

# Directors' Report<sup>■</sup>

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December, 2006.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while its subsidiaries are engaged in manufacturing, processing, developing and sales of exterior automobile body parts and moulds of passenger cars.

## RESULTS

The results of the Group for the year ended 31 December, 2006 are set out in the consolidated income statement on page 40.

## APPROPRIATIONS

The directors recommend the payment of a final dividend of HKD0.097 per share for the year ended 31 December, 2006 to the shareholders on the register of members on 8 May, 2007, amounting to HKD80,510,000.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately RMB160 million for the acquisition of property, plant and equipment which mainly comprised of building and plant and machinery. Details of these and other movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

## SHARE CAPITAL AND RESERVES

During the year ended 31 December, 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Movements in the reserves of the Group and the Company during the year are set out on page 42 of the annual report.

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB773 million as at 31 December, 2006. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Article of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

## DEBENTURES

During the year, the Company did not issue any debenture.

## FINANCIAL SUMMARY

A summary of the results of the assets and liabilities of the Group for the last five financial years is set out on page 5. The results do not constitute a part of the audited financial statements.

## MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December, 2006, the largest customer accounted for approximately 19.4% of the Group's revenue, and the five largest customers accounted for approximately 48.9% of the Group's revenue.

The purchases for the year ended 31 December, 2006 attributable to the Group's largest supplier and five largest suppliers were approximately 8.2% and 25.6% of the Group's total cost of goods sold respectively.

None of the Directors, their respective associates or the existing shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital), has any interests in the Group's five largest suppliers and/or customers for the year ended 31 December, 2006.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

### Executive Directors:

|                        |  |
|------------------------|--|
| Chin Jong Hwa          | (appointed on 14 July, 2005)                                       |
| Shi Jian Hui           | (appointed on 14 July, 2005)                                       |
| Mu Wei Zhong           | (appointed on 14 July, 2005)                                       |
| Chin Jung Huang        | (appointed on 14 July, 2005)                                       |
| Liang Current Tien Tzu | (appointed on 22 October, 2005 and resigned on 22 December, 2006 ) |
| Zhao Feng              | (appointed on 22 December, 2006)                                   |

### Non-executive Director:

|                     |                              |
|---------------------|------------------------------|
| Shaw Sun Kan Gordon | (appointed on 15 July, 2005) |
|---------------------|------------------------------|

### Independent Non-executive Directors:

|                |   |
|----------------|---|
| Heng Kwoo Seng | (appointed on 26 October, 2005 and renominated on 1 December, 2006) |
| Wang Ching     | (appointed on 26 October, 2005 and renominated on 1 December, 2006) |
| Zhang Liren    | (appointed on 26 October, 2005 and renominated on 1 December, 2006) |

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In accordance with Article 86 of the Company's Articles of Association, Zhao Feng will retire from office and, being eligible, offer himself for re-election at the forthcoming Annual General Meeting.

In accordance with Article 87 of the Company's Articles of Association, Heng Kwo Seng, Wang Ching and Zhang Liren will retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

### **DIRECTORS' SERVICE CONTRACTS**

Zhao Feng, an Executive Director proposed for re-election at the forthcoming Annual General Meeting has entered into a service contract with the Company for an initial fixed term expiring on 14 July, 2008 and will continue thereafter until terminated by not less than three months' notice in writing served by either party.

Save as disclosed above, none of the Directors proposed for re-election at the forth coming Annual General Meeting has entered into a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### **APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

Each of the Independent Directors was nominated on 26 October, 2005 for a fixed term of one year and was renominated on 1 December, 2006.

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the Independent Non-executive Directors are independent.

### **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Brief biographical details of the Directors and senior management are set out on pages 18 to 21.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December, 2006, the interests and short positions of the Directors and the Chief Executives in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

### Interests or short positions in the shares of the Company and its associated corporations

| Name of Director | Company/<br>Name of<br>Associated<br>Corporation | Long/Short<br>position | Nature of Interest                                    | Total<br>Number<br>of Shares | Percentage<br>of the<br>Company's<br>Issued Share<br>Capital |
|------------------|--|------------------------|---|------------------------------|--|
| Chin Jong Hwa    | Company  | Long position          | Interest of controlled<br>corporation ( <i>Note</i> ) | 480,000,000                  | 57.83%   |

*Note:* The 480,000,000 Shares are held by Linkfair Investments Limited ("Linkfair") (as to 426,000,000 Shares) and Acemind Industrial Limited ("Acemind") (as to 54,000,000 Shares). Linkfair is wholly-owned by Chin Jong Hwa and he is therefore deemed to be interested in all the 426,000,000 Shares held by Linkfair. Chin Jong Hwa controls more than one third of the voting power of Acemind. Chin Hong Hwa is therefore deemed to be interested in all the 54,000,000 Shares held by Acemind.

Other than as disclosed above, as at 31 December, 2006, none of the Directors, Chief Executives and their associates has any interests or short positions in any Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## SHARE OPTIONS

A share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution of all the then shareholders of the Company passed on 13 November, 2005.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. All Directors, employees, and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group are eligible to participate in the Share Option Scheme.

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The Share Option Scheme will remain in force for a period of 10 years after the date on which the Share Option Scheme is adopted.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares of the Company in issue on the Listing Date ("**General Scheme Limit**"). The Company may renew the General Scheme Limited with shareholders' approval provided that each such renewal may not exceed 10% of the Shares in the Company in issue as at the date of the shareholders' approval.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-months period shall not exceed 1% of the issued share capital of the Company for the time being ("**Individual Limit**").

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option. A nominal consideration of HKD1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined and notified by the Board to each grantee, at the time of making an offer of the grant of an option which shall not expire later than 10 years from the date of grant of the option. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is neither any performance target that needs to be achieved before the option can be exercised nor any minimum period for which an option must be held before it can be exercised.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

However, no option was granted, exercised, cancelled or lapsed for the year ended 31 December, 2006.

On 1 February, 2007, options have been granted to employees of the Company pursuant to the Share Option Scheme in respect of 20,800,000 shares.

The Share Option Scheme entitled the grantees to exercise 50% of the total granted options after the end of the first twelve months and exercise the remaining 50% of options after the end of the twenty-four months from the date of acceptance of the Options. The subscription price was determined as the closing price of the shares of the Company on the daily quotations of the Stock Exchange on the date of grant of the Options.

The Directors consider the issuance of Options has no significant impact on the financial statements since the exercise price is expected to be no less than the fair value of the Options.

## **ARRANGEMENTS TO PURCHASE SHARES**

At no time during the year ended 31 December, 2006 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of Shares in or debenture of the Company or any other body corporate.

## **PUBLIC FLOAT**

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and to the knowledge of the Directors.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Save as disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries, the controlling shareholder of the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December, 2006 or at any time during the year ended 31 December, 2006.

## **MANAGEMENT CONTRACT**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December, 2006.

## Directors' Report

### SUBSTANTIAL SHAREHOLDERS

#### (a) Interests or short positions in the Company

As at 31 December, 2006, the interests or short positions of substantial shareholders, other than the Directors or Chief Executives of the Company, in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO are as follows:

| Name of Substantial Shareholder                    | Capacity  | Long/Short position | Number of Shares                    | Percentage of the Company's Issued Share Capital |
|--|---|---------------------|-------------------------------------|--|
| Wei Ching Lien                                     | Interest of controlled corporation and interest of spouse | Long position       | 480,000,000<br><i>(Note 1)</i>      | 57.83%   |
| Linkfair Investments Limited                       | Beneficial owner  | Long position       | 426,000,000                         | 51.32%   |
| Acemind Industrial Limited                         | Beneficial owner  | Long position       | 54,000,000                          | 6.51%  |
| Baring Private Equity Asia III Holding (A) Limited | Beneficial owner  | Long position       | 46,224,222<br><i>(Note 2)</i>       | 5.57%  |
| Baring Private Equity Asia GP III LP               | Interest of controlled corporation                        | Long position       | 46,224,222<br><i>(Note 3)</i>       | 5.57%  |
| Baring Private Equity Asia GP III Limited          | Interest of controlled corporation                        | Long position       | 56,333,333<br><i>(Note 4)</i>       | 6.79%  |
| Salata Jean Eric                                   | Interest of controlled corporation and interest of spouse | Long position       | 65,000,000<br><i>(Note 5)</i>       | 7.83%  |
| Pong Melania                                       | Interest of controlled corporation and interest of spouse | Long position       | 65,000,000<br><i>(Note 5 and 6)</i> | 7.83%  |

*Note 1:* Wei Ching Lien controls more than one third of the voting power of Acemind Industrial Limited ("Acemind") and is therefore deemed to be interested in all the 54,000,000 Shares held by Acemind. Since she is the spouse of Chin Jong Hwa, she is deemed to be interested in 480,000,000 Shares in which Chin Jong Hwa is deemed to be interested.

*Note 2:* Baring Private Equity Asia III Holding (A) Limited is indirectly wholly-owned by the limited partnerships comprising The Baring Asia Private Equity Fund III.

*Note 3:* Baring Private Equity Asia GP III, LP is the general partner of each of the limited partnerships comprising The Baring Asia Private Equity Fund III and is therefore deemed to be interested in the 46,224,222 Shares held by Baring Private Equity Asia III Holding (A) Limited.

*Note 4:* Baring Private Equity Asia GP III Limited is the general partner of Baring Private Equity Asia GP III, LP and is deemed to be interested in the 46,224,222 Shares held by Baring Private Equity Asia III Holding (A) Limited and in an additional 10,109,111 Shares held by Baring Private Equity Asia III Holding (1) Limited.

*Note 5:* Baring Private Equity Asia GP III Limited is wholly-owned by Salata Jean Eric and he is therefore deemed to be interested in the 56,333,333 Shares in which Baring Private Equity Asia GP III Limited is deemed to be interested. Baring Asia Fund II (GP) LP is the general partner of the limited partnerships comprising The Baring Asia Private Equity Fund II, one of which wholly owns Baring Asia II Holdings (24) Limited, which is the holder of 8,666,667 Shares. Baring Asia Fund Managers II Limited is the general partner of Baring Asia Fund II (GP) LP. Accordingly, both Baring Asia Fund II (GP) LP and Baring Asia Fund Managers II Limited are deemed to be interested in the 8,666,667 Shares held by Baring Asia II Holdings (24) Limited. Baring Asia Fund Managers II Limited is owned by Maximus GP Holdings Limited, which is owned ultimately by Pong Melania, the spouse of Salata Jean Eric. Salata Jean Eric is, therefore, also deemed to be interested in the 8,666,667 Shares in which Baring Asia Fund Managers II Limited is deemed to be interested.

*Note 6:* Salata Jean Eric and Pong Melania are husband and wife and are deemed to be interested in each other's deemed interests.

## (b) interests or short positions in other members of the Group

| <b>Member of the Group</b>                        | <b>Name of the corporation who directly or indirectly owns 10% or more equity in other members of the Group</b> |
|---|---|
| Guangzhou Minhui Automobile Parts Co., Ltd.       | Sankei Giken Holdings Co., Ltd  |
| Tianjin Sintai Automobile Parts Co., Ltd          | Aisin Tianjin Body Parts Co.,Ltd  |
| Jiaxing Minth-Hashimoto Automotive Parts Co., Ltd | Altia Hashimoto Co., Ltd  |
| Jiaxing Minrong Automotive Parts Co., Ltd         | Praise Development Limited  |
| Jiaxing El Triumph Automotive Parts Co., Ltd      | Praise Development Limited  |
| Constant Gain International Ltd.                  | Carl Kittel Autoteile GmbH  |

Other than as disclosed above, as at 31 December, 2006, the Company had not been acknowledged by any person of any interests or short positions in any Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Up to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



## Directors' Report

### CONNECTED TRANSACTIONS

During the year under review, the following continuing connected transactions have been entered into by the Group:

- (a) Entering into a sale and purchase agreement with Aisin Tianjin Body Parts Co., Ltd. ("Aisin Tianjin")

An indirect wholly-owned subsidiary of the Company entered into a share transfer agreement in May 2006 with Aisin Tianjin pursuant to which the Group and Aisin Tianjin own an 80% interest and a 20% interest in Tianjin Shintai Automobile Parts Co., Ltd ("Tianjin Shintai") respectively, Aisin Tianjin therefore becomes a connected person of the Company within the meaning of Listing Rules by virtue of it being a substantial shareholder of one of the subsidiaries of the Company.

Tianjin Shintai and Aisin Tianjin entered into a sale and purchase agreement ("Sale and Purchase Agreement") on 19 July, 2006, pursuant to which Tianjin Shintai and/or its affiliates agreed to purchase semi-finished automobile materials from, and sell finished automobile parts to Aisin Tianjin and/or its affiliates (collectively "Aisin Group"). The specific products would depend on the car models and terms as to quantity, quality and price will be agreed between the parties thereto from time to time under separate specific transactional agreements.

The price of the products supplied under the Sale and Purchase Agreement shall be negotiated by the parties on an arm's length basis by reference to market conditions at that time and if there is no market price for a particular product, an agreed price consisting of the cost incurred in supplying the product plus a reasonable profit. The Sale and Purchase Agreement was for a term from the date that the requisite approval of the Shareholders had been obtained to 31 December, 2008 and was capable of automatic renewal for another term of three years unless either party gives three months' termination notice prior to the expiry of the term.

The aggregate amount of purchase from, and sales to, Aisin Tianjin under the Sale and Purchase Agreement for the seven months ended 31 December, 2006 was approximately RMB17.0 million and RMB12.8 million respectively, which did not exceed the maximum of RMB19.0 million and RMB13.0 million as approved by the independent shareholders.

- (b) Acquiring the equity interest held by Chongqing Yi Er Qi Garden Engineering Co. Ltd. ("Yi Er Qi") in a subsidiary of the Company, Chongqing Changtai Automobile Spare Parts Co., Ltd ("Chongqing Changtai").

Mindway Holdings Limited ("Mindway"), an indirectly wholly-owned subsidiary of the Company, and Yi Er Qi owned a 80% equity interest and a 20% equity interest in Chongqing Changtai respectively, and therefore Yi Er Qi is a connected person of the Company by virtue of it being the substantial shareholder of one of the Company's subsidiaries.

The Company, through Mindway, entered into an acquisition agreement with Yi Er Qi on 11 September, 2006, pursuant to which the Company agreed to acquire from Yi Er Qi a 20% equity interest in Chongqing Changtai for a total consideration of approximately RMB8.1 million as determined by reference to the appraised net asset value of Chongqing Changtai. The acquisition has completed in September 2006, upon which Chongqing Changtai has been indirectly wholly-owned by the Company. As such, any transaction under the framework supply agreement dated 8

January, 2005 between Chongqing Changtai and Yi Er Qi and/or its related companies (including ChangAn Automobile, ChangAn Suzuki and Changan Ford Automobile Corporation would not constitute a connected transaction by virtue of Yi Er Qi being an independent third party upon completion of the acquisition .

- (c) Agreement relating to Guangzhou Minhui Automobile Parts Co., Ltd. ("**Guangzhou Minhui**") as supplemented by two supplemental agreements dated 31 July, 2005 and 10 November, 2005, respectively between Decade Industries Limited ("**Decade**") and Sankei Giken Holding Co., Ltd. ("**Sankei Giken Holding**")

Decade, an indirect wholly-owned subsidiary of Minth, entered into an agreement on 20 June, 2005 with Sankei Giken Holding as supplemented by a supplemental agreement dated 31 July, 2005 and a second supplemental agreement dated 10 November, 2005, pursuant to which Decade undertook to Sankei Giken Holding that during a period of 36 months commencing from 1 January, 2006, the dividend distribution to be made by Guangzhou Minhui to Sankei Giken Holding would be approximately USD393,385 (equivalent to approximately HKD3.1 million) per year and any shortfall will be made up by Decade. In the event that during any of the three years ending 31 December, 2008, the dividend distribution to be made by Guangzhou Minhui to Sankei Giken Holding is more than USD393,384.25, the amount in excess shall be paid by Sankei Giken Holding to Decade. Sankei Giken Holding currently holds a 30% interest in Guangzhou Minhui and by virtue of it being a substantial shareholder of Guangzhou Minhui (an indirect non wholly-owned subsidiary of Minth), Sankei Giken Holding is a connected person of the Company.

The Group will make a payment in 2007 of approximately USD393,385 to Sankei Giken Holding and in consideration thereof, Sankei Giken Holding would pay to Decade all the dividend distribution to be made by Guangzhou Minhui to it for the year ended 31 December, 2006.

- (d) Technology services provided by Sankei Giken Kogyo Co., Ltd. ("**Sankei Giken**") to the Group

Guangzhou Minhui, an indirect non-wholly owned subsidiary of Minth, entered into three technology services agreements with Sankei Giken, a wholly-owned subsidiary of Sankei Giken Holding, on 12 June, 2002, 27 February, 2004, and 1 March, 2004, respectively. Each of Ningbo Shin Tai Machines Industrial Co., Ltd. ("**Ningbo Shintai**") and Jiaxing Minhui Automotive Parts Co., Ltd. ("**Jiaxing Minhui**"), both indirect wholly-owned subsidiaries of Minth, entered into a technology services agreement with Sankei Giken on 1 March, 2004 and 25 May, 2005, respectively (collectively, the "**Technology Services Agreements**").

Pursuant to the Technology Services Agreements, Sankei Giken agreed to provide technology, technology support and knowhow for certain types of auto-parts to Guangzhou Minhui, Ningbo Shintai and Jiaxing Minhui and to grant non-exclusive rights to use the technology know-how in relation to the manufacture of auto-parts for Guangzhou Honda Automobile Co., Ltd. (in respect of Guangzhou Minhui), and Dongfeng Honda (Wuhan) Automobile Co. Ltd. (in respect of Ningbo Shintai and Jiaxing Minhui). The technology support provided by Sankei Giken includes the design, installation, operation of the auto-parts and to provide training to the Group's staff. Except for the technology service agreement with Jiaxing Minhui (which is for a term of six years commencing from the date of execution) and Ningbo Shintai (which is for a term of five years commencing from the date of execution), the term for each of the Technical Services Agreements is for five years commencing from the date when registration procedures with the relevant Chinese government authorities are completed.

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During the year under review, the aggregate consideration paid to Sankei Giken for its services rendered amounted to approximately RMB3.6 million, it did not exceed the monetary cap of RMB8.9 million for the year ended 31 December, 2006.

- (e) Framework supply agreement between Chongqing Changtai Automobile Spare Parts Co., Ltd. ("**Chongqing Changtai**") and Yi Er Qi

Chongqing Changtai, an indirect non-wholly owned subsidiary of Minth, is a joint venture established in China and owned as to 80% and 20% by the Group and Yi Er Qi, respectively. Yi Er Qi is therefore a connected person of Minth by virtue of it being a substantial shareholder of one of Minth's subsidiaries.

Chongqing Changtai has entered into a framework supply agreement dated 8 January, 2005 with Yi Er Qi pursuant to which Chongqing Changtai agreed to sell various auto-parts, accessories, raw materials and other products to Yi Er Qi and/or its related companies, which include, ChangAn Auto Co. Ltd., ChongQing ChangAn Suzuki Automobile Co., Ltd. and ChangAn Ford Automobile Corporation ("**Yi Er Qi Group**"). The specific products will depend on the car models and terms as to quantity, quality and price will be agreed between the parties thereto from time to time under separate specific transactional agreements.

The price of the products supplied under the framework supply agreement shall be negotiated by the parties on an arms length basis by reference to market conditions at that time and if there is no market price for a particular product, an agreed price consisting of the cost incurred in supplying the product plus a reasonable profit. The term of the framework supply agreement is for three years and shall be capable of automatic renewal for another term of three years unless either party gives three months' notice prior to the expiry of the term.

As at 31 September, 2006, the aggregate sales by the Group to the Yi Er Qi Group amounted to approximately RMB61.3 million, it did not exceed the monetary cap of RMB153.7 million for the year ended 31 December, 2006.

The independent non-executive Directors had reviewed the connected transactions and took the view that the connected transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms, or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors confirm that the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with by the Company.

## REMUNERATION POLICY

Remuneration policy of the Group is set up by the Remuneration Committee, making reference to legal framework, market condition and performance of the Group and individual staff. The remuneration policy and remuneration packages of the Directors and senior management staff of the Group are reviewed by the Remuneration Committee, making reference to the prevailing market practice, his/her duties and responsibilities within the Group and his/her contribution of the Group.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in page 82.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company was not at any time during the year ended 31 December, 2006 in compliance with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules.

## COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. Having made specific enquiry of all Directors of the Company, during the year ended 31 December, 2006, the Directors of the Company had strictly complied with the Model Code.

## MATERIAL LITIGATION AND ARBITRATION

The Group did not engage in any litigation or arbitration of material importance during the year ended 31 December, 2006.

## SUBSEQUENT EVENT

Details of subsequent events are set out in note 34 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board of Directors of

**Minth Group Limited**

**Chin Jong Hwa**

*Chairman*

28 March, 2007