



# First Quarterly Report 2008



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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)

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

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

The board of directors of the Company (the “Board”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2008, together with the comparative unaudited consolidated results for the corresponding period in 2007 as follows:

## CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the three months ended 31 March 2008

	Notes	Three months ended 31 March	
		2008 HK\$	2007 HK\$
<b>Turnover</b>	2	<b>133,513,135</b>	128,466,159
<b>Cost of sales</b>		<b>(101,753,343)</b>	(91,959,899)
<b>Gross profit</b>		<b>31,759,792</b>	36,506,260
<b>Other revenue</b>		<b>680,019</b>	301,255
<b>Other net income</b>		<b>4,253,712</b>	536,372
<b>Research and development expenses</b>		<b>(5,457,261)</b>	(5,502,579)
<b>Distribution costs</b>		<b>(5,241,521)</b>	(4,209,421)
<b>Administrative expenses</b>		<b>(13,052,275)</b>	(11,488,260)
<b>Profit from operations</b>		<b>12,942,466</b>	16,143,627
<b>Finance costs</b>		<b>(4,457,890)</b>	(4,055,612)
<b>Share of profits of associates</b>		–	937,335
<b>Share of profits of jointly controlled entities</b>		<b>227,280</b>	963,080
<b>Profit before taxation</b>		<b>8,711,856</b>	13,988,430
<b>Income tax</b>	3	<b>(705,189)</b>	(2,994,957)
<b>Profit for the period</b>		<b>8,006,667</b>	10,993,473
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>13,137,560</b>	12,852,169
Minority interests		<b>(5,130,893)</b>	(1,858,696)
<b>Profit for the period</b>		<b>8,006,667</b>	10,993,473
<b>Earnings per share</b>	4		
– Basic		<b>HK3.01 cents</b>	HK3.30 cents
– Diluted		<b>HK2.67 cents</b>	HK3.03 cents

Notes:

## 1. Basis of preparation

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

The accounting policies adopted in the preparation of this quarterly report are consistent with those adopted by the Group in the 2007 annual financial statements.

This quarterly report contains consolidated financial results and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. This consolidated quarterly financial results and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Report Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial information relating to the financial year ended 31 December 2007 included in this quarterly report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 5 March 2008.

## 2. Turnover

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

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

Turnover recognised during the period may be analysed as follows:

	Three months ended 31 March	
	2008 HK\$	2007 HK\$
Sales of mechanical airbag systems	18,544,441	23,941,855
Sales of electronic airbag systems	83,333,603	74,330,045
Sales of automotive safety system components and other automotive components	31,635,091	30,194,259
	<b>133,513,135</b>	128,466,159

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

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

## 2. Turnover (continued)

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

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

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

	Three months ended 31 March	
	2008 HK\$	2007 HK\$
PRC	121,559,350	115,673,594
Italy	6,318,475	9,911,428
Malaysia	29,368	9,829
Others	5,605,942	2,871,308
	<b>133,513,135</b>	<b>128,466,159</b>

## 3. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Three months ended 31 March	
	2008 HK\$	2007 HK\$
<b>Current tax</b>		
PRC income tax for the period	707,282	3,573,998
	707,282	3,573,998
<b>Deferred tax</b>		
Reversal of temporary differences	(2,093)	(579,041)
Total income tax expense	<b>705,189</b>	<b>2,994,957</b>

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

Pursuant to the income tax rules and regulations of the PRC, Jinzhou Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"), Shenyang Jinbei Jinheng Automotive Safety System Co., Ltd. ("Jinbei Jinheng") and Shanxi Winner Auto-Parts Ltd. ("Shanxi Winner"), subsidiaries of the Company, are entitled to a tax concession period in which they are fully exempted from PRC income tax for 2 year starting from their first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years. Jinheng Automotive, Jinbei Jinheng and Shanxi Winner are in the fifth year, second year and third year following their first profit-making year, respectively.

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

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

#### 4. Earnings per share

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

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the three months ended 31 March 2008 amounted HK\$13,137,560 (three months ended 31 March 2007: HK\$12,852,169) and the weighted average of 437,080,220 (three months ended 31 March 2007: 389,360,000) ordinary shares in issue during the period, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares	
	Three months ended 31 March	
	2008	2007
Issued ordinary shares at 1 January	430,120,000	385,560,000
Effect of shares issued for acquisition of Winner Investment Limited	5,056,044	–
Effect of shares issued pursuant to the exercise of share options	1,904,176	3,800,000
Weighted average number of ordinary shares (basic) at 31 March	437,080,220	389,360,000

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

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the three months ended 31 March 2008 amounted HK\$14,523,983 (three months ended 31 March 2007: HK\$14,449,539) and the weighted average number of 543,235,776 (three months ended 31 March 2007: 476,691,707) ordinary shares, calculated as follows:

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

	Three months ended 31 March	
	2008	2007
	HK\$	HK\$
Profit attributable to ordinary equity shareholders	13,137,560	12,852,169
After tax effect of effective interest on the liability component of convertible notes	1,386,423	1,597,370
Profit attributable to ordinary equity shareholders (diluted)	14,523,983	14,449,539

## 4. Earnings per share (continued)

(b) Diluted earnings per share (continued)

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

	Number of shares	
	Three months ended 31 March 2008	2007
Weighted average number of ordinary shares at 31 March	437,080,220	389,360,000
Effect of conversion of convertible notes	85,555,556	85,555,556
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	20,600,000	1,776,151
Weighted average number of ordinary shares (diluted) at 31 March	543,235,776	476,691,707

## 5. Reserves

	Attributable to equity shareholders of the Company								Minority interests HK\$	Total HK\$
	Share premium HK\$	Merger reserve HK\$	Statutory reserve HK\$	Capital reserve HK\$	Exchange reserve HK\$	Other reserve HK\$	Retained profits HK\$	Sub-total HK\$		
At 1 January 2007	85,447,724	36,341,236	26,529,605	13,311,975	9,817,164	2,141,065	73,479,070	247,067,839	30,397,915	277,465,754
Equity settled share-based transactions	-	-	-	139,250	-	-	-	139,250	-	139,250
Profit/(loss) for the period	-	-	-	-	-	-	12,852,169	12,852,169	(1,858,696)	10,993,473
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	-	-	-	-	(400,561)	-	-	(400,561)	-	(400,561)
Shares issued under share option scheme	5,279,600	-	-	(3,592,400)	-	-	-	1,687,200	-	1,687,200
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	(408,178)	(408,178)
Equity component of convertible notes	-	-	-	4,084	-	-	-	4,084	-	4,084
At 31 March 2007	90,727,324	36,341,236	26,529,605	9,862,909	9,416,603	2,141,065	86,331,239	261,349,981	28,131,041	289,481,022
At 1 January 2008	151,912,459	36,341,236	32,737,143	15,739,575	28,826,674	2,141,065	120,248,177	387,946,329	52,853,042	440,799,371
Equity settled share-based transactions	-	-	-	714,750	-	-	-	714,750	-	714,750
Profit/(loss) for the period	-	-	-	-	-	-	13,137,560	13,137,560	(5,130,893)	8,006,667
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	-	-	-	-	7,666,450	-	-	7,666,450	799,280	8,465,730
Shares issued under share option scheme	2,639,800	-	-	(1,796,200)	-	-	-	843,600	-	843,600
Shares issued for acquisition of Winner Investment Limited	11,663,000	-	-	-	-	-	-	11,663,000	-	11,663,000
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	23,258,214	23,258,214
At 31 March 2008	166,215,259	36,341,236	32,737,143	14,658,125	36,493,124	2,141,065	133,385,737	421,971,689	71,779,643	493,751,332

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group recorded turnover of approximately HK\$133.5 million for the first quarter of 2008, an increase of approximately 3.9% in comparison with that of the same period last year. The increase was mainly due to the fact that the Group had initiated supply of automotive safety systems for a number of new models in succession since the end of last year, and that the automobile electronic spare parts business, which operation commenced from the middle of last year, had also commenced to provide contribution. The directors believe that notwithstanding the considerable impact of macro-economic control policies and the snow storm at the beginning of the year in PRC on the automobile industry, it is expected that the Group will maintain stable growth of its business in view of the overall trend has no obvious impact on the demand for automotive safety systems.

The investment on expansion of automobile electronic spare parts business made by the Group in the past two years had commenced to make contribution – Troitec Automotive Electronics Co., Ltd. (“Troitec”), the acquisition of which was completed in the first quarter of last year, had also entered into new contracts on the research and development of engine management system in several automobile models, and at the same time had conducted trial production for several customers who had just completed their research and development projects. In addition to its existing customers with steady supply, Troitec is expected to play a major role in the expansion of automobile electronic products business, which is a long-term objective of the Group. Since it is at the initial stage of operation, the Group will strengthen its foundation of management and finance by means of structural integration and reorganization, and reinforce its research, development and production capacity so as to achieve its optimal operational efficiency in the shortest time frame.

In addition, the Group had completed the acquisition of an additional 25% equity interest in Shanxi Winner Auto-Parts Co., Ltd. (“Shanxi Winner”) during the period, making it a subsidiary whose equity interest was 60% owned by the Group. Besides the inflators that it has produced for many years, Shanxi Winner had also commenced trial production of wire products for automobiles last year which will be used in the automotive safety system of the Group, resulting in better control of cost and product quality through localized production of spare parts.

During the period, the Group had also been actively expanding its export business, and 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 which will introduce the Group into new overseas market.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review

For the three months ended 31 March 2008, the Group recorded turnover of approximately HK\$133.5 million, which is increased by approximately 3.9% in compared with the same period of last year. The increase 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. As it is expected that the local and oversea market of automotive safety systems will remain a constant growth, and our automotive electronic business will be on the right track in the coming few months, we believe that the Group can maintain a healthy growth during the year.

During the quarter under review, the average gross profit margin of the Group was about 23.8%, which was 0.8% lower than the average of 2007. This was resulted from the change of product mix, and also due to our automotive electronic business was in the initial status and has not yet reached the economies of scale. If not take into account the effect of new products, the average gross profit margin of both mechanical and electric airbag systems was recorded as 24.6%.

The profits from operation for the three months ended 31 March 2008 were approximately HK\$31.8 million, which was approximately HK\$4.7 million lower than the same period of last year. This 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.

For the current three months under review, the research and development expenses were approximately HK\$5.5 million, which were nearly the same as the previous year. We have smoothen the development process and hence the cost reduction effect has been achieved, even though we have contributed in the development of the new automotive electronic products.

The distribution costs of the Group for the three months ended 31 March 2008 were increased by approximately HK\$1.0 million to approximately HK\$5.2 million. Such increment was mainly resulted from the effort of the expansion of overseas markets. It is expected that the return of our effort may be achieved in the near future.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

For the three months ended 31 March 2008, the administrative expenses of the Group were approximately HK\$13.1 million, which was approximately HK\$1.6 million more than the same period of last year. This was mainly due to the newly acquired subsidiary, Shanxi Winner, was not reflected in the results of the same period of last year.

The finance costs during the current quarter under review were approximately HK\$4.5 million, which were slightly increased by approximately HK\$0.4 million in compared with the same period of last year. Such increment was resulted from the short term loan for facilitating the rapid development of the Group.

Profit attributable to equity shareholders of the Company for the three months ended 31 March 2008 was approximately HK\$13.1 million, which was increased by approximately 2.2% in comparison with the corresponding period of last year. This was mainly resulted from the increase in turnover, and it is expected that such growth may be continued in the rest of this year.

### Outlook and Future Prospects

The directors of the Company believe that notwithstanding the slowdown in growth of the automobile market in PRC under the impact of macro-economic control policies and the snow storm at the beginning of the year, the demand for automotive safety system will still maintain stable growth with the increasing awareness of automobile safety on the part of car users. The Group will actively expand 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.

The Group has made the development of automobile electronic spare parts business as its long term business strategy and will invest more resources and introduce strategic partners to strengthen the Group's foundations in respect of the said business. It is expected that the automobile electronic spare parts business can enlarge the Group's product pool in the future, and lead us to tap more new markets.

With the growing scale of the Group, we will invest more resources to improve the efficiency of our internal information disclosure with an aim to make the information of internal operation and financial management available to the management in a more effective manner for them to cope with the challenges from both internal and external of the Group.

The management team of the Group will continue to devote its best endeavor and efforts to enhance the Group's competitive edge in order for the Group to sustain stable growth and bring fruitful return to the investors.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2008 (three months ended 31 March 2007: HK\$ Nil).

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

As at 31 March 2008, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 the GEM Listing Rules were as follows:

### (a) Long positions in issued shares

Name of director	Capacity	Number of shares	Approximate percentage of shareholding
Li Feng	Beneficial owner	2,600,000	0.59%
	Interest of a controlled corporation (Note)	(Note)	(Note)
Xing Zhanwu	Beneficial owner	8,420,000	1.90%
	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	Beneficial owner	4,280,000	0.97%
	Interest of a controlled corporation (Note)	(Note)	(Note)
Foo Tin Chung, Victor	Beneficial owner	800,000	0.18%

Note: As at 31 March 2008, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited which held approximately 51.60% in the Company:

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

(a) Long positions in issued shares (continued)

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

(b) Interests in underlying shares

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

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

### SHARE OPTION SCHEMES

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme as defined in the prospectus dated 30 November 2004 issued by the Company (the "Prospectus"), which were adopted on 22 November 2004. A summary of principal terms of the share option schemes were disclosed in Appendix VI to the Prospectus.

The total number of securities available for issue under the share option schemes as at 31 March 2008 was 38,100,000 shares (including options for 20,600,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 8.60% of the issued share capital of the Company as at 31 March 2008.

## SHARE OPTION SCHEMES (continued)

As at 31 March 2008, 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 2008 is HK\$1.00) 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 2008	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the period	Exercise price per share	*Market value per share at date of grant of options	*Market value per options share on exercise of options
Mr. Li Feng (李峰)	Executive director and chairman of the Company	520,000	-	22 November 2004	9 December 2005 to 9 December 2008	520,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	400,000	-	22 November 2004	9 December 2005 to 9 December 2008	400,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	160,000	-	22 November 2004	9 December 2005 to 9 December 2008	160,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	216,000	-	22 November 2004	9 December 2005 to 9 December 2008	216,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Xing Zhanwen (邢占文)	Employee, general manager of Jinheng Sega	176,000	-	22 November 2004	9 December 2005 to 9 December 2008	176,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	200,000	-	22 November 2004	9 December 2005 to 9 December 2008	200,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Zhu Jiangbin (朱江濱)	Employee, general manager of Beijing Great Idea	176,000	-	22 November 2004	9 December 2005 to 9 December 2008	176,000	HK\$0.38	HK\$0.788	HK\$1.20
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	168,000	-	22 November 2004	9 December 2005 to 9 December 2008	168,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	144,000	-	22 November 2004	9 December 2005 to 9 December 2008	144,000	HK\$0.38	HK\$0.788	HK\$1.20
Mr. Chen Lixin (沈立新)	Employee, deputy general manager of Jinheng Automotive	120,000	-	22 November 2004	9 December 2005 to 9 December 2008	120,000	HK\$0.38	HK\$0.788	HK\$1.20
		2,280,000	-			2,280,000			

**SHARE OPTION SCHEMES (continued)**

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

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

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

	<b>2008</b>
Risk-free interest rate	2.1%
Expected life (in years)	4 years
Volatility	50.0%
Expected dividend per share	2.3%

The binomial lattice pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully 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.

## SHARE OPTION SCHEMES (continued)

### (b) Share Option Scheme

On 23 August 2007, the Company granted options to subscribe for a total of 20,600,000 Shares under the Share Option Scheme to five directors and two 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 2008	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the period	Exercise price per share	Market value per share before the date on which the options were granted	Market value per share on exercise of options
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Zeng Qingdong (曾慶東)	Non-executive director of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Li Hong (李宏)	Non-executive director of the Company	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Chan Wan Dune (陳雄瑞) (Note)	Independent non-executive director of the Company	400,000	400,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	4,000,000	4,000,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
Mr. Wong Wah Wai (黃華威) (Note)	Employee, senior accountant of the Company	200,000	200,000	23 August 2007	23 August 2007 to 22 August 2012	-	HK\$1.60	HK\$1.58	N/A
		20,600,000	20,600,000			-			

Note: Mr. Chan and Mr. Wong accepted the offer of the share options from the Company on 3 September 2007.

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

**SHARE OPTION SCHEMES (continued)***(b) Share Option Scheme (continued)*

The weighted average value per option granted on 23 August 2007 using binomial lattice pricing model was HK\$0.426. The calculation of the weighted average value per option granted during the period does not take into account options granted and forfeited during the period. The weighted average assumptions used are as follows:

	<b>2008</b>
Risk-free interest rate	4.03%
Expected life (in years)	5 years
Volatility	50.0%
Expected dividend per share	4.0%

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.



## SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 March 2008, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

	Capacity	Number of ordinary shares of the Company held	Number of the underlying shares of the Company held under equity derivatives	Approximately percentage of the total issued shares of the Company before full conversion of all convertible notes	Approximately percentage of the total issued shares of the Company after full conversion of all convertible notes
Applaud Group Limited	Beneficial owner	228,620,000	–	51.60%	43.25%
Value Partners Limited (Note 1)	Investment manager	–	51,111,111	11.53%	9.67%
Value Partners Group Limited (Note 1)	Interests of controlled corporation	–	51,111,111	11.53%	9.67%
Cheah Capital Management Limited (Note 1)	Interests of controlled corporation	–	51,111,111	11.53%	9.67%
Cheah Company Limited (Note 1)	Interests of controlled corporation	–	51,111,111	11.53%	9.67%
Hang Seng Bank Trustee International Limited (Note 1)	Trustee	–	51,111,111	11.53%	9.67%
Mr. Cheah Cheng Hye (Note 1)	Founder of discretionary trust	–	51,111,111	11.53%	9.67%
Ms. To Hau Yin (Note 1)	Spouse of Mr Cheah Cheng Hye	–	51,111,111	11.53%	9.67%
Sagemore Assets Limited (Note 2)	Beneficial Owner	–	27,777,778	6.27%	5.25%
CDS International Limited (Note 2)	Interest of controlled corporation	–	27,777,778	6.27%	5.25%
TNS Services Limited (Note 2)	Nominee shareholder of beneficial owner	–	27,777,778	6.27%	5.25%

*Note 1:* 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.

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

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

### **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 2008, 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 2008.

## **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 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## **PRE-EMPTIVE RIGHTS**

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

## THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the three months ended 31 March 2008.

The Company established an audit committee on 22 November 2004 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the three Independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong.

The audit committee had reviewed the Group's unaudited results for the three months ended 31 March 2008 and had provided advice and recommendation to the Board.

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

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

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors of the Company adopted by the Company throughout the three months ended 31 March 2008.

The Company has complied with the requirement to appoint a sufficient number of independent non-executive director as set out in Rule 5.05(1) of the GEM Listing Rules. Throughout the three months ended 31 March 2008, the Company has appointed three independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong.

## **THE CODE OF CORPORATE GOVERNANCE PRACTICES (continued)**

All the non-executive directors and independent non-executive directors of the Company are appointed for a term of one year and are eligible for re-election at the coming annual general meeting of the Company.

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

Hong Kong, 13 May 2008