



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 2007**

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

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

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The Stock Exchange takes no responsibility for the contents of this announcement, 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 announcement.

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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) 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 2007 was approximately HK\$666.9 million, representing an increase of approximately HK\$314.4 million or 89.2% as compared to 2006.
- The attributable profit to equity shareholders of the Company was approximately HK\$66.6 million, representing 46.1% increment as compared with 2006. The increase was mainly the results of our previous investments in new markets and new products.
- Basic earnings per share is 16.42 HK cents (2006: 11.86 HK cents)
- The Directors recommended the payment of a final dividend of 3.6 HK cents per share for the year ended 31 December 2007 (2006: 3.5 HK cents)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007 \$	2006 \$
Turnover	4	666,947,593	352,541,854
Cost of sales		<u>(502,611,085)</u>	<u>(253,000,149)</u>
Gross profit		164,336,508	99,541,705
Other revenue	5	4,625,779	3,688,855
Other net income	6	6,132,233	1,248,878
Research and development expenses	7	(14,353,799)	(3,938,196)
Distribution costs		(19,691,312)	(7,616,919)
Administrative expenses		<u>(61,875,447)</u>	<u>(35,532,095)</u>
Profit from operations		79,173,962	57,392,228
Finance costs	9(a)	(17,917,455)	(7,774,742)
Share of profits of jointly controlled entities		4,096,079	2,728,827
Share of profits of associates		<u>1,172,169</u>	<u>951,286</u>
Profit before taxation	9	66,524,755	53,297,599
Income tax	10(a)	<u>(7,710,240)</u>	<u>(5,516,560)</u>
Profit for the year		<u>58,814,515</u>	<u>47,781,039</u>
Attributable to:			
Equity shareholders of the Company		66,630,845	45,608,257
Minority interests		<u>(7,816,330)</u>	<u>2,172,782</u>
Profit for the year		<u>58,814,515</u>	<u>47,781,039</u>
Dividends payable to equity shareholders of the Company attributable to the year	11(a)		
Final dividends proposed after the balance sheet date		<u>15,951,600</u>	<u>13,494,600</u>
Earnings per share			
- Basic	12(a)	<u>16.42 HK Cents</u>	<u>11.86 HK Cents</u>
- Diluted	12(b)	<u>14.69 HK Cents</u>	<u>11.27 HK Cents</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007 \$	2006 \$
Non-current assets			
Fixed assets			
- Property, plant and equipment		165,095,638	101,440,543
- Interests in leasehold land held for own use under operating leases		21,776,612	17,119,072
Deposits paid for acquisition of fixed assets		31,062,280	37,697,259
Construction in progress		22,151,684	17,901,153
Intangible assets		109,145,770	30,916,164
Goodwill		4,760,769	184,189
Interest in jointly controlled entities		67,433,218	13,099,491
Interest in associates		-	28,631,461
Other non-current financial assets		53,191	50,000
Deferred tax assets		25,667	24,127
		<u>421,504,829</u>	<u>247,063,459</u>
Current assets			
Inventories		108,251,301	78,687,811
Trade receivables, prepayments and other receivables	14	414,057,287	235,074,584
Loan receivable		20,000,000	-
Current tax recoverable		1,250,874	1,182,749
Pledged bank deposits		8,708,803	-
Cash and cash equivalents		56,156,196	65,734,351
		<u>608,424,461</u>	<u>380,679,495</u>
Current liabilities			
Trade and other payables	15	248,939,515	152,949,496
Bank loans		228,646,808	93,927,000
Other loans		20,903,298	-
		<u>498,489,621</u>	<u>246,876,496</u>
Net current assets		<u>109,934,840</u>	<u>133,802,999</u>
Total assets less current liabilities		<u>531,439,669</u>	<u>380,866,458</u>
Non-current liabilities			
Bank loans		-	24,000,000
Convertible notes		68,299,757	71,254,320
Deferred tax liabilities		18,039,341	4,290,784
		<u>86,339,098</u>	<u>99,545,104</u>
NET ASSETS		<u>445,100,571</u>	<u>281,321,354</u>
Capital and reserves			
Share capital	16	4,301,200	3,855,600
Reserves		387,946,329	247,067,839
Total equity attributable to equity shareholders of the Company	16	392,247,529	250,923,439
Minority interests	16	52,853,042	30,397,915
TOTAL EQUITY		<u>445,100,571</u>	<u>281,321,354</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007		2006	
		\$	\$	\$	\$
Total equity at 1 January			281,321,354		209,986,929
Net income recognized directly in equity					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	16		22,329,826		8,271,768
Profit for the year			<u>58,814,515</u>		<u>47,781,039</u>
Total recognized income and expense for the year			81,144,341		56,052,807
Attributable to:					
- Equity shareholders of the Company		85,640,355		53,067,771	
- Minority interests		<u>(4,496,014)</u>		<u>2,985,036</u>	
		81,144,341		56,052,807	
Dividends approved during the year	11(b)		<u>(13,654,200)</u>		<u>(12,723,480)</u>
Movements in equity arising from capital transactions					
Equity settled share-based transactions	16	6,020,000		2,282,000	
Equity component of convertible notes	16	-		5,076,618	
Capital contribution from minority shareholders	16	10,425,532		13,534,000	
Acquisition of additional equity interest in a subsidiary	16	-		(7,989,217)	
Acquisition of subsidiaries	16	16,525,609		13,368,897	
Shares issued under share option scheme	16	1,732,800		1,732,800	
Shares issued under placement, net of issuance costs	16	<u>61,585,135</u>		<u>-</u>	
			96,289,076		28,005,098
Total equity at 31 December			445,100,571		281,321,354

Notes:

(Expressed in Hong Kong dollars)

1. Review of annual results

The annual results have been reviewed by the Audit Committee.

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. Changes in accounting policies

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7 “Financial instruments: Disclosures” and the amendment to Hong Kong Accounting Standards (“HKAS”) 1 “Presentation of financial statements: Capital disclosures”, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group’s financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32 “Financial instruments: Disclosure and presentation”.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group’s and the Company’s objectives, policies and processes for managing capital.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period).

4. Turnover

The principal activities of the Group are production and sales of automotive safety products and other automotive components in the Peoples Republic of China (“PRC”).

Turnover represents the sales value of goods to customers net of sales tax and value added tax.

Turnover recognised during the year may be analysed as follows:

	2007 \$	2006 \$
Sales of mechanical airbag systems	114,782,362	82,409,345
Sales of electronic airbag systems	383,135,563	218,198,005
Sales of automotive safety system components and other automotive components	<u>169,029,668</u>	<u>51,934,504</u>
	<u>666,947,593</u>	<u>352,541,854</u>

5. Other revenue

	2007 \$	2006 \$
Subsidy income	2,536,412	1,291,176
Interest income	1,326,799	1,560,482
Experiment fee	245,065	722,946
Sundry Income	517,503	114,251
	<u>4,625,779</u>	<u>3,688,855</u>

Subsidy income represents the non-recurring cash subsidies received from the municipal government authorities by subsidiaries of the Group for general business purpose during the year ended 31 December 2006 and 2007.

6. Other net income

	2007 \$	2006 \$
Net foreign exchange gain	1,876,875	1,369,727
Net unrealised gain on derivative components of convertible notes carried at fair value	4,452,515	-
Loss on disposal of fixed assets	(255,590)	(721,439)
Negative goodwill	-	600,590
Others	58,433	-
	<u>6,132,233</u>	<u>1,248,878</u>

7. Research and development expenses

	2007 \$	2006 \$
Research and development costs incurred during the year	37,101,143	16,929,170
Less: Development costs capitalised during the year	(22,747,344)	(12,990,974)
Amount charged to consolidated income statement	<u>14,353,799</u>	<u>3,938,196</u>

8. Staff costs

	2007 \$	2006 \$
Salaries, wages and bonuses	36,985,735	14,559,933
Equity settled share-based payment expenses	6,020,000	2,282,000
Staff welfare	4,176,237	1,894,372
Contributions to retirement benefit schemes	2,078,047	597,245
	<u>49,260,019</u>	<u>19,333,550</u>

9. Profit before taxation

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

(a) Finance costs:

	2007 \$	2006 \$
Interest expense on bank advances wholly repayable within five years	9,147,249	4,586,182
Interest expense on convertible notes	6,887,952	3,509,530
Interest expense on other loans	1,487,837	-
Discounting charges on discounted bills	1,237,097	384,013
	<u>18,760,135</u>	<u>8,479,725</u>
Less: borrowing costs capitalised into properties under development #	(842,680)	(704,983)
	<u><u>17,917,455</u></u>	<u><u>7,774,742</u></u>

The borrowing costs have been capitalised at a rate of 6.7% per annum (2006: 6.2% per annum)

(b) Other items:

	2007 \$	2006 \$
Depreciation	16,187,872	9,384,206
Auditors' remuneration	1,823,299	1,328,529
Amortisation of land lease premium	689,537	510,984
Impairment losses for bad and doubtful debts	3,881,779	487,063
Amortisation of intangible assets		
- Acquired technology	2,253,094	1,043,065
- Development costs	11,790,559	8,334,127
- Patents	2,834,114	2,386
Royalty expenses	557,506	646,485
	<u><u>557,506</u></u>	<u><u>646,485</u></u>

10. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2007 \$	2006 \$
Current tax		
PRC income tax for the year	7,702,478	3,052,314
Deferred tax		
Origination and reversal of temporary differences	<u>7,762</u>	<u>2,464,246</u>
Total income tax expense	<u><u>7,710,240</u></u>	<u><u>5,516,560</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 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.

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the Group is calculated based on the following rates:

	<i>Note</i>	2007	2006
Jinzhou Jinheng Automotive Safety System Co., Limited (“Jinheng Automotive”)	(i)	13.5%	13.5%
Shenyang Jinbei Automotive Safety System Co., Limited (“Jinbei Jinheng”)	(i)	0%	15%
Harbin Hafei Jinheng Automotive Safety System Co., Limited (“Hafei Jinheng”)		33%	33%
Beijing Jinheng Sega Automotive Spare Parts Limited (“Jinheng Sega”)		33%	33%
Shenyang Jinheng Jinsida Automotive Electronic Co., Limited (“Jinheng Jinsida”)		15%	15%
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Limited (“Beijing Great Idea”)		15%	15%
Tianjian AMT Engine System Co., Limited (“Tianjian AMT”)		33%	N/A
Troitec Automotive Electronics Co., Ltd. (“Troitec”)		33%	N/A
Beijing Sheng Shi Tai Fu Automotive Electronic Co., Ltd. (“Sheng Shi Tai Fu”)		33%	N/A

Note:

- (i) These subsidiaries are entitled to a tax concession period in which they are fully exempted from PRC income tax for 2 year starting from their first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years. Jinheng Automotive and Jinbei Jinheng are in the fourth year and first year following their first profit-making year, respectively.

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

	2007 \$	2006 \$
Profit before tax	<u>66,524,755</u>	<u>53,297,599</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	19,053,915	16,376,803
Tax effect of non-deductible expenses	6,583,824	4,085,900
Tax effect of non-taxable revenue	(3,308,357)	(1,106,999)
Tax effect of tax concessions	(16,406,475)	(9,962,206)
Tax effect of unused tax losses not recognised	6,975,056	-
Tax credit	<u>(5,187,723)</u>	<u>(3,876,938)</u>
Tax expense	<u>7,710,240</u>	<u>5,516,560</u>

Pursuant to the relevant rules and regulations in the PRC, Jinheng Automotive is entitled to a tax credit in relation to the purchase of domestic fixed assets in the PRC. The tax credit represents 40% on amount of fixed assets purchased in the PRC in 2007 (2006: 40% on amount of fixed assets purchased in the PRC from 2004 to 2006).

(c) New tax law of the PRC

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which would become effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law ("the Implementation Rules").

According to the New Tax Law, from 1 January 2008, the standard corporate income tax rates for enterprises in the PRC will be reduced from 33% to 25%. However, an "encouraged hi-tech enterprise" will continue to be entitled to a reduced corporate income tax rate of 15%. The detailed application of the newly introduced preferential tax policies have yet to be made public.

Under the New Tax Law being effective from 1 January 2008 and in accordance with "Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax" (Guo Fa [2007] No.39) promulgated by the State Council on 26 December 2007, an entity established before 16 March 2007 that was entitled to preferential tax treatment prior to the New Tax Law will be subject to a transitional tax rate beginning in period 2008 ("Transitional Tax Rate") before the new corporate income tax rate of 25% applies. For companies currently enjoying a reduced tax rate of 15%, the Transitional Tax Rate is 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 onwards respectively. The tax rate will transit to the standard tax rate of 25% for entities with current tax rate of 24% effective from 1 January 2008.

Any unutilised tax holidays can continue until expiry while tax holidays will be deemed to start from 1 January 2008, even if the company is not yet turning to a profit. Jinheng Automotive and Jinbei Jinheng are currently under tax holidays. Jinheng Jinsida, Beijing Great Idea and Troitec are currently under losses status and are forcibly to commence the tax holidays on 1 January 2008.

The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable. The deferred tax assets/liabilities of subsidiaries in the PRC are measured using enacted tax rates expected to apply to taxable income, based on the Transitional Tax Rate, in the years in which those temporary differences are expected to be recovered or settled.

Under the New Tax Law, a withholding tax may be applied on the gross amount of dividends received by the Company from its PRC subsidiaries after 1 January 2008. The Implementation Rules provides for the withholding tax rate to be at 10% unless reduced by treaty.

11. Dividends

(a) Dividends attributable to the year

	2007 \$	2006 \$
Final dividend proposed after the balance sheet date of 3.6 HK cents per share (2006: 3.5 HK cents per share)	<u>15,951,600</u>	<u>13,494,600</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

	2007 \$	2006 \$
Final dividend proposed after the balance sheet date of 3.5 HK cents per share (2006: 3.3 HK cents per share)	<u>13,654,200</u>	<u>12,723,480</u>

12. 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 \$66,630,845 (2006: \$45,608,257) and the weighted average of 405,835,507 (2006: 384,473,096) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	Number of shares	
	2007	2006
Issued ordinary shares at 1 January	385,560,000	381,000,000
Effect of shares issued under placement	15,890,411	-
Effect on share options exercised	<u>4,385,096</u>	<u>3,473,096</u>
Weighted average number of ordinary shares (basic) at 31 December	<u><u>405,835,507</u></u>	<u><u>384,473,096</u></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 \$73,518,797 (2006: \$49,117,787) and the weighted average number of ordinary shares of 500,546,777 (2006: 435,916,762) ordinary shares, calculated as follows:

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

	2007	2006
	\$	\$
Profit attributable to ordinary equity shareholders	66,630,845	45,608,257
After tax effect of effective interest on the liability component of convertible notes	<u>6,887,952</u>	<u>3,509,530</u>
Profit attributable to ordinary equity shareholders (diluted)	<u><u>73,518,797</u></u>	<u><u>49,117,787</u></u>

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

	Number of shares	
	2007	2006
Weighted average number of ordinary shares at 31 December	405,835,507	384,473,096
Effect of conversion of convertible notes	85,555,556	46,943,683
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	<u>9,155,714</u>	<u>4,499,983</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>500,546,777</u></u>	<u><u>435,916,762</u></u>

13. 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 related 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:

	2007 \$	2006 \$
PRC	603,616,238	317,115,257
Italy	47,748,675	7,628,108
Malaysia	45,580	26,652,245
Others	15,537,100	1,146,244
	<u>666,947,593</u>	<u>352,541,854</u>

14. Trade receivables, prepayments and other receivables

	2007 \$	2006 \$
Trade receivables	308,621,424	175,018,551
Less: allowance for doubtful debts	<u>(4,572,141)</u>	<u>(690,362)</u>
	304,049,283	174,328,189
Bills receivable	<u>70,215,523</u>	<u>35,906,894</u>
	374,264,806	210,235,083
Prepayments	9,504,006	12,924,237
Other receivables	<u>30,288,475</u>	<u>11,915,264</u>
	<u>414,057,287</u>	<u>235,074,584</u>

Included in trade receivables are amounts due from related companies of \$28,586,571 (2006: \$22,628,728).

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

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

Included in trade receivables, prepayment and other receivables are ageing analysis of trade receivables and bills receivable (net of impairment losses for bad and doubtful debts, with the following ageing analysis as of the balance sheet date):

	2007	2006
	\$	\$
Current	230,695,703	205,762,456
1 to 3 months overdue	102,468,401	3,856,878
More than 3 months overdue but less than 12 months overdue	41,100,702	615,749
	<u>374,264,806</u>	<u>210,235,083</u>

The Group generally grants a 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.

15. Trade and other payables

	2007	2006
	\$	\$
Trade payables	162,874,636	108,596,664
Bills payable	24,795,489	-
	<u>187,670,125</u>	<u>108,596,664</u>
Other payables	61,269,390	44,352,832
	<u>248,939,515</u>	<u>152,949,496</u>

Included in trade payables is amount due to related parties of \$29,354,286 (2006: \$25,614,610).

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

An ageing analysis of trade payables and bills payable is as follows:

	2007	2006
	\$	\$
Within 3 months	153,522,220	80,938,618
Over 3 months but less than 6 months	33,934,379	27,658,046
Over 6 months but less than 12 months	213,526	-
	<u>187,670,125</u>	<u>108,596,664</u>

16. Capital and reserves

	Attributable to equity shareholders of the Company										Total
	Share Capital	Share Premium	Merger reserve	Statutory reserves	Capital reserve	Exchange reserve	Other reserve	Retained profits	Sub-total	Minority interests	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
At 1 January 2006	3,810,000	80,168,124	36,341,236	18,924,272	9,545,757	2,357,650	-	48,199,626	199,346,665	10,640,264	209,986,929
Equity settled share-based transactions	-	-	-	-	2,282,000	-	-	-	2,282,000	-	2,282,000
Dividends 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	-	-	-	7,605,333	-	-	-	(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	45,600	5,279,600	-	-	(3,592,400)	-	-	-	1,732,800	-	1,732,800
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 a subsidiary	-	-	-	-	-	-	1,330,060	-	1,330,060	12,038,837	13,368,897
At 31 December 2006	3,855,600	85,447,724	36,341,236	26,529,605	13,311,975	9,817,164	2,141,065	73,479,070	250,923,439	30,397,915	281,321,354
At 1 January 2007	3,855,600	85,447,724	36,341,236	26,529,605	13,311,975	9,817,164	2,141,065	73,479,070	250,923,439	30,397,915	281,321,354
Equity settled share-based transactions	-	-	-	-	6,020,000	-	-	-	6,020,000	-	6,020,000
Dividends approved in respect of prior years	-	-	-	-	-	-	-	(13,654,200)	(13,654,200)	-	(13,654,200)
Profit for the year	-	-	-	-	-	-	-	66,630,845	66,630,845	(7,816,330)	58,814,515
Appropriations to statutory reserves	-	-	-	6,207,538	-	-	-	(6,207,538)	-	-	-
Exchange differences arising on translation of accounts of subsidiaries outside Hong Kong	-	-	-	-	-	19,009,510	-	-	19,009,510	3,320,316	22,329,826
Shares issued under share option scheme	45,600	5,279,600	-	-	(3,592,400)	-	-	-	1,732,800	-	1,732,800
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	10,425,532	10,425,532
Shares issued under placement, net of issuance costs	400,000	61,185,135	-	-	-	-	-	-	61,585,135	-	61,585,135
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	16,525,609	16,525,609
At 31 December 2007	4,301,200	151,912,459	36,341,236	32,737,143	15,739,575	28,826,674	2,141,065	120,248,177	392,247,529	52,853,042	445,100,571

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 automobiles.

On behalf of the board of Director, I am pleased to announce that the Group made excellent in 2 consecutive years, in which the turnover amount and the profit attributable to the equity shareholders of the Company increased more than 80% and 40% respectively in each year. The turnover of 2007 increased by 89.2% to HK\$666.9 million as compared with the same period of last year, and the profit attributable to the equity shareholders of the Company for this year is approximately HK\$66.6 million, which is increased by 46.1%. Such encouraging results were mainly derived from the gradual contribution of the Group's investment in the production of airbag safety system and its components in the past few years, and also the effort in developing the local and overseas markets. During this year, the Group's commenced to supply airbag safety systems to a few new automobile models, and the oversea market business has continuously recorded remarkable growth. The Group also signed over 20 new development agreements for the airbag safety systems of new automobile models and are expected to provide contributions to the Group in the coming future.

In 2007, the Group was continued to expand our product pool. During the first quarter the Group completed the acquisition of Troitec Automotive Electronics Co., Ltd. ("Troitec") and then effectively held 31.5% of its equity interest. Troitec is principally engaged in research and development, manufacture and sale of engine management system used in automobiles. It has already commenced to provide contribution to the Group. Moreover, in December the Group has also completed the acquisition of 20% additional equity interest of YanTai Vast Co., Ltd. ("YanTai Vast"). It is currently engaged in manufacture and sale of liner cylinders and automobile engine spare parts, and it is expected to launch new pistons products in 2008.

Furthermore, the Group has completed a few self-development projects, including the pre-tension seat belts, curtain airbag systems and eight-way electronic control units during the year. It is expected that these new products will be launched in 2008 and thus will expand the Group's automotive safety products markets and capture the business opportunities brought by the increasing awareness of automobile safety from general people.

In order to deal with the heavier research and developments works resulted from the increasing new car orders, the Group is expanding the experiment facilities in Jinzhou and the new slope trial system has been completed at the year end. These will enhance the Group's research and development capacities and increase our competitiveness.

During the year, the Company was rewarded as an outstanding China enterprise by a renowned Hong Kong publication again. Also the Company was being chosen as one of the Hong Kong outstanding enterprises by another renowned Hong Kong publication. These prove that after our efforts in carrying out the business strategies in the past years, the Group has expanded its business scope and its results have been recognised in various aspects.

During the year, the Company placed 40,000,000 shares to a few professional investors by the way of top-up placing. This secured more resources to finance the future development of the business scope of the Group in order to capture the large business opportunities of PRC and overseas markets and confront the challenges emerged by the fact that foreign suppliers enter into PRC's automotive spare parts markets, and maintain its position as the largest automotive safety airbag system manufacturer in the PRC.

Outlook and Future Prospects

To carry on our development efforts made in the past, we have finished the groundwork for the Group to enter into another period of sustained development. The Group will continue to develop the airbag business, and step up its efforts in the development of the PRC proprietary automobile market. Products of the PRC proprietary automobile market have gradually developed from low and middle end cars to middle and high end sedans, we shall also develop by following this direction closely to raise market

share and consolidate our leading position in the market.

Notwithstanding the impact of macro-economic control policies on the development of the automobile industry, the Group firmly believes that with increasing concern about automobile safety on the part of car users, the penetration rate of the Group's products will increase correspondingly. The Group will reinforce the development of overseas markets at the same time. During the period under review, we have visited automobile manufacturers in many developing countries, entered into negotiations with them, and arranged survey tours to the Group's production bases for them to study the business. It is expected that more overseas customers will be brought in as business partners of the Group in the near future.

There will also be major developments in the Group's automobile electronic business. In 2007, the Group has completed consolidation of its business structure and the acquisition of equity stake in Troitec. The product of Troitec's core business, engine management system ("EMS"), has commenced sales in large quantity. Despite the volume of sales is small at present, it has entered into EMS development agreements for more than 20 automobile models, which proved that the demand for domestically developed EMS by the China automobile industry is great. Therefore the Group is very optimistic about the prospect of the EMS business, we firmly believe that the EMS business will provide large contributions to the Group in the coming few years.

Besides the EMS business, the Group will also positively develop other advanced automobile safety products and active automobile safety system. The Group has successfully researched and developed a pre-tension safety belt system, which has passed testing and is now at the stage of small quantity production. The research and development of nighttime vision system has also been successful, we are now at the preparation stage for commercial production. It is expected that trial production can be commenced soon, which will bring contribution to the Group.

At the same time of doing the business refinement plan, the Group will continue to introduce more strategic partners to strengthen the Group's business foundations and reinforce the our competitiveness in order to capture the business opportunities brought by the PRC and overseas markets.

Looking into the future, the automobile business will open a new page for the future development of the Group. It is expected that the automobile electronic business will develop rapidly at the end of 2008 or from 2009, bringing immense business opportunity to the Group.

Results of Operations

For the fiscal year ended 31 December 2007, the Group reported turnover of approximately HK\$666.9 million, representing an increase of approximately 89.2% from the fiscal year ended 31 December 2006. During the year, the commercial production of several new models of airbag system have commenced, and our export business has recorded continuous growth. Furthermore, the subsidiary acquired during the year started making positive contributions to the Group. All of these factors lead to the substantial growth of turnover in 2007, and it is expected to maintain such healthy growth in the coming years.

The average gross profit margin of the Group for the year 2007 is approximately 24.6%, which is slightly lower than last year by 3.6%. The decrease was mainly due to the expansion in sales of automotive safety airbag bodies and other automotive spare parts by 2.25 times as compared to the fiscal year 2006. Spare parts normally command a lower profit margin than airbag systems, which resulted in the decrease in gross profit margin in 2007.

The profits from operation for the year were approximately HK\$79.2 million, which is HK\$21.8 million higher as compared with last year. Such substantial increment was mainly due to the continuous growth in turnover and the effect of production localization.

The selling and distribution expenses for the year ended 31 December 2007 increased by HK\$12.1 million to HK\$19.7 million as compared to last year. This is mainly because the Group has put more effort in exploring overseas markets in 2007 and the overall turnover of the Group increased significantly by approximately HK\$314.4 million.

For the fiscal year 2007, the research and development expenses were approximately HK\$14.4 million, while it was only approximately HK\$3.9 million in last year. The increment was mainly come from our

automotive electronic products, which was in the initial stage and required to invest for developing our new safety and electronic products.

Administrative expenses for the fiscal year 2007 increased by approximately HK\$26.3 million to HK\$61.9 million as compared with the fiscal year 2006. Such increase was mainly contributed by the newly acquired subsidiary, Troitec, in the first quarter of 2007. Also Jinheng Automotive has enlarged its scale to cope with the substantial growth of automotive airbag business during the year and the coming future and resulted in increase in administrative expenses in 2007.

The finance costs increased by approximately HK\$10.1 million to HK\$17.9 million. It was mainly contributed by the full year effect of interest expenses incurred for the HK\$77 million convertible notes issued in May and July last year, and the increase in short-term loans used to finance our rapid business development in 2007.

For the year ended 31 December 2007, profit attributable to the equity shareholders of the Company were substantially increased by approximately HK\$21.0 million to approximately HK\$66.6 million as compared with last year. This encouraging performance was the results of our previous investments in new markets and new products.

Liquidity, Financial Resources and Funding and Treasury Policy

As at 31 December 2007, the Group had bank and cash balances of approximately HK\$56.2 million (31 December 2006: approximately HK\$65.7 million) and net current assets of approximately HK\$109.9 million, which decreased by HK\$23.9 million as compared with the last fiscal year. The decrease was mainly due to the increase in investment in fixed assets, and investment in subsidiaries and jointly controlled entity. As a result of the increase in investing activities, the total non-current assets of the Group increased by 70.6% to approximately HK\$421.5 million in the current year.

As at 31 December 2007, the Group had non-current liabilities of approximately HK\$86.3 million for the expansion of the Group's production facilities and as investment reserves. Included in non-current liabilities were two convertible notes issued in 2006 with an aggregate principal amount of HK\$77.0 million. The convertible notes bear fixed interest at 7% per annum and can be converted into conversion shares at initial conversion price HK\$0.90 per share.

The Group also had short-term bank loans of HK\$228.6 million which include bank loans with aggregate amount of HK\$210.2 million (equivalent to RMB197.6 million) bear fixed interest rates ranging from 5.47% to 8.31% per annum, and discounted bills of HK\$18.4 million (equivalent to RMB17.3 million) which are not yet matured at the year end date. The short-term bank loans 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 2007, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Charge of Group Assets

As at 31 December 2007, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK\$15.1 million for a bank loan of HK\$10.5 million (equivalent to RMB9.9 million).

In additions, discounted bills with recourse totaling HK\$18.4 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 liabilities to total assets, increased to 56.8% from 55.2% in 2006.

Future Plans for Material Investments

Except for those set out in the "Subsequent Events" in this report, the Group had an authorized but not contracted for capital expenditure commitments of approximately HK\$4.9 million in respect of acquisition of fixed assets as at 31 December 2007.

Material Acquisitions and Disposals

On 30 March 2007, pursuant to the approval of the acquisition agreement and the loan agreement dated 17 November 2006, the Group acquired 51.2% equity interest of Honest Bright Group Limited ("Honest Bright") which obtained 61.5% equity interest of Troitec under these agreements. Honest Bright is an investment holding company and its principal assets are its direct interest of 100% equity interest in Properline Investments Limited ("Properline") and Sure Lucky Investments Limited ("Sure Lucky"). Properline and Sure Lucky are investment holding companies and their principal assets are their direct interest of 31.5% and 30% equity interest in Troitec respectively. Troitec is engaged in production and selling of engine management system used in automobiles in PRC. As a result of the acquisition, the Group owns 31.5% effective interest in Troitec.

On 27 December 2007, pursuant to the approval of the sales and purchase agreement dated 24 November 2007, the Group acquired 66.67% equity interest in Tai Tong Investments Limited ("Tai Tong"). As a result of the acquisition, the Group's equity interest in Tai Tong increased from 33.3% to 100% effective on the same date. Tai Tong is an investment holding company and its principal assets are its direct interest of 100% equity interest in Harvest Full International Limited ("Harvest Full"). Harvest Full is an investment holding company and its principal assets are its direct interest of 30% equity interest in YanTai Vast. YanTai Vast is engaged in production and selling of cylinder liners and spare parts of automobile engines in the PRC. As a result of the transaction, the Group's equity interest in YanTai Vast increased from 30% to 50%.

Significant Investment

There was no significant investment during the year.

Contingent Liabilities

As at 31 December 2007, the directors of the Company were not aware of any material contingent liabilities.

Subsequent Events

On 18 February 2008, pursuant to the acquisition agreement dated 24 November 2007 and approved in the extraordinary general meeting held on 2 January 2008, the Group acquired 100% equity interest of Winner Investment Limited with the consideration of issuing 10,700,000 shares of the Company to the vendors. Winner Investment Limited is an investment holding company and its principal assets are its direct interest of 25% equity interest in Shanxi Winner Auto-Parts Co., Ltd. ("Shanxi Winner"). Shanxi Winner is engaged in production and sales of inflators and other related spare parts of automotive safety airbag system and other automotive spare parts. As a result of the acquisition, the Group's equity interest in Shanxi Winner increased from 35% to 60%.

Foreign Exchange Exposure

Since almost all transactions of the Group are denominated either in Renminbi, Hong Kong dollars or US dollars and the exchange rates of such currencies were predictably 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 2007, the Group employed approximately 1,655 staff in the PRC and Hong Kong, representing an increase of 679 staff from 31 December 2006. The increase in staff was mainly from the PRC operations. Accordingly, the Group's remuneration to employees, including directors' emoluments, increased by approximately HK\$29.9 million to approximately HK\$49.3 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, Beijing and Tianjian, 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. On 16 January 2008, 2,280,000 share option were exercised to subscribe for 2,280,000 ordinary shares, in the Company at a consideration of approximately HK\$0.9 million.

On 7 August 2007, 40,000,000 ordinary shares of the Company were issued pursuant to the top-up placing of shares to not less than six investors. On 18 February 2008, 10,700,000 ordinary shares of the Company were issued as the consideration for the acquisition of Winner Investment Limited.

Totally 62,100,000 new shares were issued resulted from these transactions. The total issued share capital of the Company becomes 443,100,000 as of the date of this report.

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.

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 2007, 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 Independence 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 emphasis 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 2007

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.

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 Friday, 23 May 2008 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 Tuesday, 20 May 2008 to Thursday, 22 May 2008, 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 Room 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Monday, 19 May 2008.

By order of the Board
**JINHENG AUTOMOTIVE SAFETY
TECHNOLOGY HOLDINGS LIMITED**
Li Feng
Chairman

Hong Kong, 5 March 2008

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 who are executive Directors, Mr. Li Hong and Mr. Zeng Qingdong who are non-executive Directors and Mr. Chan Wai Dune, Mr. Huang Shilin and Mr. Zhu Tong who are independent non-executive Directors.

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