



# Third 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)

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

*The Exchange takes no responsibility for the contents of this report, 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 report.*

*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 each of the three months and nine months ended 30 September 2008, together with the unaudited comparative figures for the corresponding periods in 2007 as follows:

## CONSOLIDATED INCOME STATEMENT — UNAUDITED

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2008

	Note	Three months ended 30 September		Nine months ended 30 September	
		2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Turnover	2	207,312,171	183,126,703	528,588,693	476,676,010
Cost of sales		(159,788,880)	(141,641,402)	(407,098,842)	(359,646,596)
Gross profit		47,523,291	41,485,301	121,489,851	117,029,414
Other revenue		251,692	372,399	47,171,622	2,330,179
Other net income		71,815	312,989	4,365,391	3,241,740
Research and development expenses		(5,514,825)	(723,716)	(15,043,321)	(14,278,738)
Distribution costs		(5,282,921)	(4,554,414)	(15,511,805)	(12,914,273)
Administrative expenses		(18,050,531)	(14,797,759)	(47,152,832)	(39,441,599)
Profit from operations		18,998,521	22,094,800	95,318,906	55,966,723
Finance costs		(8,342,634)	(4,956,619)	(20,948,526)	(13,417,749)
Share of (losses)/profits of associates		–	(857,804)	–	1,319,943
Share of profits of jointly controlled entities		478,179	1,087,678	733,429	3,310,980
Profit before taxation		11,134,066	17,368,055	75,103,809	47,179,897
Income tax	3	(5,260,674)	(2,679,046)	(8,330,940)	(8,329,340)
Profit for the period		5,873,392	14,689,009	66,772,869	38,850,557
Attributable to:					
Equity shareholders of the Company		9,876,860	14,638,320	57,531,549	45,149,164
Minority interests		(4,003,468)	50,689	9,241,320	(6,298,607)
Profit for the period		5,873,392	14,689,009	66,772,869	38,850,557
Earnings per share					
– Basic	4(a)	HK2.23 cents	HK3.54 cents	HK13.04 cents	HK11.35 cents
– Diluted	4(b)	HK2.05 cents	HK3.13 cents	HK11.27 cents	HK9.15 cents

The notes on pages 2 to 6 form part of this financial report.

## 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 ("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		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	HK\$	HK\$	HK\$	HK\$
Sales of mechanical airbag systems	16,910,388	25,622,563	64,877,217	86,893,375
Sales of electronic airbag systems	140,040,820	124,421,399	357,209,117	264,628,818
Sales of automotive safety system components and other automotive spare parts	50,360,963	33,082,741	106,502,359	125,153,817
	207,312,171	183,126,703	528,588,693	476,676,010

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.

## 2. Turnover (continued)

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.

### *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		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	HK\$	HK\$	HK\$	HK\$
PRC	202,182,770	167,134,438	506,903,100	436,944,166
Malaysia	932	14,363	41,922	24,759
Italy	7,121	11,211,990	6,337,625	32,026,206
Others	5,121,348	4,765,912	15,306,046	7,680,879
	207,312,171	183,126,703	528,588,693	476,676,010

## 3. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Three months ended		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	HK\$	HK\$	HK\$	HK\$
<b>Current tax</b>				
PRC income tax for the period	1,286,742	2,313,438	4,221,319	8,368,017
	1,286,742	2,313,438	4,221,319	8,368,017
<b>Deferred tax</b>				
Origination and reversal of temporary differences	3,973,932	365,608	4,109,621	(38,677)
Total income tax expense	5,260,674	2,679,046	8,330,940	8,329,340

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.

### 3. Income tax in the consolidated income statement (continued)

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 years 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 for each of the three months and nine months ended 30 September 2008 are based on the profit attributable to ordinary equity shareholders of the Company HK\$9,876,860 and HK\$57,531,549 respectively (for each of the three months and nine months ended 30 September 2007: HK\$14,638,320 and HK\$45,149,164 respectively) and the weighted average of 443,191,304 and 441,131,387 (for each of the three months and nine months ended 30 September 2007: 414,033,043 and 397,928,059 respectively) ordinary shares respectively in issue during the period, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares Three months ended 30 September		Number of shares Nine months ended 30 September	
	2008	2007	2008	2007
Issued ordinary shares at 1 January	430,120,000	385,560,000	430,120,000	385,560,000
Effect of shares issued for acquisition of Winner Investment Limited	10,700,000	-	8,825,547	-
Effect of shares issued pursuant to the exercise of share options	2,371,304	4,560,000	2,185,840	4,309,451
Effect of shares issued pursuant to the placing of shares	-	23,913,043	-	8,058,608
Weighted average number of ordinary shares (basic) at 30 September	443,191,304	414,033,043	441,131,387	397,928,059

## 4. Earnings per share (continued)

## (b) Diluted earnings per share

The calculation of diluted earnings per share for each of the three months and nine months ended 30 September 2008 are based on the profit attributable to ordinary equity shareholders of the Company HK\$11,254,563 and HK\$61,696,864 respectively (for each of the three months and nine months ended 30 September 2007: HK\$16,279,003 and HK\$50,004,434 respectively) and the weighted average of 549,346,860 and 547,286,943 (for each of the three months and nine months ended 30 September 2007: 520,703,048 and 546,340,658 respectively) ordinary shares respectively in issue during the period, calculated as follows:

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

	Three months ended 30 September		Nine months ended 30 September	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Profit attributable to ordinary equity shareholders	<b>9,876,860</b>	14,638,320	<b>57,531,549</b>	45,149,164
After tax effect of effective interest on the liability component of convertible notes	<b>1,377,703</b>	1,640,683	<b>4,165,315</b>	4,855,270
Profit attributable to ordinary equity shareholders (diluted)	<b>11,254,563</b>	16,279,003	<b>61,696,864</b>	50,004,434

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

	Number of shares Three months ended 30 September		Number of shares Nine months ended 30 September	
	2008	2007	2008	2007
Weighted average number of ordinary shares at 30 September	<b>443,191,304</b>	414,033,043	<b>441,131,387</b>	397,928,059
Effect of conversion of convertible notes	<b>85,555,556</b>	86,495,727	<b>85,555,556</b>	129,042,357
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	<b>20,600,000</b>	20,174,278	<b>20,600,000</b>	19,370,242
Weighted average number of ordinary shares (diluted) at 30 September	<b>549,346,860</b>	520,703,048	<b>547,286,943</b>	546,340,658

## 5. Reserves

	Attributable to equity shareholders of the Company								Minority interests HK\$	Total HK\$
	Share premium	Merger reserve	Statutory reserve	Capital reserve	Exchange reserve	Other reserve	Retained profits	Sub-total		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	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	-	-	-	417,750	-	-	-	417,750	-	417,750
Dividend approved in respect of prior years	-	-	-	-	-	-	(13,654,200)	(13,654,200)	-	(13,654,200)
Profit/(loss) for the period	-	-	-	-	-	-	45,149,164	45,149,164	(6,298,607)	38,850,557
Shares issued under share option scheme	5,279,600	-	-	(3,592,400)	-	-	-	1,687,200	-	1,687,200
Equity component of convertible notes	-	-	-	12,251	-	-	-	12,251	-	12,251
Placing of Shares	61,198,135	-	-	-	-	-	-	61,198,135	-	61,198,135
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	17,456,943	17,456,943
At 30 September 2007	151,925,459	36,341,236	26,529,605	10,149,576	9,817,164	2,141,065	104,974,034	341,878,139	41,556,251	383,434,390
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	-	-	-	2,144,250	-	-	-	2,144,250	-	2,144,250
Dividend approved in respect of prior years	-	-	-	-	-	-	(15,951,600)	(15,951,600)	-	(15,951,600)
Profit for the period	-	-	-	-	-	-	57,531,549	57,531,549	9,241,320	66,772,869
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	-	-	-	-	21,057,048	-	-	21,057,048	1,828,083	22,885,131
Shares issued under share option scheme	3,059,800	-	-	(1,796,200)	-	-	-	1,263,600	-	1,263,600
Shares issued for acquisition of Winner Investment Limited	11,663,000	-	-	-	-	-	-	11,663,000	-	11,663,000
Acquisition and disposal of subsidiaries	-	-	-	-	-	2,083,281	-	2,083,281	3,507,547	5,590,828
At 30 September 2008	166,635,259	36,341,236	32,737,143	16,087,625	49,883,722	4,224,346	161,828,126	467,737,457	67,429,992	535,167,449

On 22 November 2004, 11,400,000 share options were granted for nominal consideration to three directors and seven employees of the Company under the Company's Pre-IPO Employee Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 each of the Company. These share options were vested on 9 December 2005, and then be exercisable until 9 December 2008. The exercise price is HK\$0.38. 2,280,000 options were exercised during the nine months ended 30 September 2008.

On 23 August 2007, 20,600,000 share options were granted for nominal consideration to five directors and two employees of the Company under the Company's Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 each of the Company. These share options were vested on 23 August 2007, and then be exercisable until 22 August 2012. The exercise price is HK\$1.60. No options granted under the Share Option Scheme were exercised during the nine months ended 30 September 2008.

On 25 August 2008, 400,000 share options were granted for nominal consideration to 160 employees of the Group under the Company's Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 each of the Company. These share options were vested on 25 August 2008, and then be exercisable until 24 August 2009. The exercise price is HK\$1.06. All of these 400,000 share options were exercised during the nine months ended 30 September 2008.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the three and nine months period ended 30 September 2008, the Group recorded turnover amount of approximately HK\$207.3 million and HK\$528.6 million respectively, which were approximately 13.2% and 10.9% more than the same period of last year respectively. The continuous increment of turnover amount was mainly due to the development works of over 10 new models were completed and commenced the supplies during the period. Furthermore, our automotive electronic spare parts business also commenced trial production and contributed to the overall results of the Group. We have also integrated our business to enhance the operation efficiency and control the cost in an effective way. Although the current economic environment is unstable, the competition of the PRC automobile market will become more intensive and thus the directors of the Company believe that the installation rate of automotive safety airbag system will increase. As a result it is expected that Group can maintain a stable return.

The cost control policies implemented during the past few years have gradually make contribution to the Group during the current period. Even though the Group has 2 additional subsidiaries during this period, the overall operation costs did not have substantial increment. We will continue to execute the cost control policies while maintaining the product quality and operation efficiency at the same time. This can help the Group to maintain the competitiveness in the market and keep the leading position among the PRC automotive safety airbag system manufacturers.

During the period, the Group also completed the third stage of technical reformation project, which including the expansion of car crash laboratory and the safety airbag production lines. We also purchased some production, research and development facilities from Liaoning He Chang Hua Bao Automotive Electronic Co., Ltd. This may substantially enhance the production and development capacities of the Group and the overall operation efficiency. This may also accelerate the research and development works of other automobile safety products such as curtain airbag system and side airbag system. Furthermore, the newly developed pre-tension seat belts have launched commercial sales during the period. This may not only provide contribution to the overall results of the Group, but also strengthen the Group's leading position in the PRC automotive safety system market.

### Financial Review

For the three months and nine months ended 30 September 2008, the turnover amount of the Group were approximately HK\$207.3 million and HK\$528.6 million respectively, which were increased by approximately 13.2% and 10.9% respectively in compared with the same period of last year. Such increment was mainly contributed by the launch of over 10 new models during the nine months period and the commencement of trial production of the new automotive electronic spare parts. These products are expected to contribute to the Group in the coming future.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

The average gross profit margin of the Group during the current nine months period was approximately 23.0%, which was the same as the first half of this year. Due to the change of product mix, the average gross profit margin of both mechanical and electronic airbag systems for the nine months ended 30 September 2008 was slightly decreased by 0.7% to approximately 21.2% in compared with the first six months of 2008.

The gross profit for the nine months ended 30 September 2008 was approximately HK\$121.5 million, which was increased by approximately HK\$4.5 million as compared with the same period of 2007. Such increment was resulted from the continuous growth of the turnover amount.

For the nine months end 30 September 2008, the research and development expenses were increased by approximately HK\$0.8 million to approximately HK\$15.0 million as compared with the corresponding period of last year. The increment was mainly due to the commencement of new development projects, which may provide contribution to the Group in the coming future.

Despite of the additional of 2 subsidiaries during the year, the overall distribution costs and administrative expenses did not record a substantial increment in compared with the same period of last year. This was mainly due to the results of the cost control policies implemented during the past years. During the nine months period under review, the distribution cost were only increased by approximately HK\$2.6 million to approximately HK\$15.5 million, while the administrative expenses were only increased by approximately HK\$7.7 million to approximately HK\$47.2 million.

For the three months end 30 September 2008, the finance costs were approximately HK\$8.3 million, which was increased only by approximately HK\$0.2 million as compared with three months ended 30 June 2008.

For the nine months ended 30 September 2008, the profit attributable to equity shareholders of the Company was approximately HK\$57.5 million, which was increased by approximately 27.4% in comparison with the corresponding period of last year. Such increment was mainly contributed by the increase of turnover, the results of the cost control policies and the gain from disposal of a subsidiary during the year.

### Outlook and Future Prospects

On 3 November 2008, the Exchange has granted an approval in principal for the listing of the shares of the Company to transfer from GEM to main board of the Exchange ("Main Board"). The last day of dealings in the shares of the Company on GEM is 11 November 2008, and the dealings in the shares of the Company on the Main Board will commence at 9:30 a.m. on 12 November 2008. After the transfer to Main Board, the new stock code of the Company will be changed to 872. The successful of transfer will increase the recognitions from the industry and the capital market and also lead the Company to another stage. The Company may not only seek for business opportunities, and also the Company will need to maintain the current leading position in the industry. As the current economic environment is unstable, thus we will prepare ourselves to cope with different challenges.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Outlook and Future Prospects (continued)

The management of the Company believes that despite the economic environment is facing severe challenges, there are also many business opportunities available to the PRC automobile industry participants, especially for those economic car manufacturers. We will capture this opportunity to develop new automotive safety products and explore new customers for maintaining a stable business growth. In compared with the same period of last year, the Group has commenced the development works for over 30 new car models, and they are expected to launch commercial production in the coming future and provide contribution to the Group.

The Group will strive to develop the automotive electronic spare parts business as another growing point of the Group. It is expected that the automotive electronic spare parts products will launch commercial production in the first half of 2009. As our products have price advantages, they are more attractive than those import products and thus we hope we can develop a new market for these products.

The directors of the Company believe that with the implementation of the mid-to-long term strategies, the Group can enhance its competitiveness and capture the business opportunities available in the market, which may deliver fruitful returns to investors.

### INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2008 (nine months ended 30 September 2007: HK\$Nil).

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

As at 30 September 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 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	2,200,000	0.50%
	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%

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

### (a) Long positions in issued shares (continued)

Note: As at 30 September 2008, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited which held approximately 51.55% in the Company:

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 and 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 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 of the Company dated 30 November 2004 (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 30 September 2008 was 37,700,000 shares (including options for 20,600,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 8.50% of the issued share capital of the Company as at 30 September 2008.

As at 30 September 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 30 September 2008 is HK\$0.73) 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 of the Company 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 30 September 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 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

## 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 30 September 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 share on exercise of options
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 (張敬明)	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, deputy 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)***(a) Pre-IPO Employee Share Option Scheme** *(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.

## 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 of the Company 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 30 September 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 (陳煒瑞) (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.



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

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

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.

On 25 August 2008, 400,000 share options were granted for nominal consideration to 160 employees of the Group under the Company's Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 each of the Company. These share options were vested on 25 August 2008, and then be exercisable until 24 August 2009. The exercise price is HK\$1.06. All of these 400,000 share options were exercised during the nine months ended 30 September 2008.

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 30 September 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	–	51.55%	43.21%
Value Partners Limited (Note 1)	Investment manager	–	51,111,111	11.52%	9.66%
Value Partners Group Limited (Note 1)	Interests of controlled corporation	–	51,111,111	11.52%	9.66%
Cheah Capital Management Limited (Note 1)	Interests of controlled corporation	–	51,111,111	11.52%	9.66%
Cheah Company Limited (Note 1)	Interests of controlled corporation	–	51,111,111	11.52%	9.66%
Hang Seng Bank Trustee International Limited (Note 1)	Trustee	–	51,111,111	11.52%	9.66%
Mr. Cheah Cheng Hye (Note 1)	Founder of discretionary trust	–	51,111,111	11.52%	9.66%
Ms. To Hau Yin (Note 1)	Spouse of Mr. Cheah Cheng Hye	–	51,111,111	11.52%	9.66%
Sagemore Assets Limited (Note 2)	Beneficial Owner	–	27,777,778	6.26%	5.25%
CDS International Limited (Note 2)	Interest of controlled corporation	–	27,777,778	6.26%	5.25%
TNS Services Limited (Note 2)	Nominee shareholder of beneficial owner	–	27,777,778	6.26%	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.

### Short positions in shares

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

## SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

*(continued)*

### 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 30 September 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 30 September 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, the announcement published on 16 June 2006 and 18 July 2008, and the circular published on 7 July 2006 and 4 August 2008.

### PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 30 September 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 the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the nine months ended 30 September 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 CODE OF CORPORATE GOVERNANCE PRACTICES *(continued)*

The audit committee had reviewed the Group's unaudited results for the three months and nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2008, the Company has appointed three independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong.

All the non-executive directors and independent non-executive directors of the Company are appointed for a fixed term of three year and be subject to normal retirement and re-election by shareholders of the Company pursuant to the Articles of Association of the Company at the annual general meeting of the Company.

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

Hong Kong, 7 November 2008