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**PEARL RIVER TYRE (HOLDINGS) LIMITED**  
*(Registered in Bermuda with limited liability)*  
(Stock Code: 01187)

**ANNOUNCEMENT**  
**CONTINUING CONNECTED TRANSACTIONS**

The Board announces that for the financial year ending 31 December 2012 and three financial years ending 31 December 2014, each of the relevant percentage ratios (other than profits ratio) of the transaction amount for the Bolex Transactions and the GGXEG/GIGBM Transactions respectively shall be on an annual basis less than 5% (on the basis of proportionate consolidation of the JV in accordance with the prevailing accounting standards applicable to the Group).

Pursuant to Rules 14A.34 to 14A.35 of the Listing Rules, each of the Bolex Transactions and the GGXEG/GIGBM 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 announcements (the "Announcement") of the Company dated 8 December 2008, 14 August 2009, 14 December 2009 and 28 January 2010 respectively. Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

**THE BOLEX TRANSACTIONS**

Pursuant to an agreement (the "Bolex Master Agreement") between the JV and Bolex in December 1996, the JV agreed to process certain raw materials for Bolex, in return for a contribution by Bolex of an agreed percentage of the cost of the equipment used and the employees employed for such processing service. As a further elaboration of and breaking down of these two parameters into five components, the contribution received and receivable from Bolex had actually been determined with reference to:

- (a) the cost of operating and maintaining the equipment used (including depreciation and maintenance expenses)\*;

- (b) the cost of the employees employed\*;
- (c) the cost of the raw materials incurred\*;
- (d) the overhead costs such as insurance costs, administrative staff costs and sundry costs payable by Bolex to the JV\*; and
- (e) other expenses (namely, utilities costs such as water, electricity, steam and compressed air consumed) incurred<sup>#</sup> subject to an annual revision on a retrospective basis against pre-determined unit price levels which were derived with reference to the market price levels and the actual cost accounting records of the JV based on the actual price levels of (as example) water and electricity charged by the PRC water supplies authority and PRC electricity authority respectively prevailing from time to time with reference to the then consumer price index\*

*\*The Directors confirm that the basis for sharing of cost components (a) to (d) above is as follows:*

Bolex's share = {total actual costs + 1% fixed percentage of mark-up} x {Bolex usage / (Bolex usage + JV's usage)}

*#The Directors confirm that the basis for sharing of cost component (e) above is as follows:*

Bolex's share = {total actual costs inclusive of direct material components (c) + direct expenses labour cost (components (b)) & cost of equipment (components (a)) + overhead costs component (d) + 1% fixed percentage of mark-up} x {Bolex usage / (Bolex usage + JV's usage) }

On 18 April 2006, the JV and Bolex entered into an supplemental agreement to the Bolex Master Agreement pursuant to which the tenure of the Bolex Master Agreement was renewed for a period of three years from 1 January 2006 to 31 December 2008 and such tenure will be renewable automatically for every another 3 years upon expiry at the same terms and subject to compliance with the Listing Rules then prevailing. On 31 December 2008, the Bolex Master Agreement was renewed automatically for a period of three years from 1 January 2009 to 31 December 2011 at the same terms.

Bolex is a Sino-foreign equity joint venture founded in the PRC on 11 November 1992 and their joint venture agreement is going to expire on 10 November 2012. Upon reasonable enquires, the management of Bolex estimated that their operation will likely run up to June 2012. On 31 December 2011, the Bolex Agreement will be renewed for a period of six months from 1 January 2012 to 30 June 2012.

### **Details of the Bolex Transactions**

According to the annual reports of the Company for the two years ended 31 December 2010 and the unaudited interim results for the six months ended 30 June 2011 of the Company, the following table summarises the aggregate value of the Bolex Transactions:

Actual transactions between the JV and Bolex (HK\$'000)	For the year ended 31 December		For the six months ended 30 June
	2009	2010	2011
Contributions received and receivable from Bolex for:			
(i) processing/providing raw material/intermediate/consumable products;	959	781	20
(ii) charging of utilities (water, electricity, steam and compressed air consumed); and	20,000	21,482	9,579
(iii) the right to use the factory lift and the factory space	100	101	52
<b>Total of the Bolex Transactions</b>	<b>21,059</b>	<b>22,364</b>	<b>9,651</b>

#### Cap of the Bolex Transactions for the upcoming year ending 31 December 2012

The Directors estimate that the cap in respect of the Bolex Transactions for the financial year ending 31 December 2012 amount to approximately HK\$9,993,000, which are detailed in the following table:

Budgeted transactions between the JV and Bolex (HK\$'000)	For the year ending 31 December 2012
Contribution received and receivable from Bolex for:	
(i) processing/providing raw material/intermediate/consumable products;	25
(ii) charging of utilities (water, electricity, steam and compressed air consumed); and	9,915
(iii) the right to use the factory lift and the factory space	53
<b>Estimated cap of the Bolex Transactions</b>	<b>9,993</b>

The cap has been arrived at on the basis of the historical unaudited amount of the Bolex Transactions for the six months ended 30 June 2011. In particular, as far as the charging of utilities (water, electricity, steam and compressed air consumed) is concerned, its cap has been arrived at on the basis of sharing of utilities costs with Bolex (where Bolex's share = {actual utilities cost (inclusive of overhead

costs) + 1% fixed percentage of mark-up} x {Bolex usage / (Bolex usage + JV's usage)}). In addition, the Company has also taken into account (i) the projected sales by Bolex in the coming financial period ending 30 June 2012; (ii) the anticipated level of production costs based on the projected sales by Bolex in the coming financial period ending 30 June 2012; (iii) the anticipated overhead costs, when determining the proposed caps for the coming financial year ending 31 December 2012.

## **THE GGXEG/GIGBM 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. No waiver from strict compliance with the requirements of the then Listing Rules was sought by the Company for this supplemental agreement.

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 has been renewed automatically for a period of three years from 1 January 2009 to 31 December 2011 at the same terms. On 31 December 2011, the Supplemental GGXEG Agreement will be renewed automatically for a period of three years from 1 January 2012 to 31 December 2014 at the same terms.

Pursuant to the Hostel Lease and Management Agreement between the JV and GIGBM dated 28 January 2010, the JV agreed to lease a hostel from GIGBM with a lease term commencing from 1 October 2009 to 31 December 2012 where the JV is given a rental payment exemption period from 1 October 2009 to 31 January 2010. The hostel leased from GIGBM, with a total gross floor area of 20,674 sq.m. for the brick concrete structure and 814 sq.m. for the brick wood structure at an annual rental of RMB 550,768 per annum and RMB 14,555 per annum respectively. The hostel will then be sublet to the factory workers of the JV.

Pursuant to the leasing agreement between the JV and GIGBM dated 28 January 2010, the JV agreed to lease a dining hall from GIGBM with a lease term of 3 years commencing from 1 January 2010 to 31 December 2012 at an annual rental of RMB94,705. The total gross floor area of the dining hall is 1,435 sq.m. to use as canteen for the staff of JV.

#### **Details of the GGXEG/GIGBM Transactions**

According to the annual reports for the two years ended 31 December 2010 and the unaudited interim results for the six months ended 30 June 2011 of the Company, the following table summarises the aggregate value of the GGXEG/GIGBM Transactions:

<b>Actual transactions between JV and GGXEG/GIGBM (HK\$'000)</b>	<b>For the six month</b>		
	<b>For the year ended 31 December</b>	<b>ended 30 June</b>	
	<b>2009</b>	<b>2010</b>	<b>2011</b>

1. Lease rental for the exclusive right to use certain machinery payable to GGXEG	2,270	2,270	1,190
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	833	791	291
3. Lease rental for a hostel payable to GGXEG	41	31	22
4. Lease rental for a piece of land and buildings erected thereon payable to GGXEG	4,654	4,597	2,341
5. Lease rental for workers' hostel payable to GIGBM	-	595	314
6. Lease rental for the dining hall payable to GIGBM	-	109	56
<b>Total of the GGXEG/GIGBM Transactions</b>	<b>7,798</b>	<b>8,393</b>	<b>4,214</b>

**Cap of the GGXEG/GIGBM Transactions for the upcoming three years ending 31 December 2014**

The Directors estimate that the cap in respect of the GGXEG/GIGBM Transactions for each of the three financial years ending 31 December 2014 would amount to approximately HK\$9,817,000, HK\$9,907,000 and HK\$9,998,000 respectively, which are detailed in the following table:

<b>Budgeted transactions between the JV and GGXEG (HK\$'000)</b>	<b>For the year ending 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
1. Lease rental for the exclusive right to use certain machinery payable to GGXEG	2,500	2,525	2,550
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	1,357	1,371	1,385
3. Lease rental for a hostel payable to GGXEG	46	48	50

4. Lease rental for a piece of land and buildings erected thereon payable to GGXEG	4,916	4,965	5,015
5. Lease rental for workers' hostel payable to GIGBM	855	855	855
6. Lease rental for the dining hall payable to GIGBM	143	143	143
<b>Estimated caps of the GGXEG/GIGBM Transactions</b>	<b>9,817</b>	<b>9,907</b>	<b>9,998</b>

The caps have been arrived at on the basis of the historical audited/unaudited amount of the GGXEG/GIGBM Transactions for the two years ended 31 December 2010 and six months ended 30 June 2011. In addition, the Company has also taken into account (i) the anticipated sales of bias tyres in the coming three financial years ending 31 December 2014; (ii) the anticipated land use fee from relevant authorities for the coming three financial years ending 31 December 2014; (iii) the anticipated consumer price index from relevant authorities for the coming three financial years ending 31 December 2014; (iv) the anticipated currency appreciation of Renminbi against HK dollar, when determining the proposed caps for the coming three financial years ending 31 December 2014.

#### **REASONS FOR THE BOLEX TRANSACTIONS AND THE GGXEG/GIGBM 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 type of tyres for commercial vehicles.

Bolex is principally engaged in manufacture and sales of tyres. GGXEG is engaged in manufacturing of automobile tyres, motorcycle tyres, bicycle tyres and other tyres, latex products, sundries and machinery. Meanwhile, GIGBM is engaged in, amongst others, letting of properties.

The Directors envisage that the Bolex Transactions serve to better utilise the production capacity of the Group, given that the provision of processing services to Bolex can utilise the idle/surplus production capacity, factory space and factory lift of the JV and other utilities consumed thereby from time to time.

The Directors consider that the GGXEG/GIGBM 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, hostel and dining hall for the use of the factory staffs and workers. 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 Bolex Transactions and the GGXEG/GIGBM 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 Bolex Transactions for the financial year ending 31 December 2012 and the GGXEG/GIGBM Transactions for the three financial years ending 31 December 2014 are fair and reasonable.

## **COMPLIANCE**

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). GGXEG is 100% owned by GREG and GREG is in turn 100% owned by GIG. Meanwhile, GIGBM is 100% owned by GIG and thus, GIGBM is a fellow subsidiary of GGXEG and a connected person of the Company. In addition, pursuant to Rule 14.23 of the Listing Rules, given GIGBM is connected with GGXEG, the GIGBM Transactions are required to be aggregate with the GGXEG Transactions (details of which were set out in the Announcements).

Bolex is 75% owned by GGXEG, Bolex is an associate of GGXEG and hence also a connected person of the Company. Under the Listing Rules, each of the Bolex Transactions and the GGXEG/GIGBM Transactions constitute continuing connected transactions for the Company.

In addition, for the financial year ending 31 December 2012 and for the three financial years ending 31 December 2014, each of the relevant percentage ratios (other than profits ratio) of the transaction amount for the Bolex Transactions and the GGXEG/GIGBM Transactions respectively, shall be on an annual basis less than 5% (on the basis of proportionate consolidation of the JV in accordance with the prevailing accounting standards applicable to the Group). Pursuant to Rules 14A.34 to 14A.35 of the Listing Rules, each of the Bolex Transactions and the GGXEG/GIGBM Transactions are only subject to the reporting and announcement requirements under 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements.

The Company shall set the annual cap for the GGXEG/GIGBM Transactions every three years subject to the then prevailing Listing Rules. As none of the Directors has a material interest in the transactions, no Directors has abstained from voting on the board resolutions approving the transactions.

## **ANNUAL REVIEW**

Each year the independent non-executive Directors must review each of the Bolex Transactions and the GGXEG/GIGBM 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 Bolex Transactions and the GGXEG/GIGBM 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 of the Listing Rules respectively. The Company may have to re-comply with rules 14A.35(3) and (4) of the Listing Rules 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 each of the Bolex Transactions and the GGXEG/GIGBM Transactions is exceeded, or when the relevant agreements under each of the Bolex Transactions and the GGXEG/GIGBM Transactions are renewed or there is a material change to the terms of the said agreements.

## **DEFINITIONS**

*In this announcement, unless the context otherwise requires, the following expressions have the following meanings:*

“Board”	the board of Directors
“Bolex”	Guangzhou Bolex Tyre Limited, a Sino-foreign equity joint venture founded in the PRC on 11 November 1992, in which GGXEG has a 75% interest and (to the best knowledge, information and belief having made reasonable enquires by the Directors) a third party independent of the Company and its connected persons (as defined in the Listing Rules) has a 25% interest. Bolex (as an associate of 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)

“Bolex Transactions”	together or individually, the continuing connected transactions as set out under the section headed “THE BOLEX TRANSACTIONS” in this announcement
“Company”	Pearl River Tyre (Holdings) Limited, a company incorporated under the laws of British Virgin Islands on 17 February 1994 and was continued under the laws of Bermuda by migration of its domicile on 21 October 1994, the shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company
“GGXEG”	Guangzhou Guang Xiang Enterprises Group Company Limited, a PRC state-owned enterprise which was restructured in 2001 to take over the assets and liabilities of GRTF. 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)
“GGXEG Transaction(s)”	together or individually, the continuing connected transactions as set out under the section headed “THE GGXEG TRANSACTIONS” in this announcement, and three of which had been granted a conditional waiver by the Stock Exchange on 16 July 1999 from strict compliance with the disclosure requirement under Rule 14.25(1) of the then Listing Rules
“GIG”	Guangzhou International Group Company Limited, the ultimate holding company of GGXEG.
“GIGBM”	Guangzhou International Group Building Management Company Limited, is a 100% owned subsidiary of GIG and thus, is a fellow subsidiary of GGXEG. GIGBM 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)
“GIGBM Transaction(s)”	pursuant to Rule 14.23 of the Listing Rules, given GIGBM is connected with GGXEG, the GIGBM Transactions are required to be aggregate with the GGXEG Transactions. The continuing connected transactions as set out under the section headed “THE GGXEG/GIGBM TRANSACTIONS” in this announcement.
“GREG”	Guangzhou Rubber Enterprises Group Company Limited, the immediate holding company of GGXEG.
“Group”	the Company and its subsidiaries
“GRTF”	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%

“JV”	equity in the JV (in which the Group owns the balance of 70% equity) Guangzhou Pearl River Rubber Tyre Limited, a sino-foreign joint venture which is 70% owned by the Group and 30% owned by GGXEG
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	People’s Republic of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States

By order of the Board of Directors

**Goh Nan Yang**

*Director*

*For the purpose of this announcement, the exchange rate adopted is RMB1 = HKD1.2210. 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 (the “Directors”) comprises executive director, namely, Mr. Goh Nan Yang, non-executive directors, namely, Mr. Goh Nan Kioh (Chairman) and Dato Yeoh Eng Khoon, and independent non-executive directors, namely, Mr. Khoo Teng Keat, Mr. Yeow See Yuen and Mr. Wong Meng Tak.*

Kuala Lumpur, 12 December 2011