member of the Enlarged Group	Long	HK\$9.0 million out of HK\$30.0 million registered capital	30%



Name of Shareholder	Capacity	Position	Number of shares held	Approximate percentage of shareholding/ equity interest in a member of the Group/ an associated corporation of the Company
山西泰富精密機電技術有限公司 (Shanxi Tai Fu Jing Mi Ji Dian Technology Limited*) (Note 5)	Beneficial shareholder of a member of the Enlarged Group	Long	HK\$4.5 million out of HK\$30.0 million registered capital	15%
Freemind Technology Limited (Note 6)	Beneficial shareholder of a member of the Enlarged Group	Long	488	48.8%
蕪湖奇瑞科技有限公司 (Wu Hu Qi Rui Technology Holdings Limited*) (Note 7)	Beneficial shareholder of a member of the Enlarged Group	Long	RMB5.62 million out of RMB14.6 million registered capital	38.5%
Taiyuan Aero-Instruments Co., Ltd. (Note 8)	Beneficial shareholder of a member of the Enlarged Group	Long	RMB8.02 million out of RMB20.04 million registered capital	40%
煙台萬利達實業發展總公司 (YanTai Wan Li Da Shi Ye Development Company*) (Note 9)	Beneficial shareholder of an associated corporation of the Company	Long	RMB16.0 million out of RMB40.0 million registered capital	40%
Mr Li Sheng Zhou (Note 10)	Beneficial shareholder of a member of the Enlarged Group	Long	RMB0.12 million out of RMB1.0 million registered capital	12%
Mr Chen Wan Ping (Note 10)	Beneficial shareholder of a member of the Enlarged Group	Long	RMB0.12 million out of RMB1.0 million registered capital	12%

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Position</b>	<b>Number of shares held</b>	<b>Approximate percentage of shareholding/ equity interest in a member of the Group/ an associated corporation of the Company</b>
Ms Liu Zhi Li (Note 10)	Beneficial shareholder of a member of the Enlarged Group	Long	RMB0.12 million out of RMB1.0 million registered capital	12%
Ms Yao Zhi Jie (Note 10)	Beneficial shareholder of a member of the Enlarged Group	Long	RMB0.12 million out of RMB1.0 million registered capital	12%
Value Partners Limited (Note 11)	Investment manager	Long	51,111,111 (underlying Shares)	11.53%
Value Partners Group Limited (Note 11)	Interests of controlled corporation	Long	51,111,111 (underlying Shares)	11.53%
Cheah Capital Management Limited (Note 11)	Interests of controlled corporation	Long	51,111,111 (underlying Shares)	11.53%
Cheah Company Limited (Note 11)	Interests of controlled corporation	Long	51,111,111 (underlying Shares)	11.53%
Hang Seng Bank Trustee International Limited (Note 11)	Trustee	Long	51,111,111 (underlying Shares)	11.53%
Mr. Cheah Cheng Hye (Note 11)	Founder of discretionary trust	Long	51,111,111 (underlying Shares)	11.53%
Ms. To Hau Yin (Note 11)	Spouse of Mr Cheah Cheng Hye	Long	51,111,111 (underlying Shares)	11.53%
Sagemore Assets Limited (Note 12)	Beneficial owner	Long	27,777,778 (underlying Shares)	6.27%

Name of Shareholder	Capacity	Position	Number of shares held	Approximate percentage of shareholding/ equity interest in a member of the Group/ an associated corporation of the Company
CDS International Limited (Note 12)	Substantial shareholder of beneficial owner	Long	27,777,778 (underlying Shares)	6.27%
TNS Services Limited (Note 12)	Nominee of beneficial owner	Long	27,777,778 (underlying Shares)	6.27%
Orchid Asia Iv, LP (Note 13)	Beneficial owner of a member of the Enlarged Group	Long	3,755,419	32.46%

## Notes:

- Hafei Motor Co., Ltd., a joint venture company established in the PRC with limited liability, holds 10% equity interest (i.e. RMB1.3 million out of RMB13.0 million registered capital) in Harbin Hafei Jinheng Automotive Safety System Co. Ltd.
- Shenyang Electric Co., Limited, a state-owned enterprise established in the PRC with limited liability, holds 22.22% equity interest (i.e. RMB6.0 million out of RMB27.0 million registered capital) in Shenyang Jinbei Jinheng Automotive Safety System Co., Limited.
- 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% (i.e. RMB4.0 million out of RMB27.0 million registered capital) equity interest in Shenyang Jinbei Jinheng Automotive Safety System Co., Limited.
- 瀋陽金思達汽車零部件有限公司 (Shenyang Jinsida Automotive Spare Parts Limited\*), a company established in the PRC with limited liability, holds 30% equity interest (i.e. HK\$9.0 million out of HK\$30.0 million registered capital) in Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd.
- 山西泰富精密機電技術有限公司 (Shanxi Tai Fu Jing Mi Ji Dian Technology Limited\*), a company established in the PRC with limited liability, holds 15% equity interest (i.e. HK\$4.5 million out of HK\$30.0 million registered capital) in Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd.
- Freemind Technology Limited holds 488 shares in Honest Bright Group Limited
- 蕪湖奇瑞科技有限公司 (Wu Hu Qi Rui Technology Holdings Limited\*), a company established in the PRC with limited liability, holds 38.5% equity interest (i.e. RMB5.62 million out of RMB14.6 million registered capital before the Acquisition Completion) in Troitec Automotive Electronics Co., Ltd.
- Taiyuan Aero-Instruments Co., Ltd., a state-owned enterprise established in the PRC with limited liability, holds 40% equity interest (i.e. RMB8.02 million out of RMB20.04 million registered capital) in Shanxi Winner Auto-Parts Co. Limited.
- 煙台萬利達實業發展總公司 (YanTai Wan Li Da Shi Ye Development Company\*) a state-owned enterprise established in the PRC with limited liability, holds 40% equity interest (i.e. RMB16.0 million out of RMB40.0 million registered capital) in YanTai Vast Co., Limited.

10. Mr Li Sheng Zhou, Mr Chen Wan Ping, Ms Liu Zhi Li and Ms Yao Zhi Jie each holds 12% (i.e. RMB0.12 million out of RMB1.0 million registered capital) equity interest in Tianjian Zhuo Yuan Electrical Technology Limited.
11. Hang Seng Bank Trustee International Limited, the trustee of the C H Cheah Family Trust, has 100% control of Cheah Company Limited, which has 100% control of Cheah Capital Management Limited, which has 35.65% control of Value Partners Group Limited, which in turn has 100% control of Value Partners Limited. Mr. Cheah Cheng Hye is the founder of C H Cheah Family Trust. Ms. To Hau Yin is the spouse of Mr. Cheah Cheng Hye. They are all deemed to be interested in the interest to be held by Value Partners Limited pursuant to the SFO.
12. 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.
13. Orchid Asis IV, LP holds 32.46% of the entire issued share capital of Shiny Bright after the Disposal Completion.

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 were expected to be 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 Enlarged Group.

### 3. COMPETING INTEREST

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

### 4. INTEREST IN CONTRACTS AND ASSETS

Mr. Li Feng leased an office in Beijing, PRC to Jinzhou Jinheng Automotive Safety Technology Co., Limited, an indirect wholly-owned subsidiary of the Company, with an annual lease fee of RMB696,000 from 2 March 2008 to 1 March 2009. Furthermore, Mr. Li Feng also leased an office in Beijing, PRC to Beijing Troitec with an annual lease fee of RMB39,120 from 1 February 2007 to 31 January 2009.

Save, as disclosed above, as at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2007, being the date to which the latest published audited financial statements of the Company were made up.

Save as disclosed above, there is no contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Enlarged Group.

## 5. LITIGATION

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

## 6. 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 during the three years period from 9 December 2004. Each of these executive Directors is entitled to a basic salary as follows:

<b>Name of Director</b>	<b>Annual salary (HK\$)</b>
Li Feng	840,000 (which was revised since 1 January 2008)
Zhao Qingjie	600,000 (which was revised since 1 January 2008)
Xing Zhanwu	840,000 (which was revised since 1 January 2008)
Yang Donglin	210,000 (which was revised since 1 January 2008)
Foo Tin Chung, Victor	741,000 (which was revised since 1 January 2008)

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 Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## 7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest audited financial statements of the Company were made up.

## 8. EXPERT

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

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

<b>Name</b>	<b>Qualifications</b>
Nuada Limited	A licensed corporation to carry out type 6 (advising on corporate finance) of the regulated activity under the SFO

As at the Latest Practicable Date, Nuada was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribed for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2007), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

## 9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group after the date two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the Acquisition Agreement;
- (b) the Disposal Agreement;
- (c) the Tranche 2 Subscription Agreement;
- (d) the agreement dated 24 November 2007 and entered into between Mr. Li Sai-keung and the Company in respect of the acquisition by the Company of approximately 66.67% equity interest in Tai Tong Investments Limited at a consideration of RMB18,000,000;
- (e) the agreement dated 24 November 2007 and entered into between the Group, Mr. Xing Zhanwu and Mr. Zhao Qingjie in respect of the acquisition by the Group of the entire equity interest in Winner Investment Limited at a consideration of HK\$13,696,000 which was satisfied by 10,700,000 Shares;

- (f) the agreement dated 31 July 2007 and entered into between Applaud Group Limited, the Company and Kingsway Financial Services Group Limited (the “**Placing Agent**”) in respect of the placing of up to 40,000,000 Shares beneficially owned by Applaud Group Limited by the Placing Agent at HK\$1.60 per share on a best efforts basis and the conditional subscription by Applaud Group Limited of up to 40,000,000 Shares at HK\$1.60 per share from the Company;
- (g) the agreement dated 17 November 2006 and entered into between the Group and Charlotte Huxia Wang in respect of the acquisition by the Group of 51.2% of the entire issued share capital of Honest Bright at a consideration of HK\$3,983;
- (h) the agreement dated 17 November 2006 and entered into between the Group and Charlotte Huxia Wang in respect of the grant by the Group of a loan of HK\$20,000,000 to Charlotte Huxia Wang;
- (i) the share charge dated 17 November 2006 executed by Charlotte Huxia Wang in favour of the Group, pursuant to which Charlotte Huxia Wang would charge 48.8% of the issued share capital of Honest Bright to the Group as security for the loan of HK\$20,000,000;
- (j) the agreement dated 27 September 2006 and entered into between Mr. Li Sai-keung and the Company in respect of the acquisition by the Company of approximately 33.33% equity interest in Tai Tong Investments Limited at a consideration of RMB9,000,000;
- (k) the agreement dated 27 September 2006 and entered into between Ms. Fu Ying and the Company in respect of the acquisition by the Company of the entire equity interest in Jay Trump Investments Limited at a consideration of RMB9,180,000;
- (l) the agreement dated 27 September 2006 and entered into between Ms. Wong Man Yee and the Company in respect of the acquisition by the Company of the entire equity interest in Devon Fair Investments Limited at a consideration of RMB8,820,000;
- (m) the agreement dated 27 September 2006 and entered into between 北京今創立科貿有限責任公司 (Beijing Jin Chuang Li Technology Limited) and the Group in respect of the acquisition by the Group of 49% equity interest in Beijing Jinheng Segal Automotive Spare Parts Limited at a consideration of RMB10,000,000; and
- (n) the agreement dated 16 June 2006 and entered into between 瀋陽金思達汽車零部件有限公司 (Shenyang Jinsida Automotive Spare Parts Limited\*), 山西泰富精密機電技術有限公司 (Shanxi Tai Fu Jing Mi Ji Dian Technology Limited\*) and the Group in respect of the formation of Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd., in which the Group owns 55% equity interest at a consideration of HK\$16,500,000.

**10. GENERAL**

- (a) The registered office of the Company is 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 Unit 605, 6th Floor, Beautiful Group Tower, 74-77 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 Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The compliance officer, company secretary and qualified accountant of the Company is Mr. Foo Tin Chung, Victor who is graduated from the University of New South Wales in Australia. Mr. Foo is a member of the Australia Society of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (e) The Company has established an audit committee on 22 November 2004 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The audit committee comprises the three independent non-executive Directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong. Mr. Chan Wai Dune is the chairman of the audit committee.

Mr. Chan Wai Dune, aged 55, has over 27 years of experience in the finance sector, particularly in auditing and taxation areas. Mr Chan is a certified public accountant and a fellow member of the Hong Kong Institute of Certified Public Accountants, the Chartered Association of Certified Accountants and the Taxation Institute of Hong Kong. Mr. Chan has been a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region. He is currently a member of the Chinese People's Political Consultative Conference of the Guangzhou Municipal Committee and a member of the Executive Council of China Overseas Friendship Association. Mr. Chan is currently the managing director CCIF CPA Limited. Mr. Chan currently also serves as an independent non-executive director of the Company, Chuang's China Investments Limited, Chuang's Consortium International Limited, Welling Holding Limited, Hunan Nonferrous Metals Corporation Limited, Minmetals Resources Limited, Sam Woo Holdings Limited and Chaoyue Group Limited, all are listed on the Stock Exchange. In the past three years, Mr. Chan has held, at different times, directorships at EVA Precision Industrial Holdings Limited, IIN International Limited, Zhongda International Holdings Limited, Mexan Limited and Sino Union Petroleum & Chemical International Limited, and as of the Latest Practicable Date, he has resigned from all these companies. Mr. Chan was appointed as independent non-executive Director in March 2004.



Mr. Huang Shilin, aged 75, graduated from 莫斯科汽車機械學院 (Moscow State Academy of Automobile Engineering) in 1957 and obtained an associate doctoral degree in 1959. Mr. Huang started working in the department of automobile engineering of Tsing Hua University, PRC in 1960. In 1987, he became a professor and doctoral tutor, deputy head of 汽車研究所 (Automobile Research Center) at Tsing Hua University, as well as the supervisor of 汽車碰撞實驗室 (Vehicle Collision Laboratory) of National Laboratory in Automotive Safety and Energy. He is currently the honorary supervisor of the 汽車安全技術分會 (Chapter of Automobile Safety Technology) of The Society of Automotive Engineers of China. Mr. Huang was appointed as an independent non-executive Director in November 2005.

Mr. Zhu Tong, aged 36, is currently the assistant general manager of 興業證券股份有限公司 Xing Ye Securities Co., Ltd. Mr. Zhu graduated from the Research Institute of the People's Bank of China in 1998 with a master's degree in international finance. Mr. Zhu was appointed as an independent non-executive Director in March 2004.

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

- (f) Mr Li Feng, Mr Zhao Qingjie and Mr Xing Zhanwu, who are the executive directors of the Company, are also the director of Applaud Group Limited (a substantial shareholder of the Company). Save as disclosed, no director of the Company is a director or employee of a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed under divisions 2 and 3 of Part XV of the SFO.
- (g) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (b) the service agreements referred to in the paragraph headed "Service Contracts" in this appendix;
- (c) the letter of advice from Nuada to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 31 to 40 of this circular;
- (d) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 30 in this circular;

- (e) the written consent from Nuada as referred to in the paragraph headed “Expert” in this appendix;
- (f) the memorandum and articles of association of the Company;
- (g) the audited consolidated financial statements of the for the year ended 31 December 2006 and for the year ended 31 December 2007; and
- (h) the comfort letter from the financial advisers on the sufficiency of working capital of the Enlarged Group in the next 12 months.

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## NOTICE OF THE EGM

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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)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“EGM”) of Jinheng Automotive Safety Technology Holdings Limited (the “**Company**”) will be held at 33rd Floor, 9 Queen’s Road Central, Central, Hong Kong at 10:00 a.m. on Monday, 30 June 2008 for the purposes of considering and, if thought fit, passing the following resolution as ordinary resolution:

#### ORDINARY RESOLUTION

“**THAT**

- (a) the agreement dated 23 May 2008 (the “**Tranche 2 Subscription Agreement**”) between, among others, (i) Shiny Bright Holdings Limited (“**Shiny Bright**”) as grantor, (ii) Orchid Aisa IV, L.P. and Orchid Asia IV Co-Investment, Limited (collectively, the “**Investors**”) as grantees, (iii) Honest Bright Group Limited, and (iv) the Company in relation to the grant by Shiny Bright of an option (“**Tranche 2 Subscription Option**”) to subscribe for such number of Series A-2 preferred shares in Shiny Bright (as the Investors may decide in its discretion) at the price per share equal to 130% of the then applicable conversion price of Series A-1 preferred shares, a copy of the Tranche 2 Subscription Agreement has been produced to this meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated by the Tranche 2 Subscription Agreement (including but not limited to the grant by Shiny Bright, and exercise by the Investors, of the Tranche 2 Subscription Option) be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorised to do all other acts and things and execute all documents which they consider necessary or expedient for the implementation of and giving effect to the Tranche 2 Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant by Shiny Bright, and exercise by the Investors, of the Tranche 2 Subscription Option).”

By order of the Board

**Jinheng Automotive Safety Technology Holdings Limited**

**Li Feng**

*Chairman*

Hong Kong, 13 June 2008

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## NOTICE OF THE EGM

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*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 605  
6th Floor  
Beautiful Group Tower  
74-77 Connaught Road Central  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.