



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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

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This announcement, 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Company and its subsidiaries (collectively, the “Group”) for the fiscal year 2006 was approximately HK\$352.5 million, representing an increase of approximately HK\$156.9 million or 80.2% as compared to 2005.
- The attributable profit to equity shareholders of the Company was approximately HK\$45.6 million, representing a 42.5% increase as compared to 2005. The increase was due to commenced commercial sales of certain new customers and subsidiaries made encouraging contribution to the full year results.
- Basic earnings per share is 11.86 HK cents (2005: 8.40 HK cents).
- The Directors recommended the payment of a final dividend of 3.5 HK cents per share for the year ended 31 December 2006 (2005: 3.3 HK cents).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

		2006	2005
	<i>Note</i>	\$	\$
Turnover	3	352,541,854	195,668,737
Cost of sales		(253,000,149)	(133,133,369)
Gross profit		99,541,705	62,535,368
Other revenue	4	3,688,855	818,879
Other net income	5	1,248,878	22,100
Research and development expenses	6	(3,938,196)	(2,492,694)
Distribution costs		(7,616,919)	(3,931,847)
Administrative expenses		(35,532,095)	(21,415,827)
Profit from operations		57,392,228	35,535,979
Finance costs	8(a)	(7,774,742)	(2,797,426)
Share of profits of associates		951,286	–
Share of profits/(losses) of jointly controlled entities		2,728,827	(269,165)
Profit before taxation	8	53,297,599	32,469,388
Income tax	9(a)	(5,516,560)	(446,043)
Profit for the year		<u>47,781,039</u>	<u>32,023,345</u>
Attributable to:			
Equity shareholders of the Company		45,608,257	32,016,170
Minority interests		2,172,782	7,175
Profit for the year		<u>47,781,039</u>	<u>32,023,345</u>
Dividends payable to equity shareholders of the Company attributable to the year	10		
Final dividends proposed after the balance sheet date		<u>13,494,600</u>	<u>12,573,000</u>
Earnings per share	11		
– Basic		<u>11.86 HK cents</u>	<u>8.40 HK cents</u>
– Diluted		<u>11.27 HK cents</u>	<u>8.25 HK cents</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2006

(Expressed in Hong Kong dollars)

	<i>Note</i>	2006 \$	2005 \$
Non-current assets			
Fixed assets			
– Property, plant and equipment		101,440,543	64,988,078
– Interests in leasehold land held for own use under operating leases		17,119,072	8,775,732
Deposits paid for acquisition of fixed assets		37,697,259	8,671,894
Construction in progress		17,901,153	5,483,039
Intangible assets		30,916,164	12,293,322
Goodwill		184,189	–
Interest in associates		28,631,461	–
Interest in jointly controlled entities		13,099,491	18,203,923
Other non-current financial assets		50,000	48,077
Deferred tax assets		24,127	57,533
		<u>247,063,459</u>	<u>118,521,598</u>
Current assets			
Inventories		78,687,811	41,127,946
Trade receivables, prepayments and other receivables	13	235,074,584	110,895,525
Current tax recoverable		1,182,749	48,320
Pledged bank deposits		–	4,624
Cash and cash equivalents		65,734,351	44,376,663
		<u>380,679,495</u>	<u>196,453,078</u>
Current liabilities			
Trade and other payables	14	152,949,496	34,541,781
Bank loans		93,927,000	43,037,023
Current tax payable		–	24,460
		<u>246,876,496</u>	<u>77,603,264</u>
Net current assets		<u>133,802,999</u>	<u>118,849,814</u>
Total assets less current liabilities		<u>380,866,458</u>	<u>237,371,412</u>
Non-current liabilities			
Bank loans		24,000,000	26,923,077
Convertible notes		71,254,320	–
Deferred tax liabilities		4,290,784	461,406
		<u>99,545,104</u>	<u>27,384,483</u>
NET ASSETS		<u>281,321,354</u>	<u>209,986,929</u>
Capital and reserves			
Share capital		3,855,600	3,810,000
Reserves	15	247,067,839	195,536,665
Total equity attributable to equity shareholders of the Company		250,923,439	199,346,665
Minority interests	15	30,397,915	10,640,264
TOTAL EQUITY		<u>281,321,354</u>	<u>209,986,929</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006		2005	
		\$	\$	\$	\$
Total equity at 1 January			209,986,929		181,318,027
Net income recognised directly in equity:					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	15		8,271,768		2,380,480
Profit for the year			47,781,039		32,023,345
Total recognised income and expense for the year			56,052,807		34,403,825
Attributable to:					
– Equity shareholders of the Company		53,067,771		34,373,820	
– Minority interests		2,985,036		30,005	
		56,052,807		34,403,825	
Dividends approved during the year	10(b)		(12,723,480)		(20,955,000)
Movements in equity arising from capital transactions					
Equity settled share-based transactions		2,282,000		5,797,000	
Capital contribution from minority shareholders	15	13,534,000		9,423,077	
Equity component of convertible notes	15	5,076,618		–	
Acquisition of additional equity interest in a subsidiary	15	(7,989,217)		–	
Acquisition of a subsidiary	15	13,368,897		–	
Shares issued under share option scheme		1,732,800		–	
			28,005,098		15,220,077
Total equity at 31 December			281,321,354		209,986,929

Notes:

(Expressed in Hong Kong dollars)

1. Review of annual results

The annual results have been reviewed by the Audit Committee.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2006 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. Background

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. The shares of the Company are listed on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

3. Turnover

The principal activities of the Group are production and sales of automotive safety products 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 year may be analysed as follows:

	2006	2005
	\$	\$
Sales of mechanical airbag systems	82,409,345	68,186,371
Sales of electronic airbag systems	218,198,005	75,799,105
Sales of automotive safety system components and other automotive safety products	51,934,504	51,683,261
	<u>352,541,854</u>	<u>195,668,737</u>

4. Other revenue

	2006	2005
	\$	\$
Interest income	1,560,482	683,589
Experiment fee	722,946	132,926
Subsidy income	1,291,176	–
Sundry income	114,251	2,364
	<u>3,688,855</u>	<u>818,879</u>

Subsidy income represents the non-recurring cash subsidies received from the municipal government authorities by the subsidiaries of the Group for general business purpose during the year ended 31 December 2006.

5. Other net income

	2006	2005
	\$	\$
Exchange gain	1,369,727	22,100
Loss on disposal of fixed assets	(721,439)	–
Negative goodwill	600,590	–
	<u>1,248,878</u>	<u>22,100</u>

6. Research and development expenses

	2006	2005
	\$	\$
Research and development costs incurred during the year	16,929,170	9,381,496
Less: Development costs capitalised during the year	(12,990,974)	(6,888,802)
	<u>3,938,196</u>	<u>2,492,694</u>

7. Staff costs

	2006	2005
	\$	\$
Salaries, wages and bonuses	14,559,933	4,607,298
Equity settled share-based payment expenses	2,282,000	5,797,000
Staff welfare	1,894,372	518,780
Contributions to retirement benefit schemes	597,245	280,022
	<u>19,333,550</u>	<u>11,203,100</u>

8. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	2006	2005
	\$	\$
Interest expense on bank advances wholly repayable within five years	4,586,182	2,639,739
Interest expense on convertible notes	3,509,530	–
Discounting charges on discounted bills	384,013	157,687
	<u>8,479,725</u>	<u>2,797,426</u>
Less: borrowing costs capitalised into properties under development#	<u>(704,983)</u>	<u>–</u>
	<u><u>7,774,742</u></u>	<u><u>2,797,426</u></u>

The borrowing costs have been capitalised at a rate of 6.2% per annum (2005: Nil).

(b) Other items:

	2006	2005
	\$	\$
Depreciation	9,384,206	5,766,099
Auditors' remuneration	1,328,529	1,096,346
Amortisation of land lease premium	510,984	95,295
Impairment losses for bad and doubtful debts made/(written back)	487,063	(141,339)
Amortisation of intangible assets		
– Acquired technology	1,043,065	810,692
– Development costs	8,334,127	1,082,558
– Patents	2,386	2,189
Royalty expenses	646,485	399,913
	<u><u>646,485</u></u>	<u><u>399,913</u></u>

9. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2006 \$	2005 \$
Current tax		
PRC income tax for the year	3,052,314	42,170
Deferred tax		
Origination and reversal of temporary differences	<u>2,464,246</u>	<u>403,873</u>
Total income tax expense	<u><u>5,516,560</u></u>	<u><u>446,043</u></u>

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 year.

Pursuant to the income tax rules and regulations of the PRC, Jinzhou Jinheng Automotive Safety System Co., Ltd. (“Jinheng Automotive”), a subsidiary of the Company, which is being a wholly owned foreign enterprise, is entitled to a tax concession period in which it is fully exempted from PRC income tax for 2 years starting from its first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years. Jinheng Automotive is in the third year following the first profit-making year.

Pursuant to the income tax rules and regulations of the PRC, Harbin Hafei Jinheng Automotive Safety System Co., Ltd. (“Hafei Jinheng”) and Beijing Jinheng Sega Automotive Spare Parts Limited (“Jinheng Sega”), subsidiaries of the Company, are liable to enterprise income tax at a rate of 27% for the year.

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

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

On 29 December 2006, the Standing Committee of the Tenth NPC passed a resolution to submit the draft corporate income tax law to the Tenth NPC plenary session for voting. If the draft tax law is passed, the income tax rates that are applicable to the subsidiaries of the Group may need to be revised.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2006 \$	2005 \$
Profit before tax	<u>53,297,599</u>	<u>32,469,388</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	16,376,803	12,047,646
Tax effect of non-deductible expenses	4,085,900	2,330,064
Temporary differences not recognised	–	(108,930)
Tax effect of non-taxable revenue	(1,106,999)	(1,084,717)
Tax effect of tax concessions	(9,962,206)	(12,738,020)
Tax credit (<i>note</i>)	<u>(3,876,938)</u>	<u>–</u>
Tax expense	<u><u>5,516,560</u></u>	<u><u>446,043</u></u>

Note:

The applicable tax rates for PRC income tax range from 27% to 33% (2005: 27% to 33%) depending on the locations where the PRC subsidiaries are situated.

Pursuant to the relevant approval document dated 17 January 2007 issued by the tax authorities in the PRC, Jinheng Automotive is entitled to a tax credit in relation to the purchase of fixed assets in the PRC. The tax credit represents 40% on amount of fixed assets purchased in the PRC from 2004 to 2006.

10. Dividends

(a) Dividends attributable to the year

	2006	2005
	\$	\$
Final dividend proposed after the balance sheet date of 3.5 HK cents per share (2005: 3.3 HK cents per share)	<u>13,494,600</u>	<u>12,573,000</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2006	2005
	\$	\$
Final dividend in respect of the previous financial year, approved and paid during the year of 3.3 HK cents per share (2005: 5.5 HK cents)	<u>12,723,480</u>	<u>20,955,000</u>

11. 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 of \$45,608,257 (2005: \$32,016,170) and the weighted average of 384,473,096 (2005: 381,000,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares	
	2006	2005
Issued ordinary shares at 1 January	381,000,000	381,000,000
Effect of share options exercised	<u>3,473,096</u>	<u>—</u>
Weighted average number of ordinary shares (basic) at 31 December	<u>384,473,096</u>	<u>381,000,000</u>

(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 of \$49,117,787 (2005: \$32,016,170) and the weighted average number of 435,916,762 (2005: 388,024,242) ordinary shares, calculated as follows:

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

	2006	2005
	\$	\$
Profit attributable to ordinary equity shareholders	45,608,257	32,016,170
After tax effect of effective interest on the liability component of convertible notes	<u>3,509,530</u>	–
Profit attributable to ordinary equity shareholders (diluted)	<u><u>49,117,787</u></u>	<u><u>32,016,170</u></u>

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

	Number of shares	
	2006	2005
Weighted average number of ordinary shares at 31 December	384,473,096	381,000,000
Effect of conversion of convertible notes	46,943,683	–
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	<u>4,499,983</u>	<u>7,024,242</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>435,916,762</u></u>	<u><u>388,024,242</u></u>

12. Segment reporting

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 all the Group's turnover and operating result are 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:

	2006	2005
	\$	\$
PRC	317,115,257	188,048,080
Malaysia	26,652,245	28,180
Italy	7,628,108	2,012,788
Others	1,146,244	5,579,689
	<u>352,541,854</u>	<u>195,668,737</u>

13. Trade receivables, prepayments and other receivables

	2006	2005
	\$	\$
Trade receivables	174,328,189	82,337,134
Bills receivable	35,906,894	12,700,913
	<u>210,235,083</u>	<u>95,038,047</u>
Prepayments	12,924,237	7,917,102
Other receivables	11,915,264	7,940,376
	<u>235,074,584</u>	<u>110,895,525</u>

Included in trade receivables are amounts due from related companies of \$22,628,728 (2005: \$20,476,920).

All of the trade receivables, prepayments and other receivables are expected to be recovered within one year.

An ageing analysis of trade receivables and bills receivables (net of impairment losses for bad and doubtful debts) is as follows:

	2006	2005
	\$	\$
Current	205,762,456	79,710,439
1 to 3 months overdue	3,856,878	14,269,882
More than 3 months overdue but less than 12 months overdue	615,749	655,844
More than 1 year overdue but less than 2 years overdue	-	401,882
	<u>210,235,083</u>	<u>95,038,047</u>

The Group generally grants credit period of not more than 90 days from date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and credit worthiness, extend the credit period upon customers' request.

Included in trade receivables, prepayments and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
United States Dollars	USD 116,559	USD 4,806
Sterling	GBP 3,705	GBP –
Euros	EUR 722,160	EUR 17,500

14. Trade and other payables

	2006	2005
	\$	\$
Trade payables	108,596,664	28,896,906
Other payables	44,352,832	5,644,875
	<u>152,949,496</u>	<u>34,541,781</u>

Included in trade and other payables are amounts due to related parties of \$25,614,610 (2005: \$8,285,390).

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables is as follows:

	2006	2005
	\$	\$
Within 3 months	80,938,618	26,758,843
Over 3 months but less than 6 months	27,658,046	2,138,063
	<u>108,596,664</u>	<u>28,896,906</u>

Include in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
United States Dollars	USD 33,320	USD –
Sterling	GBP 286,149	GBP –
Euros	EUR 31,528	EUR –

15. Reserves

	Attributable to equity shareholders of the Company										
	Share Premium	Merger reserve	Statutory surplus reserve	Statutory public welfare fund	Capital reserve	Exchange reserve	Other reserve	Retained profits	Sub-total	Minority interests	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
At 1 January 2005	80,168,124	36,341,236	8,749,449	4,374,723	3,748,757	-	-	42,938,556	176,320,845	1,187,182	177,508,027
Equity settled											
share-based transactions	-	-	-	-	5,797,000	-	-	-	5,797,000	-	5,797,000
Dividend approved in respect											
of prior year	-	-	-	-	-	-	-	(20,955,000)	(20,955,000)	-	(20,955,000)
Profit for the year	-	-	-	-	-	-	-	32,016,170	32,016,170	7,175	32,023,345
Appropriations to											
statutory reserves	-	-	3,866,734	1,933,366	-	-	-	(5,800,100)	-	-	-
Exchange differences arising on											
translation of accounts of											
subsidiaries outside Hong Kong	-	-	-	-	-	2,357,650	-	-	2,357,650	22,830	2,380,480
Capital contribution from											
minority shareholders	-	-	-	-	-	-	-	-	-	9,423,077	9,423,077
At 31 December 2005	<u>80,168,124</u>	<u>36,341,236</u>	<u>12,616,183</u>	<u>6,308,089</u>	<u>9,545,757</u>	<u>2,357,650</u>	<u>-</u>	<u>48,199,626</u>	<u>195,536,665</u>	<u>10,640,264</u>	<u>206,176,929</u>
At 1 January 2006	80,168,124	36,341,236	12,616,183	6,308,089	9,545,757	2,357,650	-	48,199,626	195,536,665	10,640,264	206,176,929
Equity settled share-based											
transactions	-	-	-	-	2,282,000	-	-	-	2,282,000	-	2,282,000
Dividend approved in respect											
of prior years	-	-	-	-	-	-	-	(12,723,480)	(12,723,480)	-	(12,723,480)
Profit for the year	-	-	-	-	-	-	-	45,608,257	45,608,257	2,172,782	47,781,039
Appropriations to statutory											
reserves	-	-	5,070,221	2,535,112	-	-	-	(7,605,333)	-	-	-
Exchange differences arising on											
translation of accounts of											
subsidiaries outside Hong Kong	-	-	-	-	-	7,459,514	-	-	7,459,514	812,254	8,271,768
Shares issued under											
share option scheme	5,279,600	-	-	-	(3,592,400)	-	-	-	1,687,200	-	1,687,200
Capital contribution from											
minority shareholders	-	-	-	-	-	-	-	-	-	13,534,000	13,534,000
Equity component											
of convertible notes	-	-	-	-	5,076,618	-	-	-	5,076,618	-	5,076,618
Acquisition of additional											
equity interest in a subsidiary	-	-	-	-	-	-	811,005	-	811,005	(8,800,222)	(7,989,217)
Acquisition of subsidiaries	-	-	-	-	-	-	1,330,060	-	1,330,060	12,038,837	13,368,897
At 31 December 2006	<u>85,447,724</u>	<u>36,341,236</u>	<u>17,686,404</u>	<u>8,843,201</u>	<u>13,311,975</u>	<u>9,817,164</u>	<u>2,141,065</u>	<u>73,479,070</u>	<u>247,067,839</u>	<u>30,397,915</u>	<u>277,465,754</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the design, research and development, manufacture and sale of automotive safety airbag systems. Currently, the Group's major products are safety airbag systems used in automotives.

The Group has recorded remarkable results for the financial year of 2006. Turnover of the Group surged to approximately HK\$352.5 million, representing an 80.2% increase as compared to 2005. Profit after tax for the year was approximately HK\$45.6 million, representing a 42.5% increase as compared to the previous year.

Such encouraging performance was the result of initiatives taken to the commercial sales of safety airbag systems to a number of new automotive models and to localize production of safety airbags for a overseas client, which have resulted in drastic growth of sales income for the Group. The Group has also entered new research and development contracts for 28 new automotive models for which there were a few strategic valuable project.

Furthermore, strategies to produce spare parts locally and seamlessly and to setup joint ventures with automotive manufacturers have begun to take effect. The Group has started the localization of electronic control units for airbags during the year. Beijing Jinheng Great Idea Automotive Electronic Systems Company Limited ("Beijing Great Idea"), a wholly-owned subsidiary of the Group, has completed the development of four-way electronic control units and started small-quantity production at January 2007.

The Group has acquired the remaining 49% equity interest in Beijing Jinheng Segal Automotive Spare Parts Limited ("Jinheng Segal"). Core business of Jinheng Segal is the sales and manufacturing of steering wheels for automotives, which are inseparable parts of automotive safety systems. Steering wheels manufactured will be utilized mainly during the production process of the Group's products.

The Group has taken a major step forward towards further diversification of product range during the year by the additional of safety belts into the Group's product pool. The Group has completed the development of three-point safety belt products and has signed contracts for the development of three-point seat belts for four automotive models. The Group has begun the commercial sale of seat belts for one automotive model at January 2007.

In addition, the Group has acquired 30% equity interest of YanTai Vast Company Limited ("YanTai Vast") during the year. YanTai Vast is famous among automotive engine industry with its core business in manufacturing and sales of cylinder liners and automotive engine spare parts and is equipped with special technological know-how and well-developed sales and customer network.

The Group has also acquired 61.5% equity interest of 北京銳意泰克汽車電子有限公司 (“銳意泰克”). 銳意泰克 specializes in research and development, manufacturing and sales of engine management systems (EMS) for automotives. I believe the joining of YanTai Vast and 銳意泰克 into the Group will definitely help expansion of our product range and thus allowing us to grasp every opportunity that arise in the automotive market of PRC.

The Group has invested approximately RMB30 million in the renovation of testing facilities and offices of the Jinzhou Jinheng Automotive Safety System Co., Ltd. (“Jinheng Automotive”). All renovation work was completed by October 2006, which has resulted in drastic improvement in project development capacity.

With the expanded production capacity, local production of spare parts and diversification of product range, position of the Group as one of the major suppliers in the automotive safety airbag systems’ industry will be further strengthened.

Other than investment projects mentioned above, the Group has entered subscription agreement with four independent investors to issue convertible bonds with an aggregate principal amount of HK\$77 million. Directors of the Company believe this demonstrated the confidence and trust among investors towards the development potential and future prospects of the Group.

Outlook and Future Prospects

Annual production volume of automotives in PRC exceeded 7,200,000 units in 2006, representing a 26.1% increment as compared with the figure recorded in 2005. Among them, 3,840,000 units were sedan automotives, which was 31.5% more than the amount recorded in last year. Development of automotive industry in China remains rapid and stable. Characteristics of PRC automotive industry in 2006 were summarized as follows:

1. Market share of domestic brand passenger automotives has been rising steadily: 26.3% for sedan automotives, 99.7% for mini passenger automotives, 73.7% for 2-WD SUV automotives and 33.5% for 4-WD SUV automotives.
2. Domestic brand sedan automotives started to expand into the middle-high end product range with steady growth in brand recognition level.
3. Domestic brand products constituted a major part of exported automotives.
4. Aggregate production volume of domestic brand passenger automotives reached 2,100,000 units in 2006.

Directors believe that with the steady growth of PRC’s automotive industry, especially with the increasing market share of domestic brand products, the Group will see unprecedented opportunities for further development in the near future.

The Group will put more emphasis on its cost control strategies. Cost control plans will be executed in accordance with the Group's strategies at different stages. Supply chain management for all kinds of products will be further improved. Special cost control units will also be formed with an aim to maintain cost competitiveness of the Group's products.

The Group will focus on development of electronics products for automotives. On the other hand, the Group will also concentrate on supporting development of EMS market, which has already proven to be very effective with the Group already sold products to Chery Automobile Co., Ltd. and signed development contracts with Tianjin FAW Xiali Automobile Co., Ltd. and Hafei Motor Co., Ltd. Future prospect of the Group remains optimistic as a result of all the above.

The Group's future business will be divided into three main areas, namely, automotive safety systems, automotive electronics and engine spare parts. The future strategic development plan has just been completed. The Group will strive to advance in these three businesses and build a solid foundation for the Group's future development.

The Group will further strengthen areas of internal control, existing management capacities, internal audit and information dissemination. Effective performance evaluation system will also be exercised among all subordinate management teams with an aim to further improve management of the Group.

The Group will strengthen development of new technologies and new products at the automotive electronics arena so as to further expand its product range. More resources will be utilized to expand scopes of business of the Group.

The Group will recruit quality staff from abroad to improve the Group's management, technology know-how and quality as a whole in order to fit the demand from overseas clients. The Group will also focus on expanding its market to overseas countries so as to gradually become one of the major players in the international renowned automotive spare parts suppliers market.

Directors believe that the management team of the Group will maintain its practical, hard-working and trust-worthy style in the long-run, with an aim to improve the Group's core competence continuously and transform the Group into one of the best international automotive spare parts corporation with an edge in state-of-the-art automotive technologies.

Results of Operations

For the fiscal year ended 31 December 2006, the Group reported turnover of approximately HK\$352.5 million, representing an increase of approximately 80.2% from the fiscal year ended 31 December 2005. Sales of electronic airbag systems increased by 1.9 times to approximately HK\$218.2 million. Such substantial increase was mainly due to the launch of certain new models. During the year, 3 new customers have commenced the commercial sales and also 2 international brands started their localized production. Newly formed subsidiaries of the Group have started contributing tremendously to the Group. Such growth of turnover is expected to continue in the coming year.

The average gross profit margin of both mechanical and electronic airbag systems was 30.7% in 2006 owing to the difference in sales mix of mechanical and electronic airbag systems which was slightly decreased by 2.9%. The Group also offered a more competitive price to an internationally renowned automobile manufacturer in order to obtain the first order. Therefore the overall average gross profit margin for the current year was 28.2%, which was only 3.8% lower than last year.

The current year profit from operations was approximately HK\$57.4 million, representing an increase of approximately HK\$21.9 million or approximately 61.5% as compared to the fiscal year 2005. This was mainly resulted from the continuing improvement of turnover and the effective cost control management.

Other revenue increased by 3.5 times to approximately HK\$3.7 million in the fiscal year 2006. The reason for such increment was mainly due to the increase in interest income and testing income.

In 2006, more marketing activities were carried out in order to capture the opportunities offered by the fast growing automobile industry and follow the Group's strategy to explore more new customers in local and overseas market. Also Jinheng Segal was commenced operation in October 2005 and start running on the right track during the year. As a result, the distribution costs increased by HK\$3.7 million to approximately HK\$7.6 million as compared to the fiscal year 2005.

For the fiscal year 2006, the research and development expenses increased by approximately HK\$1.4 million to HK\$3.9 as compared with the last year. This was mainly due to the increased research and development activities.

Administrative expenses were approximately HK\$35.5 million for the fiscal 2006, representing an increase of approximately HK\$14.1 million in comparison with the previous year. Such increases were mainly contributed by the commencement of 2 new subsidiaries of the Group, Jinheng Segal and Shenyang Jinbei Jinheng Automotive Safety System Co., Ltd. ("Jinbei Jinheng"), after the third quarter of last year. Another 2 new subsidiaries, Beijing Great Idea and Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd. ("Jinheng Jinsida"), were newly formed during the current year.

The finance costs during the current year under review increased by approximately HK\$5.0 million to HK\$7.8 million. It was mainly contributed by the interest expenses incurred from the newly issued HK\$77 million convertible notes.

Share of profits of jointly controlled entities and associates were approximately HK\$3.7 million for the fiscal year 2006, which was increased from the losses of approximately HK\$0.3 million by 14.7 times for the fiscal year 2005. Such increase was resulted from the continuous improvement of Shanxi Jinheng Automotive Spare Parts Co., Ltd. ("Jinheng Parts"), a 35% owned jointly controlled entity of the Group and the contribution of YanTai Vast, a newly acquired 30% owned associate company.

The income tax expenses for the fiscal year 2006 increased to approximately HK\$5.5 million. This was due to Jinheng Automotive commenced its first year of 50% tax reduction benefit, while its income tax was fully exempted in last year.

Profit for the fiscal year of 2006 increased substantially by approximately 49% to approximately HK\$47.8 million in comparison with last year. Such increase was mainly due to the substantial increase in turnover and the contribution of subsidiaries and associates.

Liquidity, Financial Resources and Funding and Treasury Policy

As at 31 December 2006, the Group had bank and cash balances of approximately HK\$65.7 million (31 December 2005: approximately HK\$44.4 million) and net current assets of approximately HK\$133.8 million, which increased by HK\$15.0 million as compared with the last fiscal year. The increase was mainly due to the increase in trade receivables as sales of the last quarter increased by 1.54 times in comparison with the corresponding period in last year. Non-current assets were increased by 1.1 times to approximately HK\$247.1 million in 2006. Such increase was mainly because of the increase in investment in fixed assets and also the investment in joint ventures and associates.

As at 31 December 2006, the Group had non-current liabilities of approximately HK\$99.5 million for the expansion of the Group's production facilities and as investment reserves. It includes a long-term bank loan of approximately HK\$20.0 million (equivalent to RMB20.0 million) bears fixed interest rate of 5.47% per annum and is repayable on March 2008, and also a long-term bank loan of approximately HK\$4.0 million (equivalent to RMB4.0 million) bears fixed interest rate of 7.84% per annum and is repayable on July 2008. Furthermore, the Company has issued convertible notes to Value Partners Limited, Sagemore Assets Limited, Blue Water Ventures International Limited and Synergy Capital Co., Ltd. in the aggregate principal amount of HK\$77.0 million. Such convertible notes bears fixed interest 7% per annum and can be converted into conversion shares at initial conversion price HK\$0.90 per share.

The Group also had a current term loan of HK\$93.9 million, of which HK\$28.0 million (equivalent to RMB28.0 million) bears fixed interest rate of 5.58% per annum, HK\$12.0 million (equivalent to RMB12.0 million) bears fixed interest rate of 7.02% per annum, HK\$5.0 million (equivalent to RMB5.0 million) bears fixed interest rate of 6.12% per annum, HK\$10.0 million (equivalent to RMB10.0 million) bears fixed interest rate of 6.12% per annum, HK\$15.0 million (equivalent to RMB15.0 million) bears fixed interest rate of 6.12% per annum, HK\$12.0 million (equivalent to RMB12.0 million) bears fixed interest rate of 7.02% per annum and HK\$5.8 million (equivalent to RMB5.8 million) bears fixed interest rate of 7.61% per annum. There were also included HK\$6.1 million (equivalent to RMB6.1 million) discounted bills not yet matured at the year end date. These were primarily used in finance short-term cash flows for our PRC operations.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources, bank facilities and balance of proceeds from the issuance of convertible notes. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2006, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Charge on Group Assets

As at 31 December 2006, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK\$15.7 million for a bank loan of RMB21.8 million (equivalent to HK\$21.8 million).

In additions, discounted bills with recourse totalling HK\$6.1 million were secured by the related bills receivable and were repayable within one year.

Gearing Ratio

The Group's gearing ratio, which was derived from the total borrowings to total assets, increased to 55.2% from 33.3% in 2005.

Future Plans for Material Investments

Except for those set out in the "Subsequent Events" in this report, the Group had a contracted but not provided for capital expenditure commitments of approximately HK\$7.1 million in respect of acquisition of fixed assets as at 31 December 2006.

Material Acquisitions and Disposals

On 24 January 2006, pursuant to a subscription agreement dated 26 August 2005, a wholly owned subsidiary of the Company, Jinheng (Hong Kong) Limited, subscribed RMB5.0 million (equivalent to approximately HK\$4.8 million) to Jinbei Jinheng for 5.6% of the increased equity interest of Jinbei Jinheng. After the completion of this transaction, the total registered capital of Jinbei Jinheng may thereof increase to RMB27.0 million (equivalent to approximately HK\$26.0 million). The Group's ownership interest in Jinbei Jinheng increase from 50% to 55.6% effective on the same date.

On 15 October 2006, pursuant to the approval of the sales and purchase agreement dated 27 September 2006, the Group acquired the remaining 49% equity interest held by the minority interest of Jinheng Sega for a total consideration was RMB10.0 million (equivalent to HK\$9.8 million). As a result of the acquisition, the Group's equity interest in Jinheng Sega increased from 51% to 100% effective on the same date.

On 27 October 2006, pursuant to the approval of the sales and purchase agreement dated 27 September 2006, the Group acquired 100% equity interest in Jay Trumps International Limited (“Jay Trumps”) and 100% equity interest in Devon Fair Investments Limited (“Devon Fair”) (Subsequently renamed as Jinheng Engine Limited on October 2006). Furthermore, on 27 October 2006, pursuant to the approval of the sales and purchase agreement dated 27 September 2006, the Group acquired 33.33% equity interest in Tai Tong Investments Limited (“Tai Tong”). The aggregate consideration was HK\$27.2 million. Jay Trumps and Devon Fair are investment holding companies and their principal assets are their direct interest of 51% and 49% equity interest in Auto Full International Limited (“Auto Full”) respectively. Tai Tong is an investment companies and its principal asset is the direct interest of 100% equity interest in Harvest Full International Limited (“Harvest Full”). Auto Full and Harvest Full are investment holding companies and its principal asset are their direct interest of 20% and 30% equity interest in YanTai Vast respectively. YanTai Vast is engaged in manufacturing and selling of cylinder lines and spare parts of automobile engines in the PRC. As a result of the acquisition, the Group owned 30% equity interest in YanTai Vast.

Significant Investment

There was no significant investment during the year.

Contingent Liabilities

As at 31 December 2006, the directors of the Company were not aware of any material contingent liabilities.

Subsequent Events

No subsequent events occurred after 31 December 2006, which may have significant effects, on the assets and liabilities of future operations of the Group.

Foreign Exchange Exposure

Since almost all transactions of the Group are denominated either in Renminbi or Hong Kong dollars or US dollars and the exchange rates of such currencies were stable over the years under review, the Directors believe that such exposure does not have any significant adverse effect to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

Employees and Remuneration Policy

As at 31 December 2006, the Group employed approximately 976 staff in the PRC and Hong Kong, representing an increase of 409 staff from 31 December 2005. The increase in staff was mainly from the PRC operations. Accordingly, the Group’s remuneration to employees, including directors’ emoluments, increased by approximately HK\$8.1 million to approximately HK\$19.3 million for the current fiscal year.

The Group reviews employee remuneration from time to time and salary increment is normally approved annually or by special adjustment depending on length of services and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

Retirement Schemes

The Group maintains a mandatory provident fund (the “MPF Scheme”) for all qualifying employees in Hong Kong. The Group’s and employee’s contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employee (up to a cap of monthly relevant income of HK\$20,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the relevant local government authorities in Jinzhou, Harbin, Shenyang and Beijing, the PRC whereby the Group is required to make contributions to the Schemes at the rate ranging from 19% to 22% of the eligible employees’ salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

Capital Structure

The Company was listed on GEM of the Stock Exchange on 9 December 2004 through offering a total of 95,970,000 shares, in which 86,372,000 shares are placing shares and a public offering of 9,598,000 new shares. The 86,372,000 placing shares comprising 71,402,000 new shares and 14,970,000 sale shares. The net proceeds from this offering, after deduction for relevant expenses, is approximately HK\$80.5 million. On 29 March 2006, 4,560,000 share options were exercised to subscribe for 4,560,000 ordinary shares in the Company at a consideration of approximately HK\$1.7 million. On 15 January 2007, 4,560,000 share options were exercised to subscribe for 4,560,000 ordinary shares in the Company at a consideration of approximately HK\$1.7 million. Totally 9,120,000 new shares were issued resulted from these transactions. The total issued share capital of the Company becomes 390,120,000. Furthermore, on 26 May 2006 and 14 July 2006, convertible notes with nominal value of HK\$46 million, HK\$25 million, HK\$3 million and HK\$3 million respectively were issued to 4 independent investors. These convertible notes can be convertible into ordinary shares of the Company at an initial conversion price of HK\$0.90 per share on or after 26 November 2007 and 14 January 2008 respectively. The share capital of the Company comprises of ordinary shares.

Compliance Adviser’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.

VC Strategic Investments Limited, an associate of VC Capital Limited, was beneficially interested in 11% of the issued capital of Top Growth Assets Limited, and Top Growth Assets Limited was beneficially interested in 81.5% of the issued capital of WAG (Greater China) Limited. During the period between 1 January 2006 and 27 November 2006, WAG (Greater China) Limited was beneficially interested in 9,000,000 shares of the Company, On 27 November 2006, VC Strategic Investments Limited sold all its shares in Top Growth Assets Limited and ceased to have any interest in the Company.

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 December 2006.

Competing Interest

None of the directors or the 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 business of the Group.

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 year or any time during the year save and except for the agreements as stated in section headed "Connected transactions" in the Prospectus.

Adopted Code for Securities Transactions by Directors

During the year ended 31 December 2006, the Company has adopted the code set out in the Rules 5.46 to 5.68 of the GEM Listing Rules for securities transactions by Directors. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the adopted code regarding securities transactions by directors.

Independence of Independent Non-executive Directors

The Company has received from each independent non-executive Directors an annual confirmation for independence pursuant to Rule 5.09 of the GEM Listing Rules. The independent non-executive Directors have confirmed that they are independent.

Purchase, Sale or Redemption of Shares

Since the listing of the Company's shares on GEM on 9 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Code on Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (“Code on CG Practices”) throughout the year ended 31 December 2006.

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

The audit committee of the Company is primarily responsible for reviewing the financial reporting process, internal control system and the completeness of financial reports of the Company. The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong, with Mr. Chan Wai Dune as the chairman. During the year, the Company convened six meetings of the audit committee in compliance with GEM Listing Rules 5.28, 5.29 and 5.33. The audit committee of the Company, together with the senior management of the Company and external auditors, has reviewed the accounting principles and methods adopted by the Group and discussed, inter alia, matters relating to internal control and financial statements of the Company (i.e. quarterly, half-yearly and annual results) prepared in accordance with the generally accepted accounting principles of Hong Kong and has also made relevant recommendations.

COMPARISON OF THE BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In compliance with the GEM Listing Rules, the Company sets out below a summary of actual business progress as measured against the business objectives set out in the Prospectus for the period from 1 January 2006 to 31 December 2006 (the “Relevant Period”).

Business Objectives for the Relevant Period as stated in the Prospectus **Actual Business Progress**

Expansion of Production Capacity

- | | |
|--|--|
| <ul style="list-style-type: none">• Complete installation of production facilities for SAB modules of safety airbag systems | Installation of production facilities for SAB modules of safety airbag systems was completed and tested during the year |
| <ul style="list-style-type: none">• Complete installation of production facilities for seat belt pre-tension systems | Installation of major facilities had been in place |
| <ul style="list-style-type: none">• Install additional production facilities for textile airbags which are one of the spare parts of the airbag safety systems | Installation of circular cutting machine and additional sewing machines and assembly platforms for textile airbags was completed in 2006 |
| <ul style="list-style-type: none">• Install production facilities for smart airbag safety system | Production facilities for smart airbag safety system had been ordered |

Localization and self-production of key components

- | | |
|---|--|
| <ul style="list-style-type: none">• Conduct studies and install production facilities for trial production of seat belt pre-tensioner | The research and development works for the seat belt pre-tensioner in Jinbei Jinheng has commenced and major production facilities had been installed and tested |
|---|--|

Business Objectives for the Relevant Period as stated in the Prospectus (Continued) **Actual Business Progress**

Enhancement of research and development capability

- Recruit 2 technical expert for research and development The Group has recruited 2 technical experts for research and development
- Continue the research and development for the simulation system and software The Group has entered into an agreement with Jilin University in relation to the research and development of simulation system software, and the research of which has been duly commenced
- Commence the research and development for the smart airbag systems and the enhancement of curtain airbag systems The Group has duly commenced the research and development of research and development of the smart airbag systems and the enhancement of curtain airbag systems

Formulating strategic alliances

- Continue to identify joint venture partnership with major automobile manufacturers in the PRC The Group is undergoing formal communication to find a suitable automobile manufacturer
- Continue to identify strategic alliance with international suppliers of spare parts The Group has in depth discussed with the identified international suppliers of spare parts for strategic alliance
- Continue to identify joint venture partnership with major suppliers in the PRC The Group has entered a joint venture agreement in June 2006 with 2 PRC partners for the formation of a joint venture company engaged principally in the design, manufacturing and sale of automotive electronic parts

The Group has entered an acquisition agreement in September 2006 for the acquisition of the remaining equity interest of Jinheng Sega, which engaged principally in the manufacturing and sale of automotive spare parts

Application of Proceeds from Capital Raising

The Group raised approximately HK\$80.5 million from the issue of 81,000,000 new shares of the Company at HK\$1.18 per share in December 2004. The Company's shares were successfully listed on GEM with effect from 9 December 2004. Up to the date of this announcement, the Group has applied all the proceeds for the following purposes:

- (i) approximately HK\$19.3 million for the expansion of production capacity;
- (ii) approximately HK\$27.7 million for the localization and self-production of key components;
- (iii) approximately HK\$9.9 million for the enhancement of research and development capabilities;
- (iv) approximately HK\$17.7 million for formulating strategic alliances; and
- (v) approximately HK\$5.9 million as additional working capital of the group.

ANNUAL GENERAL MEETING

The annual general meeting of the shareholders of the Company will be held at the 33/F., 9 Queen's Road Central, Central, Hong Kong on Thursday, 21 June 2007 and the notice of annual general meeting will be published and despatched to the shareholders in the manner as required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Friday, 15 June 2007 to Wednesday, 20 June 2007, both days inclusive, during which period no transfer of shares will be effected. All share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Thursday, 14 June 2007.

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

Hong Kong, 13 March 2007

As at the date of this announcement, the Board comprises Mr. Li Feng, Mr. Xing Zhanwu, Mr. Zhao Qingjie, Mr. Yang Donglin, Mr. Foo Tin Chung, Victor as the executive Directors, Mr. Li Hong and Mr. Zeng Qingdong as the non-executive Directors, Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong as the independent non executive Directors.

This announcement will remain on the "Latest Company Announcements" page for at the GEM website at www.hkgem.com for at least 7 days from the day of its posting and on the website of the Company at www.jinhengairbag.com.