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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 2010

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 2010 (the “financial year”) together with the comparative figures for the financial year ended 31 December 2009 (the “previous financial year”) and the notes thereon.

REVIEW OF RESULTS OF OPERATIONS

The Group registered a turnover of HK\$563,553,000 and consolidated loss of HK\$24,859,000 for the financial year. Basic and diluted loss per share was 23.6 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\$14,007,000 representing a growth in sales of 2.5% for the financial year. The growth was attributable to the increase in export sales.
2. The Joint Venture recorded a gross profit margin of 5.9% during the financial year as compared to the previous financial year of 15.3% gross profit margin. The decrease in gross profit margin was mainly due to increase in raw material prices and the impairment loss in the value of inventories.

The consolidated loss was reduced by gain on the fair value changes of the listed securities in Malaysia amounting to HK\$6,449,000.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>NOTE</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Turnover	3	563,553	549,546
Cost of sales		(530,380)	(465,511)
		<hr/>	<hr/>
Gross profit		33,173	84,035
Other revenue and net income	4	11,575	9,382
Selling and distribution expenses		(15,479)	(12,722)
Administrative expenses		(26,491)	(37,963)
Other operating expenses		(24,472)	(5,905)
Finance costs	5	(2,914)	(3,313)
		<hr/>	<hr/>
(Loss)/profit before taxation	6	(24,608)	33,514
Income tax expense	7	(251)	(180)
		<hr/>	<hr/>
(Loss)/profit for the year		(24,859)	33,334
Other comprehensive income			
Exchange differences on translating of:			
— Joint Venture's financial statement		7,333	77
— Available-for-sale investments		36,563	1,996
Available-for-sale investments:			
movement in the revaluation reserve		(79,815)	54,010
		<hr/>	<hr/>
Total other comprehensive (loss)/income		(35,919)	56,083
		<hr/>	<hr/>
Total comprehensive (loss)/income for the year		(60,778)	89,417
		<hr/>	<hr/>
Basic and diluted (loss)/earnings per share (Hong Kong cents)	8	(23.6)	31.7
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>NOTE</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-Current Assets			
Property, plant and equipment		146,123	161,589
Prepaid lease payments		11,663	12,130
Investment in an associate		4,475	4,475
Investments in listed securities		102,663	145,915
Intangible asset		<u>—</u>	<u>—</u>
Total Non-Current Assets		<u>264,924</u>	<u>324,109</u>
Current Assets			
Investments in listed securities		27,234	18,356
Inventories		96,530	115,979
Trade and other receivables	<i>10</i>	56,296	31,381
Pledged bank deposits		47,409	115,074
Cash and bank equivalents		25,856	43,648
Total Current Assets		<u>253,325</u>	<u>324,438</u>
Current Liabilities			
Trade and other payables	<i>11</i>	90,326	116,436
Provisions		2,836	2,742
Borrowings		96,037	139,541
Total Current Liabilities		<u>189,199</u>	<u>258,719</u>
Net Current Assets		<u>64,126</u>	<u>65,719</u>
Net Assets		<u>329,050</u>	<u>389,828</u>
EQUITY			
Share capital		110,716	110,716
Reserves		218,334	279,112
Total Equity		<u>329,050</u>	<u>389,828</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Operating activities		
(Loss)/Profit before taxation	(24,608)	33,514
Adjustments for:		
Amortisation of operating lease prepayments	881	871
Bad debts written off	120	—
Depreciation of property, plant and equipment	22,617	22,548
Impairment loss on plant and machinery	12,459	—
Interest expense	2,914	3,313
Plant and equipment written off	5	3,721
Unrealised gain on foreign exchange	(3,147)	(2,952)
Gain on disposal of equipment	—	(50)
Gain on fair value changes of listed securities — held for trading	(6,449)	(6,979)
Interest income	(231)	(673)
Dividend income from listed securities		
— available-for-sale	—	(926)
— held for trading	(1,016)	(727)
(Writeback of)/Allowance for doubtful debts	(1,794)	2,001
	1,751	53,661
Decrease/(increase) in inventories	19,449	(50,108)
Increase in trade and other receivables	(19,296)	(12,554)
(Decrease)/increase in trade and other payables	(33,971)	43,299
Cash (used in)/generated from operations	(32,067)	34,298
Interest received	231	673
Interest paid	(2,914)	(3,313)
Net cash (used in)/generated from operating activities	(34,750)	31,658
Investing activities		
Decrease/(Increase) in fixed deposits, net	65,194	(88,220)
Purchase of property, plant and equipment	(14,341)	(3,707)
Proceeds from disposal of equipment	—	50
Dividend received	765	1,473
Net cash generated from/(used in) investing activities	51,618	(90,404)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financing activities		
Drawdown of borrowings	96,037	153,600
Repayment of borrowings	(144,553)	(94,907)
Advances from related parties	7,139	6,184
Advances from a director	—	65
	<hr/>	<hr/>
Net cash (used in)/generated from financing activities	(41,377)	64,942
	<hr/>	<hr/>
Net (decrease)/increase in cash and bank balances	(24,509)	6,196
	<hr/>	<hr/>
Cash and cash equivalents at beginning of the year	43,648	34,598
	<hr/>	<hr/>
Effect of foreign exchange rate changes, net	6,717	2,854
	<hr/>	<hr/>
Cash and cash equivalents at end of the year, comprising cash and bank balances	25,856	43,648
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1. BASIS OF PREPARATION

The Company's ordinary shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The financial statements are presented in Hong Kong dollars. The financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (revised 2008)	Business combinations
HKAS 27 (revised 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Financial instruments: Recognition and measurement — eligible hedged items
HK(IFRIC) 17	Distributions of non-cash assets to owners
HK(Int) 5	Presentation of financial statements—classification by the borrower of a term loan that contains a repayment on demand clause
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 27 (revised 2008), consolidated and separate financial statements

The application of HKAS 27(revised 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. Previously, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised. For decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (revised 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, HKAS 27 (revised 2008) requires the derecognition of all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

In accordance with the transitional provisions of HKAS 27 (revised 2008), these changes in accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Revisions to HKAS 27 (revised 2008) have not had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of such previous transactions.

Amendments to HKAS 17 Leases, as part of Improvements to HKFRSs issued in 2009

HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant, and equipment retrospectively.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current, provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period, notwithstanding that the entity could be required by the counterparty to settle in shares at any time.

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

2. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision-makers (“CODM”) who is the Chief Executive Officer of the Group, for the purposes of resource allocation and performance assessment.

The CODM considers the business from both geographic and product perspective. Geographically, management considers the performance of the segment in Mainland China (excluding Hong Kong), Republic of India, Republic of Yemen, the People’s Republic of Bangladesh, Singapore and Malaysia separately.

The Group has presented the following two reportable segments. These segments are managed separately. The manufacturing segments and the investment holding segment offers very different products and services:

1. Manufacturing
2. Investment holding

The manufacturing segment derives its revenue primarily from the manufacture and sale of various types of tyres for commercial vehicles.

The investment holding segment derives its revenue primarily from dividends income from listed securities.

No reportable operating segment has been aggregated.

a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group’s CODM monitors the results, assets and attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments are the same as the Group’s accounting policies. Segment profit/(loss) represents the profit earned by/loss from each segment without allocation of central administration costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Sales between segments are carried out on arm’s length basis. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the income statement.

All assets are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

All liabilities are allocated to reportable segments. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Information regarding the Group's reportable segments as provided to the Group's CODM is set out below:

	Manufacturing		Investment holding		Eliminations		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue from external customers	563,553	549,546	—	—	—	—	563,553	549,546
Reportable segment (loss)/profit before taxation	(27,473)	28,996	5,548	7,146	—	12	(21,925)	36,154
Interest income	231	656	—	17	—	—	231	673
Finance cost	(2,914)	(3,313)	—	—	—	—	(2,914)	(3,313)
Depreciation and amortisation	(23,455)	(23,367)	(43)	(52)	—	—	(23,498)	(23,419)
Material non-cash items:								
Writeback of/(impairment losses) on trade and other receivables	1,794	(2,001)	—	—	—	—	1,794	(2,001)
Impairment loss on plant and machinery	(12,459)	—	—	—	—	—	(12,459)	—
Income tax expense	—	—	(251)	(180)	—	—	(251)	(180)
Reportable segment assets	<u>372,338</u>	<u>469,542</u>	<u>145,911</u>	<u>179,005</u>	<u>—</u>	<u>—</u>	<u>518,249</u>	<u>648,547</u>
Additions to non-current assets (other than financial instruments and deferred tax assets)	<u>14,341</u>	<u>3,696</u>	<u>—</u>	<u>11</u>	<u>—</u>	<u>—</u>	<u>14,341</u>	<u>3,707</u>
Reportable segment liabilities	<u>170,072</u>	<u>244,452</u>	<u>19,127</u>	<u>14,267</u>	<u>—</u>	<u>—</u>	<u>189,199</u>	<u>258,719</u>

b) Reconciliations of reportable segment revenues, profit or (loss), assets and liabilities

	2010 HK\$'000	2009 HK\$'000
Revenue		
Total reportable segments' revenues	563,553	549,546
Elimination of inter-segment revenue	—	—
Consolidated turnover	<u>563,553</u>	<u>549,546</u>
Profit		
Total reportable segments' (loss)/profit	(21,925)	36,154
Finance costs	(2,914)	(3,313)
Interest income	231	673
Consolidated (loss)/profit before tax expense	<u>(24,608)</u>	<u>33,514</u>

c) Revenue from major product and services

The following is an analysis of the Group's revenue from its major products and services:

	2010 HK\$'000	2009 HK\$'000
Manufacturing and sales of tyres	<u>563,553</u>	<u>549,546</u>

d) Geographic information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The Group's non-current assets include property, plant and equipment, intangible assets and interests in associate. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of intangible assets, it is based on the location of operation to which these intangibles are allocated. In the case of interests in associates, it is the location of operations of such associates.

	Revenue from		Specified	
	external customers		Non-current assets	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China (place of domicile)	258,820	279,525	157,424	173,506
Republic of India	40,126	17,272	—	—
Republic of Yemen	32,400	49,125	—	—
The People's Republic of Bangladesh	41,519	37,710	—	—
Singapore	41,696	46,414	—	—
Malaysia	36,178	31,439	4,837	4,688
Others	112,814	88,061	—	—
	563,553	549,546	162,261	178,194

e) Information about major customers

For the year of 2010 and 2009, the revenue from the Group's largest customer was 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 REVENUE AND NET INCOME

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Other revenue		
Interest income on bank deposits	<u>231</u>	<u>673</u>
Total interest income on financial assets not at fair value through profit or loss	231	673
Dividends income from listed securities		
— available-for-sale	—	926
— held for trading	1,016	727
Others	<u>2,085</u>	<u>27</u>
	<u>3,332</u>	<u>2,353</u>
Other net income		
Gain on disposal of equipment	—	50
Gain on fair value changes of listed securities		
— held for trading	6,449	6,979
Writeback of allowance for doubtful debts (<i>Note 10</i>)	<u>1,794</u>	<u>—</u>
	<u>8,243</u>	<u>7,029</u>
	<u>11,575</u>	<u>9,382</u>

5. FINANCE COSTS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interest on bank loans wholly repayable within one year and total interest expense on financial liabilities not at fair value through profit or loss	<u>2,914</u>	<u>3,313</u>

6. (LOSS)/PROFIT BEFORE TAXATION

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

	2010 HK\$'000	2009 HK\$'000
Cost of sales	530,380	465,511
Bad debts written off	120	—
Impairment loss on plant and machinery	12,459	—
Staff costs (including directors' remuneration)		
— Wages, salaries and other benefits	40,120	48,931
— Retirement benefit scheme contributions	10,120	15,747
Additional sales tax and VAT ⁽¹⁾	8,977	—
Allowance for doubtful debts (<i>Note 10</i>)	—	2,001
Auditor's remuneration	472	472
Amortisation of operating lease prepayments (included in administrative expenses)	881	871
Depreciation of property, plant and equipment	22,617	22,548
Plant and equipment written off	5	3,721
Loss/(gain) on foreign exchange, net		
— realised	2,072	(306)
— unrealised	(3,147)	(2,952)
Operating lease payment:		
— land and buildings	3,217	3,258
— machinery	1,607	1,589
— hostel	438	29

Notes:

1. During the years ended 31 December 2008, 2009, and 2010, the Joint Venture was subject to a tax audit by the PRC tax department for the years of assessment from 2002 to 2006.

During the year, the PRC tax department issued notices of final assessment demanding additional sales tax and VAT on the Joint Venture amounting approximately to RMB9,434,000 equivalent to HK\$11,102,000, including approximately to RMB2,464,000 equivalent to HK\$2,900,000 of compound penalty, which was duly paid for full and final settlement. HK\$7,771,000 was proportionate by consolidated into the income statement and included in other operating expenses. For the years from 2007 to 2009, the PRC tax department requested a self assessment for the additional sales tax and VAT on the same basis. The Joint Venture estimated the total additional sales tax and VAT to be approximately RMB1,500,000 equivalent to HK\$1,765,000 which was fully provided for and proportionately consolidated in other operating expenses during the year. Up to the date of this report, the PRC tax department had not yet confirmed the self assessment for the years from 2007 to 2009 and the Joint Venture had not yet paid the amount, but applied for extension. If the application is not approved, surcharge at 0.05% per day may be added to the outstanding fee.

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 of its domicile. 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.

For the year ended 31 December 2010, 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% (2009 — 25%).

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

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit before taxation	(24,608)	33,514
Tax at the statutory tax rates		
— Mainland China @ 25% (2009 — 25%)	(7,540)	6,588
— Hong Kong @ 16.5% (2009 — 16.5%)	915	1,182
	(6,625)	7,770
Tax effects of:		
Non-deductible expenses	828	725
Non-taxable income	(1,492)	(1,730)
Utilisation of unutilised tax losses brought forward	—	(6,585)
Deferred tax assets not recognised during the year	7,540	—
Income tax expense	251	180

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

The calculation of the basic and diluted (loss)/earnings per share is based on the loss for the year of HK\$24,859,000 (2009 — profit of HK\$33,334,000) and the number of shares in issue during the year of 105,116,280 (2009 — 105,116,280). There was no dilutive potential ordinary share outstanding during the year of 2010 and 2009.

As there is no dilutive event during the current and previous years, the basic and diluted (loss)/earnings 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 ended 31 December 2010.

10. TRADE AND OTHER RECEIVABLES

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Trade receivables	73,374	48,160
Less: allowance for impairment loss	<u>(31,995)</u>	<u>(32,660)</u>
	41,379	15,500
Amount owing by a related party ⁽¹⁾	4,211	3,231
Other receivables	<u>3,191</u>	<u>721</u>
	48,781	19,452
Loan and receivables	3,008	9,622
Deposits paid to suppliers	4,507	2,307
Prepayments and deposits	<u>56,296</u>	<u>31,381</u>
	56,296	31,381

a) Ageing analysis

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Less than one year	39,771	15,162
More than one year but less than two years	300	1,018
More than two years	<u>33,303</u>	<u>31,980</u>
	73,374	48,160
Less: allowance for doubtful debts	<u>(31,995)</u>	<u>(32,660)</u>
	41,379	15,500

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

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:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
At 1 January	32,660	30,649
(Writeback)/additional allowance for the year (<i>Note 4/Note 6</i>)	(1,794)	2,001
Effect of foreign exchange translation	1,129	10
At 31 December	<u>31,995</u>	<u>32,660</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:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Neither past due nor impaired	11,076	7,280
Less than one year past due	28,695	7,882
More than one year but less than two years past due	1,608	338
	<u>41,379</u>	<u>15,500</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. In addition, in respect of receivables of HK\$41,379,000, the Group had received Bank's Acceptance Bills for HK\$38,400,000 during the year. The mature period of these Bank's Acceptance Bills is 3–6 months. The Group does not hold any collateral over these balances.

d) The analysis by currency of trade and other receivables is as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Hong Kong Dollar	313	1,959
Renminbi	43,171	7,378
Ringgit Malaysia	201	184
United States Dollar	12,611	21,860
	<u>56,296</u>	<u>31,381</u>

Notes:

1. The related party refers to Guangzhou Bolex Tyre Limited (“Bolex”), a company established in the PRC, in which certain directors of the Joint Venture are key management personnel. The amount owing is trading in nature, unsecured, interest-free and has no fixed terms of repayment.

11. TRADE AND OTHER PAYABLES

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	39,011	56,635
Other payables	28,906	44,820
Amount due to a director	6,051	5,676
Amount owing to related parties ⁽¹⁾	14,494	7,355
Accruals	1,864	1,950
	90,326	116,436

The amount due to a director is unsecured, interest-free and has no fixed term of repayment. The amount owing is denominated in Ringgit Malaysia.

The amount owing to related parties is non-trade in nature, unsecured, interest-free and has no fixed term of repayment.

Note:

- The related parties refer to:

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) GGXEG, a company established in the PRC, in which certain directors of the Joint Venture are key management personnel of GGXEG	3,652	4,444
(b) Cambrew Asia Limited, a company incorporated in Cayman Island, in which a director has substantial financial interests	10,842	2,911
	14,494	7,355

The analysis by currency of trade and other payables is as follows:

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Australian Dollar	—	367
Hong Kong Dollar	485	882
Renminbi	72,086	101,368
Ringgit Malaysia	6,913	6,340
Singapore Dollar	—	62
United States Dollar	10,842	7,417
	90,326	116,436

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

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than one year	31,131	48,957
More than one year but less than two years	291	139
More than two years	7,589	7,539
	<u>39,011</u>	<u>56,635</u>

12. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Deferred tax assets not recognised:

As at 31 December 2010, subject to the agreement of the local tax authorities, the Joint Venture had tax losses arising in the PRC of HK\$33,795,000 or RMB28,717,000 (2009 — HK\$14,859,000 or RMB13,080,000) 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:

	2010	2010	2009	2009
	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>
Expiring in year:				
2013	15,393	13,080	14,859	13,080
2015	18,402	15,637	—	—
	<u>33,795</u>	<u>28,717</u>	<u>14,859</u>	<u>13,080</u>

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

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Allowance for doubtful debts	29,427	32,660
Allowance for obsolete inventories	4,444	3,439
Provision for product warranty	2,652	2,623
Accrual for sales incentives	8,841	6,362
Impairment loss on plant and machinery	12,459	—
Unutilised tax losses	23,657	10,401
Others	—	3,802
	<u>81,480</u>	<u>59,287</u>

13. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010.

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 ¹
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets ³
HKFRS 9	Financial Instruments ⁴
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁵
HKAS 24 (as revised in 2009)	Related Party Disclosures ⁶
HKAS 32 (Amendments)	Classification of Rights Issues ⁷
HK (IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁶
HK (IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 July 2010.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 January 2013.

⁵ Effective for annual periods beginning on or after 1 January 2012.

⁶ Effective for annual periods beginning on or after 1 January 2011.

⁷ Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) — Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HKFRIC 19 will affect the required accounting. In particular, under HKFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

14. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to current year's presentation.

15. MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Review

The Chinese Rubber Industry Association reported that, since the fourth quarter of 2010, the price of natural rubber and other raw materials were trading near their all-time high. Based on the research conducted in fourth quarter of 2010 on 45 tyre manufacturers, production output had decreased month-on-month by 2.5% in October, 3.1% in November and 2.2% in December.

The year 2010 has been a very challenging year to the Joint Venture which recorded only a 2.5% rise in revenue and registered a net loss of HK\$43.1 million compared to a profit of HK\$37.6 million in 2009. The increase in revenue was attributable to an increase in export sales by 13.5% as compared to previous year. However, the increase in export sales was offset by a decrease in domestic sales by 11%.

Apart from the decrease in domestic sales, the significant rise in raw material prices especially natural rubber has severely affected the profitability of the Joint Venture. The Joint Venture was only able to achieve a gross profit margin of 5.9% in 2010 compared to 15.3% in 2009. In order to reduce the losses, the management has taken various measures to further reduce cost and improve efficiencies:

1. Price increase. As the raw material prices increased significantly in the year 2010, the Joint Venture made seven price adjustments during the year, increasing the selling price for domestic sales by 29% and export sales by 35%.
2. Producing only what we can sell. This has effectively reduced all inventories including raw material, work-in-progress and finished goods.

Sales

The Joint Venture recorded a turnover of HK\$805.1 million, an increase of 2.5% as compared to the previous year. This was mainly attributable to an increase in the selling price of export sales and the ability to expand market share in one of our main overseas markets, India.

However, the domestic market sales were not encouraging as compared to 2009. The decrease in domestic sales was mainly due to a slow down in the automobile market and intensifying competition from radial tyres to our main bias tyre segment.

The Light Truck Radial ("LTR") tyre plant was operating at optimal level. The LTR tyres continued to contribute about 12% of total sales. Since radicalisation is taking place quite aggressively across markets worldwide, the Joint Venture is more optimistic of the LTR market outlook. The management expects a strong growth in this segment and plans are underway to increase its product range.

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 rather stable and this has enhanced management's planning processes including raw material purchases, human resources and other operational costs.

We have also continued in our effort in streamlining and rationalizing the 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 producing of various product lines to meet the ever changing market demand. We are also clearly moving into radial tyre production while maintaining a reasonable scale of bias ply commercial tyres.

Prospect

While the global demand for rubber tyres continues to grow in 2011, the prime focus has been again on the continuous rise in raw material prices, led by natural rubber. Since the early part of the year, Chinese manufacturers have been scrambling to cope with the steep rise in cost while adapting to new local challenges such as stricter environmental rules, minimum wages and credit tightening by the authority. We expect 2011 to remain challenging for the entire industry.

The industry is still under tremendous pressure to pass on the rising cost to consumers while expecting further rise in operational cost. The Joint Venture has developed a clear operational plan to overcome these challenges ahead.

Financial Review

Liquidity and Financial Resources

During the financial year, the Joint Venture had bank borrowings of RMB116.6 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 2010, the Group had fixed deposits, cash and bank balances amounting to HK\$73,265,000 (2009 — HK\$158,722,000) and short-term borrowings of HK\$96,037,000 (2009 — HK\$139,541,000). The borrowings bear a weighted average interest rate ranging from 4.43% to 6.11% (2009 — 1.86% to 5.89%) per annum. As at 31 December 2010, the Group had total assets of HK\$518,249,000 (2009 — HK\$648,547,000) which were financed by current liabilities of HK\$189,199,000 (2009 - HK\$258,719,000) and shareholders' equity of HK\$329,050,000 (2009 — HK\$389,828,000).

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 0.292 (2009 — 0.358). The liquidity ratio of the Group represented by a ratio between current assets over current liabilities was 1.34 (2009 — 1.25).

Charges on Group Assets

As at 31 December 2010, 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 2010.

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.

16. 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.

17. 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.

18. 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 2010.

19. AUDIT REPORT

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

20. AUDITED FINANCIAL STATEMENTS

The Group's audited financial statements for the financial year will be provided to the HKEx no later than 31 March 2011 for publication on the HKEx's website.

21. ANNUAL GENERAL MEETING

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

By order of the Board
Goh Nan Yang
Director

Kuala Lumpur, 10 March 2011

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.