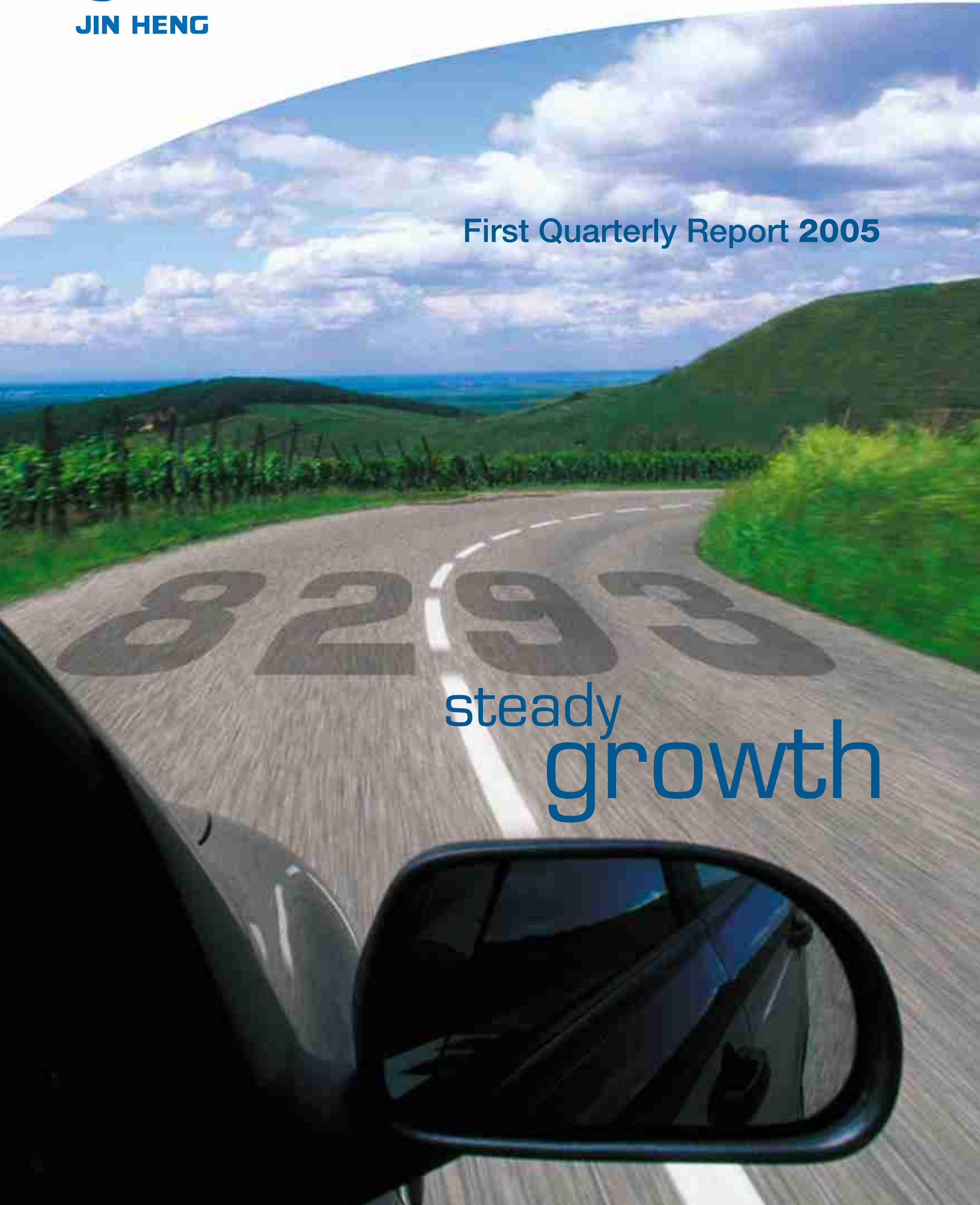
JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED
錦恒汽車安全技術控股有限公司
(Incorporated in the Cayman Islands with limited liability)

JIN HENG

First Quarterly Report 2005



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

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

RESULTS

The board of directors of the Company (the "Board") announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2005, together with the comparative unaudited consolidated results for the corresponding period in 2004 as follows:

		For the three months ended 31 March	
		2005	2004
	Notes	***HK$***	*HK$*
		(Unaudited)	(Unaudited)
Turnover	*3*	**40,875,402**	51,004,345
Cost of sales		**(27,798,262)**	(31,991,347)
Gross profit		**13,077,140**	19,012,998
Other revenues		**70,648**	160,344
Other net loss		**(19,529)**	(28,053)
Research and development expenses		**(933,128)**	(979,004)
Distribution costs		**(637,145)**	(882,264)
Administrative expenses		**(3,955,841)**	(1,814,858)
Profit from operations		**7,602,145**	15,469,163
Finance costs		**(655,927)**	(1,292,564)
Share of losses of jointly controlled entities		**(38,821)**	(207,446)
Profit from ordinary activities before taxation		**6,907,397**	13,969,153
Income tax credit	*4*	**106,875**	—
Profit from ordinary activities after taxation		**7,014,272**	13,969,153
Attributable to:			
Equity holders of the Company		**7,152,670**	13,984,380
Minority interest		**(138,398)**	(15,227)
		7,014,272	13,969,153
Earnings per share	*5*		
— Basic		**1.88 cents**	4.67 cents
— Diluted		**1.84 cents**	N/A

Notes:

(1) Reorganisation

The Company was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") completed on 22 November 2004 to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company becomes the holding company of the subsidiaries now comprising the Group. The Company's shares were listed on GEM on 9 December 2004.

Details of the Reorganisation are set out in the prospectus (the "Prospectus") dated 30 November 2004 issued by the Company.

(2) Basis of preparation

(a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements of the GEM Listing Rules.

(b) *Recently issued accounting standards*

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

(b) Recently issued accounting standards (Continued)

The Group has adopted the new HKFRSs in the preparation of financial statements for the period from 1 January 2005 onwards, and the applicable HKFRSs are set out below:

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income taxes
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 20	Accounting for government grants and disclosure of government assistance
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 31	Investments in joint ventures
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial Instruments: Recognition and measurement
HKFRS 2	Share-based payment

The accounting policies which have material impacts on the Group are set out below:

HKFRS 2 "Share-based payment"

In prior years, no employee benefit costs are recognised upon the grant of share options to employees by the Group to acquire shares of the Company at nominal consideration. Under HKFRS 2, the Group would be required to recognise the fair value of share options granted at the date of grant. As a result of the adoption of HKFRS 2, the Group's profit for the period ended 31 March 2005 decreased by HK$1,535,500 (2004: HK$ Nil) and there was no impact on the net assets as at 31 March 2005 and 31 December 2004.

HKFRS 2 has been adopted retrospectively for all share options granted to directors or employees of the Group after 22 November 2004 and not vested at 1 January 2005.

The adoption of other new HKFRSs would not have a significant impact on the results of operations and financial position of the Group.

(3) Turnover

The principal activities of the Group are production and sales of automotive safety products in the PRC.

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

Turnover recognised during the year may be analysed as follows:

	Three months ended 31 March	
	2005	2004
	HK$	*HK$*
	(Unaudited)	(Unaudited)
Sales of mechanical airbag systems	**16,023,840**	34,278,905
Sales of electronic airbag systems	**9,976,115**	16,446,455
Sales of automotive safety system components and other safety products	**14,875,447**	278,985
	40,875,402	51,004,345

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

(4) Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Three months ended 31 March	
	2005	2004
	HK$	*HK$*
	(Unaudited)	(Unaudited)
Deferred tax		
Origination and reversal of temporary differences	**(106,875)**	–
Total income tax credit	**(106,875)**	–

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

Pursuant to the income tax rules and regulations of the PRC, Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"), a subsidiary of the Company, was liable to enterprise income tax at a rate of 33% for the year ended 31 December 2003. Subsequent to the transformation into a wholly owned foreign enterprise on 23 December 2003, Jinheng Automotive is entitled to a tax concession period in which it is fully exempted from PRC income tax for 2 years starting from its first profit making year, followed by a 50% reduction in the PRC income tax for the next 3 years.

Harbin Hafei Jinheng Automotive Safety System Co., Ltd. ("Hafei Jinheng"), a subsidiary of the Company, is not subject to the PRC income tax during the year as it has not commenced business as at 31 March 2005.

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

(5) Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the period ended 31 March 2005 is based on the profit attributable to shareholders of HK$7,152,670 and on the weighted average of 381,000,000 ordinary shares in issue during the period. The calculation of basic earnings per share for the period ended 31 March 2004 was based on the profit attributable to shareholders of HK$13,984,380 and on the 300,000,000 shares of the Company as if the shares were outstanding throughout the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 31 March 2005 is based on the profit attributable to shareholders of HK$7,152,670 and on the weighted average number of ordinary shares of 388,024,242 shares after adjusting for the effect of all dilutive potential ordinary shares. There were no potential dilutive ordinary shares in issue during the period ended 31 March 2004.

(c) Reconciliation

	Three months ended 31 March 2005 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**381,000,000**
Deemed issue of ordinary shares for no consideration	**7,024,242**
Weighted average number of ordinary shares used in calculating diluted earnings per share	**388,024,242**

(6) Reserves

	Share capital	**Share premium**	**Merger reserve**	**Statutory surplus reserve**	**Statutory public welfare fund**	**Capital reserve**	**Retained profit**	**Minority interests**	**Total**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2004	–	–	16,341,254	3,070,378	1,535,188	–	–	–	20,946,820
Arising on consolidation	–	–	–	–	–	–	–	1,226,415	1,226,415
Profit/(loss) for the period	–	–	–	–	–	–	13,984,380	(15,227)	13,969,153
At 31 March 2004	–	–	16,341,254	3,070,378	1,535,188	–	13,984,380	1,211,188	36,142,388
At 1 January 2005	3,810,000	80,168,124	36,341,236	8,749,449	4,374,723	–	43,283,556	1,187,182	177,914,270
Fair value of share options	–	–	–	–	–	1,535,500	–	–	1,535,500
Profit/(loss) for the period	–	–	–	–	–	–	7,152,670	(138,398)	7,014,272
At 31 March 2005	**3,810,000**	**80,168,124**	**36,341,236**	**8,749,449**	**4,374,723**	**1,535,500**	**50,436,226**	**1,048,784**	**186,464,042**

(6) Reserves *(Continued)*

(a) Share premium

The application of the share premium account is governed by the Company Law of Cayman Islands.

(b) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of shares of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange therefor. This reserve is distributable.

(c) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

(i) Statutory surplus reserve

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(ii) Statutory public welfare fund

The subsidiaries in the PRC are required to transfer 5% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory public welfare fund. This fund can only be utilised on capital item for the collective benefits of the subsidiaries' employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

(d) Distributable reserves

At 31 March 2005, the Company had no reserve available for distribution to shareholders.

(e) Capital reserve

Capital reserve represented the fair value of share options granted at the date of grant.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's income from sales for the first quarter of 2005 was approximately HK$40.9 million, representing a decrease of approximately 20% as compared to the first quarter of 2004. This was due to the diminishing growth in the automobile industry in the PRC. The second half of 2004 did not show a turnaround and the new models of automotive airbag systems developed in 2004 were pending to be launched to the market. Although sales of both mechanical and electronic airbag systems dropped comparing with the relevant period of the last year, the demand for airbag systems have recovered gradually as sales of mechanical and electronic airbag systems grew from 4,700 sets in January 2005 to 11,100 sets in March 2005.

For the first quarter of 2005, profits attributable to shareholders amounted to approximately HK$7.2 million, representing a decrease of 49% as compared to the corresponding period in 2004, as a result of a decrease in turnover and the adoption of new accounting policy which, accounts for 11% of the decrease. The Group also managed to maintain its average gross profit margin of 32%, slightly lower than the corresponding quarter of previous years, i.e. 37%.

The Group achieved a breakthrough in overseas markets during the quarter and successfully entered into a development contract of an automotive airbag system model with an automobile manufacturer in Malaysia. During the quarter, the Group obtained the qualification of being the supplier of a European company, for exporting of safety airbags to that company.

The Group has also successfully explored a new market in a challenging environment and has matched towards to the platform of the international automobile spare parts purchase and supply system by starting its first commercial sales of components for airbag systems with an international renowned airbag supplier. During the current period, the Group has sales of approximately HK$12.9 million of components for airbag systems.

Moreover, the Group entered into development contracts of five new models of automotive airbag systems with four major automobile manufacturers in the PRC during the quarter and not less than 35 models of different safety airbag systems were developed. Sale of the Group's two new models of automotive airbag systems in small volume was commenced during the quarter. As a result, more than 10 models were sold in the quarter. The Directors expect that an addition of 5 to 8 new models will be launched in the near future.

The Directors believe that attaining breakthroughs in overseas markets and continuing its leadership position in the PRC market are of great significance for the future development of the Group.

Real crash tests involving five vehicles for the side-protection safety airbag system were conducted for the first time during the quarter. The test demonstrated satisfactory results for the side-protection safety airbag system, the development of which was commenced in 2004. The Group also formally commenced the development of curtain safety airbag system and intelligent safety airbag system during the period. The Directors believe that the research and development work of these new products is of great importance to the enhancement of the Group's future competitiveness.

Business Review *(Continued)*

During the period, the Group commenced its work for the ISO 14001 Environmental Management Standard, which is of great significance for the enhancement of the Group's corporate image in the international market.

Financial Review

Turnover was approximately HK$40.9 million for the first quarter ended 31 March 2005 comparing with approximately HK$51.0 million for the same period of last year. The decline in turnover was mainly due to stock accumulation of major automotive manufacturers and slowdown in growth in automotive industry since the second-half of 2004.

The Group managed to maintain the gross profit margin of both airbag systems in average of 39% for the current three months period in comparison with the average for the last fiscal year end. Approximately 39% and 24% of the turnover was contributed by the sales of mechanical airbag systems and electronic airbag systems respectively as compared with approximately 67% and 32% for the same period of last year.

Sales of automotive safety system components and other safety products for the first quarter ended 31 March 2005 increased by approximately HK$14.6 million from approximately HK$0.3 million for the corresponding quarter of last year. The increase was mainly due to new orders of approximately HK$12.9 million for components for airbag systems from an international renowned airbag supplier. In view that components normally generates a relatively lower gross profit margin than airbag systems, the average gross profit margin of 32% for the first quarter ended 31 March 2005 was slightly lower than 37% of the corresponding quarter of last year.

Distribution costs was approximately HK$0.6 million for the first quarter ended 31 March 2005, a decrease of HK$0.2 million or 28% from the corresponding quarter of last year as a result of a decrease in turnover.

The administrative expenses increased by approximately HK$2.1 million from approximately HK$1.8 million for the same period of last year. The increase was mainly contributed by pre-IPO share option provision of approximately HK$1.5 million caused by the adoption of new accounting policy and approximately HK$0.7 million for the directors' emoluments of the Company.

Finance costs decreased by approximately HK$0.6 million or 49% to approximately HK$0.7 million. The decrease was mainly contributed by an interest expenses subsidy, which is designated to cover the actual interest expenses on the loan of RMB28.0 million utilized for financing the technological reform project.

Income tax credit was approximately HK$0.1 million for the first quarter. It was incurred from the deferred tax arising from the timing difference of the provision of the Group.

Financial Review *(Continued)*

The Group posted a profit after tax and minority interest of approximately HK$7.2 million for the first quarter ended 31 March 2005 as compared to approximately HK$14.0 million for the first quarter of last year. The decrease of net profit was attributable to the decrease in turnover and the adoption of new accounting policy.

Outlook and Future Prospects

The Directors believe that, the automobile industry in the PRC will enter into a stage of stable and reasonable growth while competition among various automotive manufacturers will remain severe, bringing along both challenges and opportunities to the Group.

In view of becoming an international automobile spare parts supplier with automobile safety system as its core business, the Group will continue to double its efforts on market exploration and broaden its customer base, paralleled by reinforcing its efforts on the exploration of international market through leveraging on the breakthroughs achieved during the quarter.

Localization of producing the safety airbag system will be strengthened and will be accelerated by joining hands with internationally renowned automobile spare parts suppliers, such that the cost of spare parts can be substantially reduced and the localized spare parts can be sold overseas.

The Group's development capacity will be strengthened through acquiring international advanced equipment and employing international research and development personnel. Greater effort will be continuously put on the research and development of new products in order to build a solid foundation for the Group's future development.

Strategic alliance with major overseas and domestic automobile manufacturers will be sought in order to strengthen and consolidate the Group's market share. The Group will focus on the automotive safety related business and, by leveraging on the Group's market, customers and technology edges, expand the Group's product portfolio, which in turn will contribute to the rapid development of the Group.

In 2005, the Group will devote its best endeavour and strengthen its management, to bring satisfactory return to its investors and shareholders.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2005 (three months ended 31 March 2004: nil).

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

As at 31 March 2005, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 the GEM Listing Rules were as follows:

(a) Long positions in issued shares

Name of director	Capacity	Number of shares	Approximate percentage of shareholding
Li Feng	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Xing Zhanwu	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Li Hong	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Yang Donglin	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Zhao Qingjie	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*

Note: As at 31 March 2005, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited ("Applaud Group") which held approximately 62.63% in the Company:

Shareholder		Number of shares held in Applaud Group		%
The controlling group		5,467		54.67
Li Feng	2,286		22.86	
Xing Zhanwu	1,281		12.81	
Xu Jianzhong	719		7.19	
Li Hong	616		6.16	
Yang Donglin	565		5.65	
Zhao Qingjie		1,750		17.50
Gao Xiangdong		1,500		15.00
Zhao Jiyu		400		4.00
Lin Qing		223		2.23
Zhou Yuquan		214		2.14
Cao Feng		133		1.33
Zhang Chengyu		128		1.28
Zhang Chenye		100		1.00
Zhang Meina		85		0.85
Total		10,000		100

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

(b) Interests in underlying shares

The directors and chief executive of the Company have been granted options under the Pre-IPO Employee Share Option Scheme, details of which are set out in the section headed "Share Option Schemes" below.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or Rules 5.46 to 5.67 of the GEM Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

SHARE OPTION SCHEMES

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme as defined in the Prospectus which were adopted on 22 November 2004. A summary of principal terms of the share option schemes were disclosed in Appendix VI to the Prospectus.

The total number of securities available for issue under the share option schemes as at 31 March 2005 was 49,500,000 shares (including options for 11,400,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 12.99% of the issued share capital of the Company as at 31 March 2005.

As at 31 March 2005, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 March 2005 is HK$1.1) granted for at a consideration of HK$1 under the share option schemes of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 each of the Company.

(a) Pre-IPO Employee Share Option Scheme

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

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 31 March 2005	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the year	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Mr. Li Feng (李峰)	Executive director and chairman of the Company	2,600,000	2,600,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	2,000,000	2,000,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A

SHARE OPTION SCHEMES *(Continued)*

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

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding as at 31 March 2005	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the year	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	800,000	800,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	1,080,000	1,080,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A
Mr. Xing Zhanwen (邢占文)	Employee, deputy general manager of Jinheng Automotive	880,000	880,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	1,000,000	1,000,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A
Mr. Zhu Jiangbin (朱江濱)	Employee, deputy general manager of Jinheng Automotive	880,000	880,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	840,000	840,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	720,000	720,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A
Mr. Chen Lixin (沈立新)	Employee, general manager of Hafei Jinheng	600,000	600,000	22 November 2004	9 December 2005 to 9 December 2008	–	HK$0.38	HK$0.788	N/A
		11,400,000	**11,400,000**			**–**			

The options granted to the directors/employees are registered under the names of the directors/employees who are also the beneficial owners.

* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

SHARE OPTION SCHEMES *(Continued)*

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

The weighted average value per option granted on 22 November 2004 and had not vested at 1 January 2005 using binomial lattice pricing model was HK$0.788. The calculation of the weighted average value per option granted during the period does not take into account options granted and forfeited during the period. The weighted average assumptions used are as follows:

	2005
Risk-free interest rate	2.1%
Expected life (in years)	4 years
Volatility	50.0%
Expected dividend per share	2.3%

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

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

(b) Share Option Scheme

As at 31 March 2005, no option has been granted under the Share Option Scheme.

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 March 2005, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

	Capacity	**Ordinary shares held**	**Approximate percentage of total issued shares**
Applaud Group Limited	Beneficial owner	238,620,000	62.63%
Direct Sino Holdings Limited	Beneficial owner	37,410,000	9.82%

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY *(Continued)*

Long positions in underlying shares

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

Short positions in shares

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

Short positions in underlying shares

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

Save as disclosed above, as at 31 March 2005, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

COMPETING INTERESTS

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the businesses of the Group as at 31 March 2005.

SPONSOR'S INTEREST

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

As at 31 March 2005, VC Capital Limited had indirect interest in the shares of the Company held by VC Strategic Investments Limited through its interests in certain associated companies, both VC Capital Limited and VC Strategic Investments Limited are wholly-owned subsidiaries of Value Convergence Holdings Limited, a company listed on GEM. As at 31 March 2005, VC Strategic Investments Limited was beneficially interested in 11% of the issued capital of Top Growth Assets Limited, and Top Growth Assets Limited was beneficially interested in 27% of the issued capital of WAG (Greater China) Limited. WAG (Greater China) Limited is beneficially interested in 9,000,000 shares of the Company, representing approximately 2.36% of the total issued capital of the Company.

SPONSOR'S INTEREST *(Continued)*

Save as disclosed above, none of VC Capital Limited, its directors, employees or their respective associates had any shareholding interests in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 March 2005.

DIRECTORS' INTERESTS IN CONTRACTS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the three months ended 31 March 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Company established an audit committee on 22 November 2004 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The audit committee currently comprises three members, Mr. Chan Wai Dune, Mr. Zhong Zhihua and Mr. Zhu Tong, who are the independent non-executive directors of the Company.

The audit committee had reviewed the Group's unaudited results for the three months ended 31 March 2005 and had provided advice and recommendation to the Board.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE THEN PREVAILING GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the then prevailing GEM Listing Rules for the three months period ended 31 March 2005.

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

Hong Kong, 13 May 2005