

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **PEARL RIVER TYRE (HOLDINGS) LIMITED**

*(Registered under the Companies Act, 1981 of Bermuda with limited liability)*

**(Stock Code: 01187)**

### **RESULTS FOR ANNOUNCEMENT TO THE MARKET FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

The Directors of Pearl River Tyre (Holdings) Limited (the “Company”) are pleased to announce the audited consolidated results of the Company, subsidiaries and the joint venture (the “Group”), consolidated statement of financial position and consolidated statement of cash flow for the financial year ended 31 December 2009 (the “financial year”) together with the comparative figures for the financial year ended 31 December 2008 (the “previous financial year”) and the notes thereon.

#### **REVIEW OF RESULTS OF OPERATIONS**

The Group registered a turnover of HK\$549,546,000 and consolidated profit of HK\$33,334,000 for the financial year. Basic earnings per share was 31.7 Hong Kong cents.

The results of our principal business, Guangzhou Pearl River Rubber Tyre Limited (the “Joint Venture”) can be summarised as follows:

1. Sale of goods increased by approximately HK\$96,356,000 representing a growth in sales of 21.3% for the financial year. The growth was attributable to the increase in both domestic and export volumes.
2. The Joint Venture recorded a gross profit margin of 15.3% during the financial year as compared to the previous financial year of 0.9% gross loss margin. This was mainly due to lower raw material prices and an improvement in sales volume for both the domestic and export market.

The consolidated profit was enhanced by gain on the fair value changes of the listed securities in Malaysia amounting to HK\$6,979,000.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>NOTE</i>	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>Turnover</b>	3	<b>549,546</b>	453,190
<b>Cost of sales</b>		<u><b>(465,511)</b></u>	<u>(457,328)</u>
<b>Gross profit/(loss)</b>		<b>84,035</b>	(4,138)
<b>Other income and net gains/(losses)</b>	4	<b>9,382</b>	(6,989)
<b>Selling and distribution expenses</b>		<b>(12,722)</b>	(10,113)
<b>Administrative expenses</b>		<b>(36,866)</b>	(19,517)
<b>Other operating expenses</b>		<b>(5,905)</b>	(19,703)
<b>Finance costs</b>	5	<u><b>(4,410)</b></u>	<u>(6,433)</u>
<b>Profit/(Loss) before taxation</b>	6	<b>33,514</b>	(66,893)
<b>Income tax expense</b>	7	<u><b>(180)</b></u>	<u>–</u>
<b>Profit/(Loss) for the year</b>		<b>33,334</b>	(66,893)
<b>Other comprehensive income</b>			
<b>Exchange differences on translating financial statements of the Joint Venture</b>		<b>2,073</b>	13,038
<b>Fair value gain/(loss) on available-for-sale investments</b>		<u><b>54,010</b></u>	<u>(23,613)</u>
<b>Total other comprehensive income</b>		<u><b>56,083</b></u>	<u>(10,575)</u>
<b>Total comprehensive income for the year</b>		<u><b>89,417</b></u>	<u>(77,468)</u>
<b>Basic and diluted earnings/(loss) per share (Hong Kong cents)</b>	8	<u><b>31.7</b></u>	<u>(63.6)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>NOTE</i>	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment		<b>161,589</b>	184,111
Operating lease prepayments		<b>12,130</b>	12,999
Investment in an associate		<b>4,475</b>	4,475
Investments in listed securities		<b>145,915</b>	89,909
<b>Total Non-Current Assets</b>		<b>324,109</b>	291,494
<b>Current Assets</b>			
Investments in listed securities		<b>18,356</b>	11,231
Inventories		<b>115,979</b>	65,870
Trade receivables	<i>10</i>	<b>15,500</b>	13,409
Other receivables and prepayments		<b>14,107</b>	7,147
Tax recoverable		<b>1,774</b>	263
Fixed deposits with licensed banks		<b>115,074</b>	26,854
Cash and bank balances		<b>43,648</b>	34,598
<b>Total Current Assets</b>		<b>324,438</b>	159,372
<b>Current Liabilities</b>			
Trade payables	<i>11</i>	<b>56,635</b>	40,453
Other payables and accruals		<b>54,125</b>	20,823
Amount due to a director		<b>5,676</b>	5,612
Provisions		<b>2,742</b>	2,740
Borrowings		<b>139,541</b>	80,827
<b>Total Current Liabilities</b>		<b>258,719</b>	150,455
<b>Net Current Assets</b>		<b>65,719</b>	8,917
<b>Net Assets</b>		<b>389,828</b>	300,411
<b>EQUITY</b>			
Share capital		<b>110,716</b>	110,716
Reserves		<b>279,112</b>	189,695
<b>Total Equity</b>		<b>389,828</b>	300,411

## CONSOLIDATED STATEMENT OF CASH FLOWS

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>Operating activities</b>		
Profit/(Loss) before taxation	33,514	(66,893)
<b>Adjustments for:</b>		
Allowance for doubtful debts	2,001	1,386
Amortisation of operating lease prepayments	871	859
Amortisation of intangible asset	–	473
Depreciation of property, plant and equipment	22,548	23,561
Bad debts written off	–	522
Interest expense	3,313	5,173
Plant and equipment written off	3,721	62
Reversal of provision for product warranty	–	(2,416)
Gain on disposal of equipment	(50)	–
Unrealised (gain)/loss on foreign exchange	(147)	2,104
(Gain)/Loss on fair value changes of listed securities		
– held for trading	(6,979)	10,091
Interest income	(673)	(836)
Dividend income from listed securities		
– available-for-sale	(926)	(1,419)
– held for trading	(727)	(602)
	56,466	(27,935)
(Increase)/Decrease in inventories	(50,108)	42,292
(Increase)/Decrease in trade and other receivables	(12,554)	32,258
Increase/(Decrease) in trade and other payables	43,299	(46,257)
	37,103	358
<b>Cash generated from operations</b>		
Interest received	673	836
Interest paid	(3,313)	(5,173)
	34,463	(3,979)
<b>Net cash generated from/(used in) operating activities</b>		
<b>Investing activities</b>		
(Increase)/Decrease in fixed deposits, net	(88,220)	85,272
Purchase of property, plant and equipment	(3,707)	(4,393)
Proceeds from disposal of equipment	50	–
Dividend received	1,473	2,021
	(90,404)	82,900
<b>Net cash (used in)/generated from investing activities</b>		

**CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)**

	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>Financing activities</b>		
Drawdown of borrowings	<b>153,600</b>	181,958
Repayment of borrowings	<b>(94,907)</b>	(266,448)
Advances from related parties	<b>6,184</b>	505
Advances from a director	<b>65</b>	226
	<hr/>	<hr/>
<b>Net cash generated from/(used in) financing activities</b>	<b>64,942</b>	(83,759)
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and bank balances</b>	<b>9,001</b>	(4,838)
	<hr/>	<hr/>
<b>Cash and cash equivalents at beginning of the year</b>	<b>34,598</b>	36,531
	<hr/>	<hr/>
<b>Effect of foreign exchange rate changes, net</b>	<b>49</b>	2,905
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year, comprising cash and bank balances</b>	<b>43,648</b>	34,598
	<hr/>	<hr/>

*Notes:*

**1. BASIS OF PREPARATION**

The Company is listed on The Stock Exchange of Hong Kong Limited (“The Stock Exchange”). The financial statements of the Group and of the Company are prepared in Hong Kong dollars for the purposes of the reporting requirements that apply in Hong Kong. The financial statements of the Group denominated in Hong Kong dollars have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance except that the investment in an associate is not accounted for in the consolidated financial statements using the equity method under HKAS 28 – Investments in Associates, as the directors consider that the amount involved is not material. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”).

During the financial year, the Group has adopted all of the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2009:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 related to the amendment paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments

The adoption of the above new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) had no material effect on the financial statements of the Group for both the current and prior reporting periods, except for certain presentational changes as a result of adopting HKAS 1 (Revised) and other changes as set out below. All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards.

HKFRS 8 supersedes HKAS 14 “Segment Reporting”, and requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-makers in order to allocate resources to the segment and to assess its performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to chief operating decision-makers as required by HKFRS 8, there are no changes to the operating segments and the results of operating segments on the adoption of HKFRS 8.

The amendments to HKFRS 7 expand the disclosures relating to fair value measurement for financial instruments that are measured at fair value and liquidity risk of financial liabilities. A three-level fair value hierarchy has been introduced to categorise the fair value measurements according to the degree they are based on observable market data. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision.

## 1. BASIS OF PREPARATION (Cont'd)

The following new or revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group:

		Effective date
HKFRSs (Amendments)	Amendment to HKFRS 5 as part of	
	Improvements to HKFRSs	(i)
HKFRSs (Amendments)	Improvements to HKFRSs 2009	(ii)
Amendments to HKFRS 2	Share-based Payment – Group Cash – settled	
	Share-based Payment Transactions	(iii)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	(i)
HKFRS 3 (Revised)	Business Combinations	(i)
HK(IFRIC)-Interpretation 17	Distributions of Non-cash Assets to Owners	(i)
HK(IFRIC)-Interpretation 19	Extinguishing Financial Liabilities with	
	Equity Instruments	(iv)
HKAS 24 (Revised)	Related Party Disclosures	(v)
HKFRS 9	Financial Instruments	(vi)

Effective date:

- (i) Effective for financial periods beginning on or after 1 July 2009.
- (ii) Effective for financial periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
- (iii) Effective for financial periods beginning on or after 1 January 2010.
- (iv) Effective for financial periods beginning on or after 1 July 2010.
- (v) Effective for financial periods beginning on or after 1 January 2011.
- (vi) Effective for financial periods beginning on or after 1 January 2013.

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

The amendment to HKAS 17 made under "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

## 2. SEGMENT INFORMATION

The Group has adopted HKFRS8 Operating Segment with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. It replaces the requirement under HKAS 14 to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the Group's results of operations or financial position. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on nature of business.

The following tables present revenue, profit or loss, asset and liabilities for each reportable segment:

	<b>Manufacturing</b> <i>HK\$'000</i>	<b>Investment</b> <b>Holding</b> <i>HK\$'000</i>	<b>Elimination</b> <i>HK\$'000</i>	<b>Group</b> <i>HK\$'000</i>
<b>2009</b>				
Turnover	<u>549,546</u>	<u>–</u>	<u>–</u>	<u>549,546</u>
<b>RESULTS:</b>				
Segment results (external)	30,093	7,146	12	37,251
Finance costs	(4,410)	–	–	(4,410)
Interest income	656	17	–	<u>673</u>
Profit before taxation				33,514
Income tax expense				<u>(180)</u>
Profit for the year				<u>33,334</u>
<b>OTHER INFORMATION:</b>				
Segment assets	<u>469,542</u>	<u>179,005</u>		<u>648,547</u>
Segment liabilities	<u>244,452</u>	<u>14,267</u>		<u>258,719</u>
Capital expenditure	3,696	11		3,707
Depreciation and amortisation	23,367	52		23,419

## 2. SEGMENT INFORMATION (Cont'd)

	Investment Manufacturing HK\$'000	Holding HK\$'000	Elimination HK\$'000	Group HK\$'000
2008				
Turnover	<u>453,190</u>	<u>–</u>	<u>–</u>	<u>453,190</u>
RESULTS:				
Segment results (external)	(45,018)	(16,290)	12	(61,296)
Finance costs	(6,433)	–	–	(6,433)
Interest income	836	–	–	<u>836</u>
Loss before taxation				(66,893)
Income tax expense				<u>–</u>
Loss for the year				<u>(66,893)</u>
OTHER INFORMATION:				
Segment assets	<u>337,529</u>	<u>113,337</u>		<u>450,866</u>
Segment liabilities	<u>(138,676)</u>	<u>(11,779)</u>		<u>(150,455)</u>
Capital expenditure	4,393	–		4,393
Depreciation and amortisation	24,842	51		24,893
<b>Geographical information:</b>				
			<b>Revenue</b> HK\$'000	<b>Non-current</b> <b>Assets</b> HK\$'000
<b>2009</b>				
The People's Republic Of China			279,525	173,506
Republic of India			17,272	–
Republic of Yemen			49,125	–
The People's Republic Of Bangladesh			37,710	–
Singapore			46,414	–
Malaysia			31,439	4,688
Others			<u>88,061</u>	<u>–</u>
			<u>549,546</u>	<u>178,194</u>

## 2. SEGMENT INFORMATION (Cont'd)

	Revenue <i>HK\$'000</i>	Non-current Assets <i>HK\$'000</i>
2008		
The People's Republic Of China	192,450	196,855
Republic of India	20,230	–
Republic of Yemen	39,154	–
The People's Republic Of Bangladesh	32,664	–
Singapore	39,089	–
Malaysia	15,907	4,730
Others	113,696	–
	<u>453,190</u>	<u>201,585</u>

For the year of 2009 and 2008, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue.

## 3. TURNOVER

Turnover of the Group, which is also the revenue, represents the invoiced value of goods sold and services rendered less discounts and returns.

## 4. OTHER INCOME AND NET GAINS/(LOSSES)

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Gain on disposal of equipment	50	–
Gain/(Loss) on fair value changes of listed securities		
– held for trading	6,979	(10,091)
Dividend income from listed securities		
– available-for-sale	926	1,419
– held for trading	727	602
Interest income	673	836
Others	27	245
	<u>9,382</u>	<u>(6,989)</u>

## 5. FINANCE COSTS

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest on bank loans wholly repayable within one year	3,313	5,173
Bank charges	1,097	1,260
	<u>4,410</u>	<u>6,433</u>

## 6. PROFIT/(LOSS) BEFORE TAXATION

In addition to those disclosed in Notes 3, 4 and 5, the profit/(loss) before taxation is arrived at after charging/(crediting) the following:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Cost of goods sold (including write-down of inventories of HK\$6,583,000 in the previous financial year)	465,511	457,328
Staff costs (excluding directors' remuneration)		
– Wages, salaries and other benefits	48,074	38,376
– Retirement benefit scheme contributions	15,747	6,860
Allowance for doubtful debts ( <i>Note 10</i> )	2,001	1,386
Auditor's remuneration	472	471
Amortisation of operating lease prepayments (included in administrative expenses)	871	859
Amortisation of intangible asset (included in administrative expenses)	–	473
Bad debts written off	–	522
Depreciation of property, plant and equipment	22,548	23,561
Plant and equipment written off	3,721	62
Reversal of provision for product warranty	–	(2,416)
(Gain)/Loss on foreign exchange, net		
– realised	(306)	3,350
– unrealised	(2,952)	2,104
Operating lease payment:		
– land and buildings	3,258	2,984
– machinery	1,589	1,567
– hostel	29	25
	<u>29</u>	<u>25</u>

## 7. INCOME TAX EXPENSE

The Company was incorporated under the laws of The British Virgin Islands and continued under the laws of Bermuda subsequent to its migration. At present, no income, profit, capital or capital gain taxes are levied in Bermuda. Accordingly, no provision for such taxes has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until 28 March 2016.

No provision for Hong Kong profits tax has been made as the Group has no assessable profits derived from or earned in Hong Kong for the current and the previous financial years.

## 7. INCOME TAX EXPENSE (Cont'd)

For the year ended 31 December 2009, the statutory corporate income tax rates applicable to the Joint Venture established and operating in the People's Republic of China (the "PRC") was 25% (2008 – 25%).

A reconciliation of the income tax expense applicable to the profit/(loss) before taxation at the statutory tax rate to income tax expense at the effective tax rate of the Group is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Profit/(Loss) before taxation	<u>33,514</u>	<u>(66,893)</u>
Tax at the statutory tax rates		
– Mainland China @ 25% (2008 – 25%)	6,588	(13,046)
– Hong Kong @ 16.5% (2008 – 16.5%)	<u>1,182</u>	<u>(2,851)</u>
	7,770	(15,897)
Tax effects of:		
Non-deductible expenses	725	4,944
Non-taxable income	(1,730)	(2,096)
Reduction in tax rate	–	(1,426)
Utilisation of unutilised tax losses brought forward	(6,585)	–
Deferred tax assets not recognised during the year	<u>–</u>	<u>14,475</u>
Income tax expense	<u>180</u>	<u>–</u>

As at 31 December 2009, subject to the agreement of the local tax authorities, the Joint Venture had tax losses arising in the PRC of HK\$47,666,000 or RMB42,000,000 (2008 – HK\$67,213,000 or RMB60,039,000) that were available for offsetting against future taxable profits. Such losses will be carried forward for five years from the year that the losses were incurred. The expiration years for the losses incurred by the Joint Venture are as follows:

	2009 <i>HK\$'000</i>	2009 <i>RMB'000</i>	2008 <i>HK\$'000</i>	2008 <i>RMB'000</i>
Expired in year:				
2009	–	–	7,739	6,913
2013	<u>47,666</u>	<u>42,000</u>	<u>59,474</u>	<u>53,126</u>
	<u>47,666</u>	<u>42,000</u>	<u>67,213</u>	<u>60,039</u>

No deferred tax assets have been recognised on the following temporary differences due to the unpredictability of the future profitability of the Group:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Allowance for doubtful debts	32,660	30,649
Allowance for obsolete inventories	3,439	3,439
Provision for product warranty	2,623	2,623
Provision for sales incentives	6,362	8,745
Unrealised loss on foreign exchange	–	2,150
Unutilised tax losses	33,001	46,141
Others	<u>3,802</u>	<u>38,317</u>
	<u>81,887</u>	<u>132,064</u>

## 8. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share is based on the profit for the year of HK\$33,334,000 (2008 – loss of HK\$66,893,000) and the number of shares in issue during the year of 105,116,280 (2008 – 105,116,280). There was no dilutive potential ordinary share outstanding during the year of 2009 and 2008.

As there is no dilutive event during the current and previous years, the basic and diluted earnings/(loss) per share for both years are equal.

## 9. DIVIDENDS

No dividends were paid since the end of the previous financial year and the Directors do not recommend the payment of any dividend for the financial year. No dividends were recommended in the previous financial year.

## 10. TRADE RECEIVABLES

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade receivables	48,160	44,058
<i>Less: allowance for doubtful debts (Note 10 (b))</i>	<u>(32,660)</u>	<u>(30,649)</u>
	<u>15,500</u>	<u>13,409</u>

### (a) Ageing analysis

The ageing analysis of trade receivables as at the end of reporting period is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Less than one year	15,162	12,021
More than one year but less than two years	1,018	2,435
More than two years	<u>31,980</u>	<u>29,602</u>
	48,160	44,058
<i>Less: allowance for doubtful debts</i>	<u>(32,660)</u>	<u>(30,649)</u>
	<u>15,500</u>	<u>13,409</u>

The normal credit terms of trade receivables range from 7 to 30 days.

## 10. TRADE RECEIVABLES (Cont'd)

### (b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
At 1 January	30,649	27,492
Additional allowance for the year	2,001	1,386
Effect of foreign exchange translation	10	1,771
	<u>32,660</u>	<u>30,649</u>
At 31 December	<u>32,660</u>	<u>30,649</u>

### (c) Trade receivables that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Neither past due nor impaired	7,280	5,178
Less than one year past due	7,882	6,843
More than one year but less than two years past due	338	1,388
	<u>15,500</u>	<u>13,409</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

### (d) The foreign currency exposure profile of trade receivables is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
United States Dollar	<u>15,500</u>	<u>13,409</u>

## 11. TRADE PAYABLES

The ageing analysis of trade payables as at the end of reporting period is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Less than one year	48,957	32,790
More than one year but less than two years	139	322
More than two years	7,539	7,341
	<u>56,635</u>	<u>40,453</u>

The foreign currency exposure profile of trade payables is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Renminbi	55,715	40,453
United States Dollar	<u>920</u>	<u>–</u>

## 12. MANAGEMENT'S DISCUSSION AND ANALYSIS

### Business Review

At the start of 2009, the Chinese Rubber Industry Association reported that, despite the global economic meltdown, China remains the world's fastest growing tyre market. The Chinese tyre market is reportedly worth US\$8 billion and accounts for 9 percent of the world market share. The profit margin of the Chinese tyre industry has also improved following the recovery of global economy in mid 2009.

The year 2009 has proven to be a much better year for the Joint Venture which recorded a 20% rise in revenue and registered a net profit of HK\$37.6m compared to a HK\$72.3m loss in 2008. The management's effort to focus on the domestic market has been proven to be effective with domestic sales growing 43% in 2009 as a result of the rapid recovery of the Chinese economy.

Apart from the rise in sales volume and revenue, lower raw material prices played a significant role in the Joint Venture's profitability in 2009. The Joint Venture achieved a gross profit margin of 15.3% in 2009 compared to a gross loss margin of 0.9% in 2008. Apart from lower raw material prices, the improvement in margin was also attributable to the following measures taken by the management:–

1. Strengthening production planning and scheduling. This has enabled the Joint Venture to increase production output by 53% with same capacity.
2. Price increase. As the raw material prices started to pick up second half of 2009, the Joint Venture adjusted the selling price for both the domestic and export sales by 8% and 11% respectively.

## **12. MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)**

### **Sales**

Revenue of the Joint Venture rose 21% in 2009, largely due to the significant increase in domestic sales. The management's strategy to focus on the domestic market has shown a positive impact on overall sales and profitability.

The Joint Venture started commercial production of light truck radial (LTR) tyres towards the end of 2008 and in 2009, LTR contributes about 12% of total sales. Even though LTR is not a major contributor currently, management believes in the future prospects of the LTR tyres, which have received very good response from the market. In fact, the current market demand exceeds our production and the Joint Venture will likely increase production capacity in 2010.

While the Joint Venture have successfully developed and tested the OTR tyres, demand has not been forthcoming due to market changes. As a result of the uncertainty in the OTR market, management decided to stop production until there is indication of a recovery.

### **Production**

Management's efforts in ensuring better sales/production coordination have resulted in enhanced production efficiency and better cost control. The monthly production schedule and actual production has been stable and this has enhanced management's planning processes including raw material purchases, human resources management and other operation cost control.

Management has also put in effort to streamline and rationalize the Joint Venture's product line. More than 30% of the previous production sizes were either terminated or put on stricter production/sales requirements. As a result, we have benefited from better cost efficiency and more stable product quality.

The challenges ahead would be our flexibility in production of various product lines to meet the ever changing market demand. Utilising on our sole production facility, we are clearly moving into radial tyre production while maintaining a reasonable scale of bias ply commercial tyres.

### **Prospect**

The bias tyre market is facing an intense competition from radial tyres due to excess supply of the latter in the domestic market. As such, the Joint Venture's strategy is to focus on the export market, mining and construction vehicles for bias truck tyre and the LTR tyres will be targeted for the medium and small size tyre market and agriculture vehicles.

The Joint Venture will increase the production capacity of the LTR tyres as the current production is not able to meet market demand. New equipment is expect to arrive by July 2010 and the monthly production capacity of LTR tyres will increase from 12,000 to 40,000 tyres. In addition, more sizes of LTR tyres will be produced to increase sales and gain market share.

While sales and profitability have improved significantly in 2009 as a result of the economic recovery and relatively lower raw material prices, prospects for 2010 remain less certain. Although management believes sales will improve, especially with the LTR capacity expansion, profitability remains less certain given the rising raw material prices, particularly, rubber, which is currently trading near its all-time high.

## 12. MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)

### Financial Review

#### *Liquidity and Financial Resources*

During the financial year, the Joint Venture had bank borrowings of RMB175.5 million. As cash flow remains positive, the Joint Venture does not foresee any working capital difficulties and accordingly expects the level of borrowings to remain stable over the next few years. As at 31 December 2009, the Group had fixed deposits, cash and bank balances amounting to HK\$158,722,000 (2008 – HK\$61,452,000) and short-term borrowings of HK\$139,541,000 (2008 – HK\$80,827,000). The borrowings bear a weighted average interest rate ranging from 1.86% to 5.89% (2008 – 8.00%) per annum. As at 31 December 2009, the Group had total assets of HK\$648,547,000 (2008 – HK\$450,866,000) which were financed by current liabilities of HK\$258,719,000 (2008 – HK\$150,455,000) and shareholders' equity of HK\$389,828,000 (2008 – HK\$300,411,000).

### Capital Structure

There has been no change in the capital structure of the Company during the financial year.

### Gearing and Liquidity ratio

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.358 (2008 – 0.269). The liquidity ratio of the Group represented by a ratio between current assets over current liabilities was 1.25 (2008 – 1.06).

### Charges on Group Assets

As at 31 December 2009, the Joint Venture pledged buildings, relevant rights of land usage and production machinery by way of a fixed charge and floating charge over the other assets of the Joint Venture for banking facilities granted.

### Contingent Liability

The Group did not have any significant contingent liabilities as at 31 December 2009.

### Employees

The Group currently employs a total of 1,600 employees. We expect this level of workforce to remain stable in the foreseeable future despite an increase in production. Wages are maintained at competitive levels and bonuses are awarded on a performance related basis. Nevertheless, the Group continues to review plant efficiency to ensure optimum levels of productivity are achieved consistently.

### Foreign Currency Risk

The Group is subject to foreign currency risk as certain of its payables to raw material suppliers and certain accounts receivable arising from export sales are denominated in foreign currencies, principally in US dollars. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's performance. Management will continue to monitor closely the exchange risk and hedge by forward exchange contracts and applicable derivatives when necessary.

### **13. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries and the Joint Venture purchased, sold or redeemed any of the Company's listed securities during the year.

### **14. CODE OF CORPORATE GOVERNANCE PRACTICES**

The Board is committed to ensure that the best corporate governance practices are applied throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and improve the financial performance of the Group.

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx") throughout the year with the exception that the non-executive directors of the Company have no set terms of office but retire from office on a rotational basis in accordance with the Company's Bye-laws.

The Board aims to continually review and enhance the corporate governance practices of the Group.

### **15. AUDIT COMMITTEE**

The Audit Committee comprises three Independent Non-Executive Directors.

The Audit Committee is answerable to the Board of Directors and the principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process. The Audit Committee had reviewed with the management of the Company and the auditors of the Company, the audited consolidated financial statements of the Group for the year ended 31 December 2009.

### **16. AUDIT REPORT**

The audit report of the Group's financial statements for the year is unqualified.

### **17. AUDITED FINANCIAL STATEMENTS**

The Group's audited financial statements for the financial year will be provided to the HKEx no later than 30 April 2010 for publication on the HKEx's website.

### **18. ANNUAL GENERAL MEETING**

The notice of the Sixteenth Annual General Meeting will be published and issued in due course.

By order of the Board

**Goh Nan Yang**

*Director*

Kuala Lumpur, 20 April 2010

*As at the date of this announcement, the Board of Directors of the Company comprises of Mr. Goh Nan Kioh, the Non-Executive Chairman, Mr. Goh Nan Yang, the Executive Director, Mr. Yeoh Eng Khoon, the Non-Executive Director, Mr. Yeow See Yuen, Mr. Khoo Teng Keat and Mr. Won Thean Sang, being the Independent Non-Executive Directors.*