PEARL RIVER TYRE (HOLDINGS) LIMITED

(Registered under the Companies Act 1981 of Bermuda with limited liability)
(Stock Code : 1187)

RESULTS FOR ANNOUNCEMENT TO THE MARKET FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

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 balance sheets and consolidated statements of cash flows for the financial year ended 31 December 2006 (the "financial year") together with the comparative figures for the financial year ended 31 December 2005 (the "previous financial year") and the notes thereon.

Review of Results of Operations

The Group registered a turnover of HK$613,234,000 and consolidated loss of HK$7,075,000 for the financial year. Basic loss per share was 6.7 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$57.7 million representing a 10.4% growth for the financial year. The growth was driven by an increase in the export market, which grew by 30.8%. Total unit of export sales increased by 58,876 tyres or 7.6% to 829,691 tyres;
2. The average gross profit margin decreased during the financial year, achieving 6.8% as compared to the previous financial year of 10.2%; and
3. The performance of the Joint Venture has been significantly affected by the drastic rise in overall raw material and utilities cost. The steep rise in cost, especially that of natural rubber, has badly affected the tyre industry worldwide. During the financial year, rubber peaked at an unprecedented USD2,900 per ton compared to an average of USD1,506 per ton in year 2005.

The consolidated loss was mitigated by the write back of allowance for diminution in value of listed securities of HK$5.7 million in 2006 due to the increase in market value of shares invested in Malaysia.

The year 2006 presented us with various challenges and at the same time marked a turning point for the Group. The enormous RMB80 million increase in raw material cost was well weathered while operationally, two new projects materialised. Rather than relying on bias tyres for commercial vehicles, Off The Road ("OTR") and Light Truck Radial ("LTR") tyres will be our next area of growth. The Directors are confident that we will show significant improvement throughout this year.

Consolidated Income Statement

	Note	2006 HK$'000	2005 HK$'000
Turnover	3	613,234	554,701
Costs of sales		(570,079)	(497,449)
Gross profit		43,155	57,252
Other income	4	6,372	671
Selling and distribution expenses		(10,209)	(12,716)
Administrative expenses		(20,861)	(21,448)
Other operating expenses		(19,871)	(11,594)
Finance costs	5	(5,661)	(5,142)
(Loss)/profit before taxation	6	(7,075)	7,023
Income tax expense	7	–	–
Net (loss)/profit for the year		(7,075)	7,023
Basic (loss)/earnings per share			
Hong Kong cents	8	(6.7)	6.7

Consolidated Balance Sheet

	Note	2006 *HK$'000*	2005 *HK$'000*
ASSETS			
Non-Current Assets			
Property, plant and equipment		171,386	177,080
Operating lease prepayments		12,899	13,209
Investment in an associate		4,475	4,475
Investment in listed securities		126,180	140,908
Intangible asset		839	1,217
Total Non-Current Assets		315,779	336,889
Current Assets			
Inventories		119,990	109,040
Trade receivables	*10*	32,299	22,910
Other receivables		11,189	16,146
Cash and cash equivalents		51,447	35,461
Total Current Assets		214,925	183,557
Current Liabilities			
Trade payables	*11*	67,080	54,531
Other payables and accruals		14,890	13,959
Amount owing to a director		3,506	1,096
Provisions		5,686	5,502
Borrowings		81,874	67,259
Total Current Liabilities		173,036	142,347
Net Current Assets		41,889	41,210
Net Assets		357,668	378,099
EQUITY			
Issued capital		110,716	110,716
Reserves		246,952	267,383
Total Equity		357,668	378,099

Consolidated Statement of Cash Flow

	2006 *HK$'000*	2005 *HK$'000*
Operating activities		
(Loss)/Profit before taxation	(7,075)	7,023
Adjustments for:–		
Allowance for doubtful debts	2,474	754
Amortisation of operating lease prepayments	748	729
Amortisation of intangible asset	412	401
Depreciation of property, plant and equipment	19,797	19,567
Interest expense	4,542	4,307
Plant and equipment written off	6	–
Unrealised loss on foreign exchange	1,586	763
Gain on disposal of listed securities	(47)	–
Gain on disposal of plant and equipment	(23)	–
Interest income	–	(23)
Other dividend income	(1,092)	(643)
Write back of allowance for diminution in value of listed securities	(5,713)	–
Write back of allowance for doubtful debts	(505)	(283)
	15,110	32,595
Increase in inventories	(10,950)	(18,257)
Increase in trade and other receivables	(5,954)	(14,185)
Increase in trade and other payables	13,479	12,027
Cash generated from operations	11,685	12,180
Interest received	–	23
Interest paid	(4,542)	(4,307)
Net cash generated from operating activities	7,143	7,896
Investing activities		
Purchase of property, plant and equipment	(9,387)	(5,688)
Purchase of listed securities	(97)	(1,297)
Proceeds from disposal of listed securities	151	–
Proceeds from disposal of plant and equipment	107	35
Other dividends received	1,092	643
Net cash used in investing activities	(8,134)	(6,307)
Financing activities		
Drawdown of borrowings	81,874	67,259
Repayment of borrowings	(67,259)	(70,341)
Advance to a related party	(1,691)	(142)
Advances from a director	2,410	308
Net cash generated from/(used in) financing activities	15,334	(2,916)
Net increase/(decrease) in cash and cash equivalents	14,343	(1,327)
Cash and cash equivalents at beginning of the year	35,461	36,031
Effect of foreign exchange rate changes, net	1,643	757
Cash and cash equivalents at end of the year	51,447	35,461

1. Basis of Preparation

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and interpretations ("HK(IFRIC)-Int") which also include all Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(SIC)-Int") ("collectively HKFRSs") which are effective for accounting periods beginning on or after 1 January 2006.

The accounting policies and basis of preparation used in the preparation of the financial statements are the same as those used in the annual financial statements for the financial year ended 31 December 2005 except for the adoption of the following new and revised HKFRS for the first time for the current year's financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HK (IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease

The adoption of these new HKFRSs has no material effect on the results and financial positions of the Group.

The Group has not applied the following new standards and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure[1]
HKFRS 7	Financial instruments: disclosures[1]
HK (IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[2]
HK (IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[3]
HK (IFRIC) – INT 8	Scope of HKFRS 2[4]
HK (IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK (IFRIC) – INT 11	Group and Treasury Share Transactions[6]

1 Effective for financial periods beginning on or after 1 January 2007.
2 Effective for financial periods beginning on or after 1 December 2006.
3 Effective for financial periods beginning on or after 1 March 2006.
4 Effective for financial periods beginning on or after 1 May 2006.
5 Effective for financial periods beginning on or after 1 June 2006.
6 Effective for financial periods beginning on or after 1 March 2007.

2. Segmental Information

(i) Primary reporting format – business segments

	Manufacturing *HK$'000*	**Investment Holding** *HK$'000*	**Elimination** *HK$'000*	**Group** *HK$'000*
2006				
Turnover	612,142	1,092	–	613,234
RESULTS:				
Segment results (external)	(3,136)	2,304	(582)	(1,414)
Finance costs	(5,661)	–	–	(5,661)
Loss before taxation				(7,075)
Income tax expense				–
Loss after taxation/Net loss attributable to shareholders				(7,075)
OTHER INFORMATION:				
Segment assets	390,328	625,376	(485,000)	530,704
Segment liabilities	(167,728)	(74,870)	69,562	(173,036)
Capital expenditure	9,076	311	–	9,387
Depreciation and amortisation	20,753	204	–	20,957

	Manufacturing *HK$'000*	**Investment Holding** *HK$'000*	**Elimination** *HK$'000*	**Group** *HK$'000*
2005				
Turnover	554,036	665	–	554,701
RESULTS:				
Segment results (external)	16,599	(4,434)	–	12,165
Finance costs	(5,142)	–	–	(5,142)
Profit before taxation				7,023
Income tax expense				–
Profit after taxation/Net profit attributable to shareholders				7,023
OTHER INFORMATION:				
Segment assets	365,017	628,833	(473,404)	520,446
Segment liabilities	(139,962)	(70,496)	68,111	(142,347)
Capital expenditure	5,688	–	–	5,688
Depreciation and amortisation	20,508	189	–	20,697

(ii) Secondary reporting format – geographical segments

	The PRC *HK$'000*	Singapore *HK$'000*	Malaysia *HK$'000*	Elimination *HK$'000*	Group *HK$'000*
2006					
Turnover	612,142	–	1,092	–	613,234
RESULTS:					
Segment results (external)	(3,136)	(4,608)	6,912	(582)	(1,414)
Finance costs	(5,661)	–	–	–	(5,661)
Loss before taxation					(7,075)
Income tax expense					–
Loss after taxation/Net loss attributable to shareholders					(7,075)
OTHER INFORMATION:					
Segment assets	390,328	7,648	617,728	(485,000)	530,704
Segment liabilities	(167,728)	–	(74,870)	69,562	(173,036)
Capital expenditure	9,076	–	311	–	9,387
Depreciation and amortisation	20,753	102	102	–	20,957

	The PRC *HK$'000*	Singapore *HK$'000*	Malaysia *HK$'000*	Elimination *HK$'000*	Group *HK$'000*
2005					
Turnover	554,036	–	665	–	554,701
RESULTS:					
Segment results (external)	16,599	(2,094)	(2,340)	–	12,165
Finance costs	(5,142)	–	–	–	(5,142)
Profit before taxation					7,023
Income tax expense					–
Profit after taxation/Net profit attributable to shareholders					7,023
OTHER INFORMATION:					
Segment assets	365,017	43,408	585,425	(473,404)	520,446
Segment liabilities	(139,962)	–	(70,496)	68,111	(142,347)
Capital expenditure	5,688	–	–	–	5,688
Depreciation and amortisation	20,508	94	95	–	20,697

3. Turnover

	2006 *HK$'000*	2005 *HK$'000*
Sale of goods	609,947	552,271
Dividends received and receivable from securities listed on prescribed stock exchanges, outside Hong Kong	1,092	643
Interest income	–	23
Other operating income	2,195	1,764
	613,234	554,701

4. Other Income

	2006 *HK$'000*	2005 *HK$'000*
Write back of allowance for doubtful debts	505	283
Write back of allowance for diminution in value of listed securities	5,713	–
Gain on disposal of securities listed on prescribed stock exchanges, outside Hong Kong	47	–
Gain on disposal of plant and equipment	23	–
Other income	84	388
	6,372	671

5. **Finance costs**

	2006 *HK$'000*	2005 *HK$'000*
Interest on bank loans	(4,542)	(4,307)
Others	(1,119)	(835)
	(5,661)	(5,142)

6. **(Loss)/Profit before taxation**

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

	2006 *HK$'000*	2005 *HK$'000*
Cost of goods sold	570,079	497,449
Staff costs (excluding directors' remuneration)		
– Wages, salaries and allowances	25,854	30,495
– Retirement benefit scheme contribution	5,035	4,943
Allowance for doubtful debts	2,474	754
Auditor's remuneration		
– current year	479	288
– underprovision in the previous year	45	–
Amortisation of operating lease prepayments	748	729
Amortisation of intangible asset	412	401
Depreciation of property, plant and equipment	19,797	19,567
Plant and equipment written off	6	–
Loss on foreign exchange, net		
– realised	1,293	2,173
– unrealised	1,586	763

7. **Income Tax Expense**

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

For the year ended 31 December 2006, the statutory corporate income tax rates applicable to the Joint Venture established and operating in the PRC was 27%. No taxation is provided for the Joint Venture profit of the current financial year due to the availability of unutilised tax losses brought forward.

As at 31 December 2006, subject to the agreement with the local tax authorities, the Joint Venture has tax losses arising in PRC of RMB10,000,000 (2005 – RMB11,496,000) that are available for offsetting against future taxable profits. Such losses will be carried forward for five years from the year that the losses were incurred. No deferred tax asset has been recognised in respect of such losses.

A reconciliation of 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:–

	2006 *HK$'000*	2005 *HK$'000*
(Loss)/profit before taxation	(7,075)	7,023
Tax at the statutory tax rates		
– Hong Kong @ 17.5%	(2,375)	3,093
– Mainland China @ 27%	403	(776)
	(1,972)	2,317
Tax effects of:–		
Non-deductible expenses	869	839
Non-taxable income	(1,295)	(153)
Utilisation of unutilised tax losses brought forward	(200)	(3,304)
Deferred tax assets not recognised during the financial year	3,476	702
Others	(878)	(401)
Income tax expense	–	–

8. **Basic (Loss)/Earnings Per Share**

The calculation of the basic (loss)/earnings per share is based on the net loss of HK$7,075,000 (2005 – net profit of HK$7,023,000) for the financial year and on the number of shares in issue during the financial year of 105,116,280 (2005 – 105,116,280).

There is no dilutive effect on the basic (loss)/earnings per share for the financial year and the previous financial year.

9. Dividends

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

10. Trade Receivables

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

The ageing analysis of trade receivables as at the balance sheet date is as follows:–

	2006	**2005**
	HK$'000	*HK$'000*
Outstanding less than one year	32,528	22,344
Outstanding more than one year but less than two years	2,249	1,525
Outstanding more than two years	22,630	21,378
	57,407	45,247
Less: allowance for doubtful debts	(25,108)	(22,337)
	32,299	22,910

11. Trade Payables

The ageing analysis of trade payables as at the balance sheet date is as follows:–

	2006	**2005**
	HK$'000	*HK$'000*
Outstanding less than one year	60,513	50,461
Outstanding more than one year but less than two years	2,397	4,023
Outstanding more than two years	4,170	47
	67,080	54,531

12. Comparative Figures

The following comparative figures have been reclassified to conform with the current financial year's presentation:–

	AS RESTATED	**AS PREVIOUSLY REPORTED**
	HK$'000	*HK$'000*
BALANCE SHEET (EXTRACT):–		
Non-current assets (Extract)		
Other financial assets	–	145,383
Investment in an associate	4,475	–
Investment in listed securities	140,908	–
Equity (Extract)		
Share premium	–	113,157
Revaluation reserve	–	106,554
Capital reserve	–	37,344
Foreign currency translation reserve	–	17,729
Accumulated losses	–	(7,401)
Reserves	267,383	–

13. Management's Discussion and Analysis

Business Review

The tyre industry in 2006 was largely characterised by a steep increase in commodities prices and an upward movement of energy and utilities cost. The unexpected surge in natural rubber price to a historic high has caused manufacturers to suffer losses. According to the China Tyre Association 2006 report, the industry recorded an overall loss while total manufacturing output reduced by 5% to 61,942,910 units.

Compared to 2005, our raw material cost alone has increased by RMB80 million. While continuing to increase the efficiency of the plant, Management has also adjusted the selling price numerous times. Both export and domestic selling price has increased by 14% and 11% respectively.

The industry has moved further towards radialisation with total manufacturing units of truck radial tyres increasing by 33% to 33,485,196 units. Management acknowledges the impact on its bias tyre business. For normal load applications, the conversion trend of bias tyres to radial is inevitable in the long term. With better road conditions and newer vehicles, radial tyres are set to grow further.

The Joint Venture is putting up a clear two-pronged strategy for the next 5 years:

1. Existing facilities will be geared towards making tyres for niche markets such as mining and quarry applications. This sector will take a longer time for radialisation and provides better profitability.
2. Part of our plant will be converted for the production of OTR and radial tyres. Basic available facilities such as factory, land, utilities and certain major equipment enables us to diverse into other products without incurring major capital investments. However, a tremendous amount of work and technology know-how is required to achieve this objective.

Sales

The Joint Venture achieved record sales in 2006. Largely driven by export, we expect the momentum to continue into 2007. Our specially built tyres which cater to the export market are perceived amongst the best in China and are readily accepted by the most demanding applications worldwide.

Manufacturers worldwide have either closed down or limited the production of bias tyres. Some countries have even banned all export of bias tyres produced locally. This trend has offered us an opportunity to further increase our exports. Currently, the Joint Venture is contract manufacturing for several foreign brands and is in the process of signing up an additional two brands.

In addition to this, we have made inroads in the Original Equipment Manufacturer ("OEM") sector with a large truck manufacturer in India.

The domestic market for bias tyre are expected to shrink further. With a proper distributor network and superior product quality, we expect to maintain our domestic sales volume despite this shrinking market. We expect the new LTR and OTR tyres will expand our business turnover.

Production

The Joint Venture has further improved its manufacturing capabilities. In line with the Company's objective to create a superior quality product, machinery is upgraded and stricter controls have been put in place.

Various machines have been upgraded for better efficiency and precision. Among the major efforts are building machines with tread servers, complete refurbishment of mixers and a newly acquired high speed bias cutter. These upgrades have brought direct positive results both in quality and efficiencies resulting in lower costs and a decrease in warranty claims.

As in 2005, Management has continued to monitor production parameters through KPI (Key Performance Indicators) systems to immediately address any problems in the production floor. Over the last two years, we have seen improvement in production stability, cost reduction and optimisation of scheduling.

Prospect

The year 2006 marked a new milestone for the Joint Venture. Having achieved its credibility in manufacturing bias tyres, it is now venturing into new frontiers namely OTR and radial tyres. This move will not only bring in better returns but provide more opportunities in the long term. The direction is clear and Management is committed to achieve a 3:3:4 target within the next 5 years (i.e. turnover will consist of 30% bias, 30% radial and 40% OTR).

The above product mix will put us in a much better footings to weather any fluctuation in commodities prices and market cycle risks.

The Joint Venture will further aligned itself towards becoming a export oriented company.

Financial Review

Liquidity and Financial Resources

During the financial year, the Joint Venture had bank borrowings of RMB117.7 million, all of which are in Renminbi ("RMB"). 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 2006, the Group had cash and bank balances amounting to HK$51,447,000 (2005 – HK$35,461,000) and short-term borrowings of HK$81,874,000 (2005 – HK$67,259,000). The borrowings bear fixed interest rates from 6.42% to 7.04% (2005 – 6.42% to 7.01%) per annum. As at 31 December 2006, the Group had total assets of HK$530,704,000 (2005 – HK$520,446,000) which were financed by current liabilities of HK$173,036,000 (2005 – HK$142,347,000) and shareholders' equity of HK$357,668,000 (2005 – HK$378,099,000).

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 0.229 (2005 – 0.178). The liquidity ratio of the Group represented by a ratio between current assets over current liabilities, was 1.24 (2005 – 1.29).

Charges on Group Assets

As at 31 December 2006, the Joint Venture pledged buildings, relevant rights of land usage, production machinery and inventories of value of approximately RMB336 million by way of 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 2006.

Employees

The Group currently employs a total of approximately 2,000 employees. We expect this level of workforce to be stable for 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 materials 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. Management will continue to monitor closely the exchange risk and hedge by forward exchange contracts and applicable derivatives when necessary.

14. 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 financial year.

15. Code of Corporate Governance Practices

The Board is committed to ensure that 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 financial 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.

16. Audit Committee

The Audit Committee comprises three non-executive directors, two of whom are independent non-executive directors. The chairman of the said committee is an independent non-executive director.

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 Management of the Company and Horwath Hong Kong CPA Limited, the auditors of the Company, the audited consolidated financial statements of the Group for the year ended 31 December 2006.

17. Audit Report

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

18. Audited Financial Statements

The Group's audited financial statements for the financial year will be provided to the HKEx no later than 30 April 2007 for publication on the HKEx's website.

19. Annual General Meeting

The Thirteenth Annual General Meeting will be held at Guangzhou Pearl River Rubber Tyre Factory, Huadu, Guangzhou, The People's Republic of China. Notice of the annual general meeting will be published and issued in due course.

By order of the Board
Goh Nan Yang
Director

Kuala Lumpur, 13 April 2007

As at the date of this announcement, the Board of Directors of the Company comprises of Mr. Ang Guan Seng, the Non-Executive Chairman, Mr. Goh Nan Kioh, the Non-Executive Deputy Chairman, Mr. Goh Nan Yang and Mr. Sandy Chim Chun Kwan, being the Executive Directors, Dr. Lim Thian Soo, Mr. Yeoh Eng Khoon and Mr. Lim Boon Seh being the Non-Executive Directors and Mr. Lim Loi Heng, Ms. Helen Zee and Mr. Lim Chong Puang being the Independent Non-Executive Directors.

"Please also refer to the published version of this announcement in China Daily."