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**PEARL RIVER TYRE (HOLDINGS) LIMITED**  
(Registered under the Companies Act, 1981 of Bermuda with limited liability)  
(Stock Code: 1187)

## **ANNOUNCEMENT**

### **REVISION OF CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS**

The Directors expect the actual monetary value of the GGXEG Transactions for the financial year ending 31 December 2009 to exceed its Announced Cap and the Directors propose to revise the respective estimated caps of the GGXEG Transactions for the three financial years ending 31 December 2011.

The Board announces that for the three financial years ending 31 December 2011, each of the relevant percentage ratios (other than profits ratio) of the transaction amount for the GGXEG Transactions shall be on an annual basis less than 25% (on the basis of proportionate consolidation of the JV in accordance with the prevailing accounting standards applicable to the Group) and less than HK\$10,000,000.

Pursuant to Rules 14A.34 to 14A.35 of the Listing Rules, each of the GGXEG Transactions is only subject to the reporting and announcement requirements under 14A.45 to 14A.47 of the Listing Rules and is exempted from the independent shareholders' approval requirements.

Reference is made to the announcement (the "Announcement") of the Company dated 8 December 2008 in relation to, among other things, the GGXEG Transactions. Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

### **THE GGXEG TRANSACTIONS**

Pursuant to an asset investment and leasing agreement between the JV, the Company and GRTF dated 2 November 1994, the JV agreed to lease from GRTF the exclusive right to use certain machinery for the duration of the JV, being 30 years from December 1993 at RMB2,000,000 per annum.

Pursuant to the terms of a license agreement between the JV and GRTF dated 2 November 1994 which provided for the transfer to the JV of (a) the right to use the trademark “Pearl River” and (b) any technology and know-how necessary for the production of bias tyres at the production levels contained in the JV agreement for US\$1 million (HK\$7.8 million), GRTF and the JV have also entered into a formal agreement to licence dated 2 November 1994 pursuant to which GRTF has licensed the right to the exclusive use of the said trademark at a monthly licence fee of 0.2% of the total monthly sales income derived from the sale of tyres bearing the said trademark. The JV is entitled to use the said trademark for the period from 1 January 1996 to 11 December 2023.

Pursuant to the leasing agreement between the JV and GRTF dated 28 October 1999, the JV agreed to lease a hostel from GRTF with a lease term of 20 years commencing from 1 January 2000 at an annual rental of RMB28,800 for the first 5 years, thereafter subject to revision based on the then consumer price index.

Pursuant to a real estate lease contract between the JV and GRTF dated 30 October 2000, the JV agreed to lease a piece of land in Wabu Village, Tanbu Town, Huadu, Guangzhou City, Guangdong Province, the PRC with an area of 170,729 sq.m. and buildings erected thereon. The buildings leased from GRTF, with a total gross floor area of 42,547 sq.m., are mainly used by the JV for its office, industrial production and operations purposes. The lease term is 20 years from 20 December 2000 at RMB3,508,668 per annum. The lease rental will be revised based on the land use fee and real estate tax actually paid/payable to the government at any time when necessary. The Directors confirm that the lease rental will be revised only when the government revises the land use fee and real estate tax. It is envisaged that the adjustment (if any) will be based on and be proportional on a dollar-to-dollar basis to the land use fee and real estate actually paid/payable to the government. Details of this real estate lease transaction were disclosed in the announcement of the Company dated 30 October 2000 and in the circular of the Company dated 28 November 2000.

On 18 April 2006, four supplemental agreements (the “Supplemental GGXEG Agreements”) were executed between the JV and GGXEG pursuant to which the tenure of the respective original agreements in respect of four prevailing GGXEG Transactions above was amended to 1 January 2006 to 31 December 2008 renewable automatically for every another 3 years upon expiry at the same terms, up to the respective date of the original tenure and subject to compliance with the Listing Rules then prevailing, with all other terms stipulated under each of the original agreements in respect of four prevailing GGXEG Transactions remain unchanged. On 31 December 2008, the Supplemental GGXEG Agreements were renewed automatically for a period of three years from 1 January 2009 to 31 December 2011 at the same terms. On 8 December 2008, the Company published the Announcement in respect of this matter and set the relevant caps (the “Announced Caps”) accordingly.

## Details of the GGXEG Transactions

According to the annual reports for the two years ended 31 December 2008 and the unaudited interim results for the six months ended 30 June 2009 of the Company, the following table summarises the aggregate value of the GGXEG Transactions:

<b>Actual transactions between JV and GGXEG (HK\$'000)</b>	<b>For the six month</b>		
	<b>For the year ended 31 December 2007</b>	<b>2008</b>	<b>ended 30 June 2009</b>
1. Lease rental for the exclusive right to use certain machinery payable to GGXEG	1,847	2,239	1,135
2. Royalties for the right to use the trademark "Pearl River" and any technology and know-how necessary for the production of bias tyres payable to GGXEG	359	491	249
3. Lease rental for a hostel payable to GGXEG	23	36	21
4. Lease rental for a piece of land and buildings erected thereon payable to GGXEG	3,293	4,262	2,326
<b>Total of the GGXEG Transactions</b>	<b>5,522</b>	<b>7,028</b>	<b>3,731</b>

## Revised caps for the GGXEG Transactions for the financial year ending 31 December 2009

Given the increase in the monthly sales income derived from the sale of tyres bearing the trademark "Pearl River", the Directors expected the actual monetary value of the GGXEG Transactions for the financial year ending 31 December 2009 will exceed the relevant Announced Caps and the Directors proposed to revise the estimated caps (the "Proposed GGXEG Caps") of the GGXEG Transactions for the financial year ending 31 December 2009. As the GGXEG Transactions is carried out under the Supplemental GGXEG Agreements entered into on 18 April 2006, no new agreements will be entered into for the GGXEG Transactions as a result of the Proposed GGXEG Caps.

<b>Announced Caps for the year ending 31 December 2009</b>	<b>Actual amount for the eleven months ended 30 November 2009</b>	<b>Proposed caps for the year ending 31 December 2009</b>
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	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
1. Lease rental for the exclusive right to use certain machinery payable to GGXEG	2,272	2,080	2,272
2. Royalties for the right to use the trademark "Pearl River" and any technology and know-how necessary for the production of bias tyres payable to GGXEG	560	753	890
3. Lease rental for a hostel payable to GGXEG	41	38	41
4. Lease rental for a piece of land and buildings erected thereon payable to GGXEG	4,659	4,266	4,659
Sub-total	7,532	7,137	7,862
	7,532	7,137	7,862

#### **Basis for the Proposed GGXEG Caps**

The Announced Caps were arrived at on the basis of the historical audited/unaudited amount of the GGXEG Transactions for the two years ended 31 December 2007 and six months ended 30 June 2008.

#### **Caps of the GGXEG Transactions for the upcoming three years ending 31 December 2011**

The Directors propose to revise the estimated cap in respect of the GGXEG Transactions for each of the three financial years ending 31 December 2011 would amount to approximately HK\$7,862,000, HK\$8,049,000 and HK\$8,264,000 respectively, which are detailed in the following table:

<b>Budgeted transactions between JV and GGXEG (HK\$'000)</b>	<b>For the year ending 31 December</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
1. Lease rental for the exclusive right to use certain machinery payable to GGXEG	2,272	2,272	2,272
2. Royalties for the right to use the trademark "Pearl River" and any technology and know-how necessary	890	1,077	1,292

for the production of bias tyres payable to GGXEG			
3. Lease rental for a hostel payable to GGXEG	41	41	41
4. Lease rental for a piece of land and buildings erected thereon payable to GGXEG	4,659	4,659	4,659
Proposed Caps of the GGXEG Transactions	7,862	8,049	8,264

The Proposed Caps have been arrived at on the basis of the historical audited/unaudited amount of the GGXEG Transactions for the two years ended 31 December 2008 and the eleven months ended 30 November 2009. In addition, the Company has also taken into account the anticipated sales of bias tyres in the coming three financial years ending 31 December 2011.

#### **REASONS FOR THE GGXEG TRANSACTIONS**

The Company is principally engaged in the business of investment holding. The Group's principal asset is a 70% equity interest in the JV. The JV is principally engaged in the manufacturing and marketing of various types of tyres for commercial vehicles.

GGXEG is engaged in, amongst others, manufacturing of automobile tyres, motorcycle tyres, bicycle tyres and other tyres, latex products, sundries and machinery.

The Directors consider that the GGXEG Transactions serve to facilitate the industrial production and operations of the Group by making available to the Group the necessary production technology/knowhow, trademark, machinery, office and hostel. The Directors, having made reasonable enquires, believe that GGXEG has not offered or licensed its production technology/knowhow and trademark to any party other than the Group in relation to the particular products under the GGXEG Transactions.

In the opinion of the Directors (including the independent non-executive Directors), each of the GGXEG Transactions (as amended by each of the supplemental agreements as the case may be) have been conducted on an arm's length basis, on normal commercial terms, in the usual and ordinary course of business of the Group, and are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole. The Directors (including the independent non-executive Directors) consider that the Proposed Caps for the GGXEG Transactions for the three financial years ending 31 December 2011 are fair and reasonable. The Directors further confirm that

the pricings under the GGXEG Transactions are 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 Company than terms available to or from (as appropriate) independent third parties.

## **COMPLIANCE**

Guangzhou Rubber Tyre Factory, which is the former PRC partner owning 30% equity in the JV and which assets and liabilities were taken over by GGXEG in 2001. GRTF was a connected person of the Company under the Listing Rules as GRTF was the owner of 30% equity in the JV (in which the Group owns the balance of 70% equity).

GGXEG is a connected person of the Company under the Listing Rules as GGXEG is the owner of 30% equity in the JV (in which the Group owns the balance of 70% equity). The GGXEG Transactions constitute continuing connected transactions for the Company.

## **ANNUAL REVIEW**

Each year the independent non-executive Directors must review the GGXEG Transactions and confirm in the annual report and accounts of the Company that they have been entered into in accordance with the relevant stipulations of Rule 14A.37 of the Listing Rules.

Subject to Rule 14A.39 of the Listing Rules, each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange), confirming that each of the GGXEG Transactions has transacted in accordance with the relevant stipulations of Rule 14A.38 of the Listing Rules.

Subject to Rule 14A.40 of the Listing Rules, the Company shall promptly notify the Stock Exchange and publish an announcement in the newspapers if the Company knows or has reason to believe that the independent non-executive directors and/or auditors will not be able to confirm the matters set out in rules 14A.37 and/or 14A.38 respectively. The Company may have to re-comply with rules 14A.35(3) and (4) and any other conditions the Stock Exchange considers appropriate.

Pursuant to Rule 14A.36 of the Listing Rules, the Company must re-comply with the relevant reporting and announcement requirements and/or the independent shareholders' approval requirements if the relevant cap under the GGXEG Transactions is exceeded, or when the relevant agreements under the GGXEG Transactions are renewed or there is a material change to the terms of the said agreements.

By order of the Board of Directors

**Goh Nan Yang**

*Director*

*For the purpose of this announcement, the exchange rate adopted is RMB1 = HKD0.881347. This exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, or may be exchanged at this or at any other rate at all.*

*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, being the Executive Director, Mr Yeoh Eng Khoon being the Non-Executive Director and Mr. Won Thean Sang, Mr. Yeow See Yuen and Mr Khoo Teng Keat being the Independent Non-Executive Directors.*

Kuala Lumpur, 14 December 2009