

## **DIRECTORS' REPORT**

This report by the Directors of Pearl River Tyre (Holdings) Limited (the "Company" or "Parent Entity") is made for the financial year ended 31 December 2001 and is accompanied by the financial statements for the Company and the Group.

### **DOMICILE**

The Company was incorporated in the British Virgin Islands on 17 February 1994 and continued under the laws of Bermuda by migration of its domicile on 21 October 1994. The Company was registered in Australia and Hong Kong as a foreign company pursuant to Section 601CE of the then Australian Corporations Law on 4 November 1994 and Part XI of the Companies Ordinance on 24 May 1999 respectively.

**Bermuda Law does not regulate the take-over of companies in any way.** The Company is however subject to take-over regulations applicable in Hong Kong.

### **PRINCIPAL ACTIVITIES**

The Company is principally engaged in investment holding.

During the financial year ended 31 December 2001, the Company transferred its principal asset, the 70% equity interest in Guangzhou Pearl River Rubber Tyre Limited (the "Joint Venture") to Carham Assets Limited, a wholly-owned controlled entity. The principal activity of the Joint Venture is the manufacture and marketing of bias tyres for commercial vehicles.

### **OPERATING RESULTS**

For the financial year ended 31 December 2001, the consolidated profit after income tax amounted to A\$1,160,000 or HK\$4,624,000 (2000 – consolidated loss after income tax of A\$8,100,000 or HK\$37,570,000).

### **RESERVES**

There were no material transfers to or from reserves during the financial year ended 31 December 2001 other than as disclosed in Notes 11 and 12 to the financial statements.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2001, the Company's reserves available for distribution by way of dividends amounted to A\$4,291,000 or HK\$34,366,000 (31 December 2000 – A\$3,131,000 or HK\$29,742,000).

The Company's share premium account as at 31 December 2001 with a balance of A\$16,505,000 or HK\$113,157,000 (31 December 2000 – A\$16,505,000 or HK\$113,157,000) may be distributable in the form of fully paid bonus shares.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the financial year ended 31 December 2001, 20% of sales revenue of the Joint Venture and 36% of purchases, not including items which are of a capital nature, of the Joint Venture were attributable to the Joint Venture's five largest customers and suppliers respectively. The Group's largest customer accounts for 10% of sales revenue of the Joint Venture whilst the Group's largest supplier accounts for 13% of purchases of the Joint Venture.

## **DIRECTORS' REPORT**

### **MAJOR CUSTOMERS AND SUPPLIERS** *(Cont'd)*

None of the Directors, their associates or any shareholders of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's share capital, had an interest in the major customers or suppliers noted above.

### **DIVIDENDS**

No dividend was 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 2001.

### **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in Note 33 to the financial statements.

### **SHARE CAPITAL**

There were no changes in the authorised and issued and paid-up capital of the Company during the financial year ended 31 December 2001.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Bye-laws of the Company.

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

Neither the Company nor any of its controlled entities, associate entity and the Joint Venture purchased, sold or redeemed any of the Company's listed securities during the financial year ended 31 December 2001.

### **PLANT AND EQUIPMENT**

Details of movements in plant and equipment of the Group during the financial year ended 31 December 2001 are set out in Note 5 to the financial statements.

### **MATERIAL INTERESTS IN ENTITIES**

Details of the Company's controlled entities, associate entity and the Joint Venture as at 31 December 2001 are set out in Notes 3 and 4 to the financial statements.

## DIRECTORS' REPORT

### BOARD OF DIRECTORS

The following are the Directors as at the date of this report and during the whole of the financial year ended 31 December 2001 except where otherwise indicated:-

#### Chairman and Non-Executive Director

Ang Guan Seng

#### Executive Directors

Goh Nan Kioh

Chen Zhen Guo

Sandy Chim Chun Kwan

Lim Thian Soo – alternate to Goh Nan Kioh

#### Non-Executive Directors

Alexander Russell McKenzie (*Resigned on 7 September 2001*)

Sun Zhi Yi

David James Humann

Lim Loi Heng

Tan Song Wee

Yeow Ah Kow

Pursuant to Clause 6.1(f)(1)(A) of the Company's Bye-laws, Chen Zhen Guo, Sun Zhi Yi and Tan Song Wee retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' REPORT

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

#### Directors

The profiles of Directors holding office at 31 December 2001 are as follows:-

#### **Ang Guan Seng**

Mr Ang (age 63) is the Managing Director of Petaling Garden Berhad, a major housing developer in Malaysia and Singapore. He is a director of several listed companies, including Malayan United Industries Berhad (listed in Malaysia) and Parkway Holdings Limited (listed in Singapore). He is also the Non-Executive Chairman of the Company. He joined the Company in 1995.

#### **Goh Nan Kioh**

Mr Goh (age 49) is a graduate of the University of Malaya with a Bachelor Degree in Economics. He has wide and varied business investments in many countries. He has been the Chief Executive Officer of the Company since February 1995. He joined the Company in 1995 and is currently the Deputy Chairman of the Company.

#### **Chen Zhen Guo**

Mr Chen (age 58) graduated from the Faculty of Rubber Technology of the South China Technical Institute in 1967. He was promoted to General Manager of Guangzhou Rubber Tyre Factory in 1986. Currently, he is Chairman on the Board of the Joint Venture and its General Manager. He is also the non-executive Chairman of the Board of Guangzhou Bolex Tyre Ltd. Mr Chen has over 31 years' experience in tyre production and enterprise operation and management. He joined the Company in 1994.

#### **Sandy Chim Chun Kwan**

Mr Chim (age 47) is a Chartered Accountant, qualified in Canada, and practising as a public accountant and management consultant. He has over 20 years' experience in Australia, Canada and Hong Kong in the accounting profession and in industry with the treasury and finance operations of a multinational corporation. He joined the Company in 1995.

#### **Lim Thian Soo**

Dr Lim (age 39) is a graduate of Edinburgh University Medical School and worked for 6 years as a doctor in the United Kingdom. He then completed his MBA at City University Business School in London before joining Pacific Union Pte Ltd in 1994. He is the Director of Corporate Affairs, responsible for the day-to-day administration of the Company's business. He joined the Company in 1995. He is also the Compliance Officer of the Company in respect of regulatory matters.

#### **Sun Zhi Yi**

Mr Sun (age 58) graduated from the Faculty of Mechanical Engineering of Nanjing Chemical Engineering Institute in 1968. Currently, he is the General Manager of Guangzhou Rubber Industry Corporation which administers, on behalf of the Municipality of Guangzhou, Guangzhou Rubber Tyre Factory ("GRTF") and over 20 other rubber-based industrial companies. Since he was promoted to his current position in 1991, Mr Sun has vigorously planned the expansion of tyres and other rubber-related products connected with the transportation industry. He joined the Company in 1994.

## DIRECTORS' REPORT

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (*Cont'd*)

#### Directors (*Cont'd*)

##### **David James Humann**

Mr Humann (age 62) has extensive experience in strategic planning for industrial enterprises and in financial reporting with PriceWaterhouseCoopers. His positions with PriceWaterhouseCoopers included Managing Partner, Asia Pacific and membership of its World Board and Executive Management Committee. He is a director of KUMBA Australia Pty Ltd (formerly known as ISCOR Australia Pty Ltd, founded as the South Africa Iron and Steel Industrial Corporation Limited) and ERG Limited and several other public companies. He is chairman of Macmahon Holding Limited, Mincor Limited and Tethyan Cooper Co Ltd. He joined the Company in 1994.

##### **Lim Loi Heng**

Mr Lim (age 51) is a UK qualified Chartered Accountant. He has wide experience in financial and corporate management. He was previously employed by Kuala Lumpur Kepong Berhad ("KLKB") in various senior positions and has been with KLKB for a total of 18 years until he left in December 1997 to be an independent consultant. KLKB is one of the substantial shareholders of the Company.

Mr Lim joined the Company as a non-executive Director in 1995 and was redesignated as an independent non-executive Director on 7 September 2001 and he has confirmed to The Stock Exchange of Hong Kong Limited ("SEHK") that he does not have any corporate relationship with KLKB since leaving his employment. He has also confirmed that he is an independent non-executive director as defined under Rule 3.11 of the SEHK and that he could exercise independent judgement in making decisions on the Board.

##### **Tan Song Wee**

Mr Tan (age 47) graduated in 1979 with a Bachelor of Accountancy degree from the National University of Singapore. Since his graduation, he has worked for several financial institutions including Jardine Fleming, Arbuthnot Latham Asia Ltd and OCBC Securities Pte Ltd. He was appointed as a non-executive Director in 1999.

##### **Yeow Ah Kow**

Mr Yeow (age 48) is a graduate of Nanyang University Singapore with a Bachelor of Science Degree in Chemistry and The University of Manchester, Institute of Science and Technology, with a Master of Science Degree in Petrol-Chemicals and Hydrocarbon Chemistry. He joined Sime Darby Edible Oil and Oleochemicals Singapore for a brief period before joining a large German trading company as its Group Manager for 10 years. He joined KLKB in 1991, and is currently responsible for the Group's oleochemical business. He was appointed as a non-executive Director of the Company in September 2000.

## DIRECTORS' REPORT

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (*Cont'd*)

#### Senior Management

**Mr Kew Kok Pen** (age 54), is a Mechanical Engineering graduate of the Kuala Lumpur Technical College and has extensive experience in factory operations and management. He is a director and deputy chairman of the Joint Venture. He was the Chief Engineer with a multinational brewery for 10 years and the Plant Manager with an American food company for 6 years before joining the Company in 1995 as head of the management team responsible for strategic planning, operations and execution of company policy.

**Mr Chan Keng Kiong** (age 33), is the Deputy General Manager in charge of sales. He graduated from the National University of Malaya with a Bachelor Degree in Economic (Hon.). He specialised in sales and marketing while attached to a large multinational company in the auto parts industry. He has experience in managing and developing distribution networks in the auto parts trade in both domestic and international markets. He joined the Group in 1995.

**Ms Liew Swee Hoong** (age 35), is the Financial Controller of the Joint Venture and is responsible for overseeing the accounting and financial operations of the Joint Venture. She graduated with an Accountancy Degree (Hons) from the University of Malaya and is a qualified accountant. She has experience in auditing as well as financial and accounting in several Malaysian and joint-venture manufacturing concerns. She is currently stationed in Guangzhou and is responsible for overseeing the accounting and financial operations of the Joint Venture. She joined the Group in 1995.

**Mr Ding Xin Guang** (age 59), obtained his National Managerial Training Course Certificate in 1986. He joined GRTF in 1970 and was actively involved in production coordination. He was a workshop supervisor until the formation of the Joint Venture whereby he became the Deputy General Manager in charge of Engineering and Safety Department. He has been the Deputy General Manager for the Production Department since 1999. He joined the Joint Venture in 1994.

**Mr Chi Xin An** (age 57), graduated from Shanghai Tong Ji University in 1969 and specialised in ventilation and temperature control. He joined GRTF in 1970 and has been involved in maintenance, production as well as the power plant of the factory. He was an Engineering Supervisor since the Joint Venture was set up before his later promotion to Deputy General Manager in charge of the Engineering Department and Safety Department in 1999. He joined the Joint Venture in 1994.

**Mr Hou Chi Feng** (age 57), a graduate of the Faculty of Rubber Technology of South China Technical Institute, has 31 years experience in tyre production. In 1986, Mr Hou was promoted to Deputy General Manager of GRTF. He has been in charge of the Engineering Department and is currently responsible for the Quality Assurance and Research and Technical Department. He joined the Joint Venture in 1994.

**Mr Chen Xu Ming** (age 44) is a graduate of Statistic Institute of China. He joined GRTF in 1984 and was assigned to Personnel Department whereby he contributed to the setting up of scientific human resources allocation and payroll system. He was a Personnel Supervisor since 1998 before his latest promotion to Deputy General Manager responsible for the Purchasing and Logistic Department and the Personnel Department in 2002. He joined the Joint Venture in 1994.

#### Family Relationship

Lim Thian Soo is a brother-in-law of Goh Nan Kioh. Other than this, there is no family relationship among the Directors of the Company.

## DIRECTORS' REPORT

### DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company, or any of its controlled entities or the Joint Venture, which is not determinable by the employing entity within one year without payment of compensation, other than statutory compensations.

### DIRECTORS' MEETINGS

The number of Directors' meetings held, including meetings held by circulation of minutes, and the number of those meetings attended by each of the Directors of the Company, while a Director, during the financial year ended 31 December 2001 are as follows:–

Directors	No. attended	No. eligible to attend
Ang Guan Seng	6	7
Goh Nan Kioh	6	7
Chen Zhen Guo	7	7
Sandy Chim Chun Kwan	7	7
Lim Thian Soo – alternate to Goh Nan Kioh	1	1
Alexander Russell McKenzie ( <i>Resigned on 7 September 2001</i> )	6	7
Sun Zhi Yi	6	7
David James Humann	6	7
Lim Loi Heng	7	7
Tan Song Wee	6	7
Yeow Ah Kow	6	7

### DIRECTORS' SHAREHOLDINGS

As at 31 December 2001, the interests of the Directors in the equity of the Company as recorded in the registers maintained by the Company were as follows:–

Name	Personal interests	Registers Maintained In			Hong Kong	
		Australia Family interests	Corporate interests	Personal interests	Family interests	Corporate interests
Ang Guan Seng	100,000	–	–	–	–	38,114,000 <sup>(1)</sup>
Goh Nan Kioh	–	–	–	–	957,790 <sup>(2)</sup>	38,114,000 <sup>(1)</sup>
Sandy Chim Chun Kwan	102,252	–	–	–	–	–
Lim Thian Soo	–	–	–	134,308	–	–

Notes:–

1. These shares are beneficially held by two corporations in which Ang Guan Seng and Goh Nan Kioh individually hold more than 20% equity interest. In accordance with the applicable regulations in Australia, both Ang Guan Seng and Goh Nan Kioh are deemed interested in shares in the Company held by these corporations.
2. These shares are beneficially held by the spouse and children (under 18 years old) of Goh Nan Kioh and accordingly he is deemed to be interested in these shares.
3. The Company does not have any listed debt securities.

## **DIRECTORS' REPORT**

### **DIRECTORS' SHAREHOLDINGS** *(Cont'd)*

Save as disclosed above, none of the other Directors or their associates held any interest (directly and/or deemed) in the equity of the Company as at 31 December 2001. None of the Directors or their associates had any interest (directly and/or deemed) in the equity in or debt securities of the associated corporations of the Company other than those as disclosed in Note 25 (a) (vi) to the financial statements.

### **CORPORATE GOVERNANCE/CODE OF BEST PRACTICE**

The Board of Directors comprises ten directors, of whom five are non-executive directors. The Chairman, who is a non-executive director, oversees the nomination and review of Board membership. Directors are selected to achieve a broad range of skills and experience on the Board. The Articles of Association of the Company require the directors to retire by rotation at the Annual General Meeting once every three years.

The Board provides direction to management, and approves the aims, strategies and policies of the Company. Owing to the size of the operations of the Company which is fairly small, the Company does not require formal committees to formulate policies and establish broad guidelines in the areas of remuneration, investment and business risk. The Chairman, as assisted by the Board, formulates such policies and guidelines.

The Joint Venture has its own separate Board of Directors which is responsible for formulating and establishing policies and guidelines in the areas of remuneration, investment and business risk. The Board of the Joint Venture meets every three to four months to discuss operational issues, monitor progress and re-assess policies and guidelines. The Company is represented by five directors on the Board of Directors of the Joint Venture. The Board of Directors of the Joint Venture has a total of nine members, out of which, three are non-executive directors.

The annual accounts of the Joint Venture are subject to audit by two firms of accountants, one being a local firm whilst the other is an Australian firm.

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 SEHK throughout the financial year ended 31 December 2001 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.



## **DIRECTORS' REPORT**

### **AUDIT COMMITTEE**

The members of the Audit Committee are:–

Lim Loi Heng

David James Humann

Alexander Russell McKenzie (*Resigned on 7 September 2001*)

The functions of the Audit Committee are to review the accounting policies, internal controls and financial reporting of the Company, its controlled entities and the Joint Venture on behalf of the Board and make recommendations to the Board. The committee is to meet at least twice a year, with a representative from the external auditors.

In performing its functions, the committee reviewed the overall scope of work of the external auditors and discussed with them the results of their examination and their evaluation of the system of internal controls operating within the Company and its controlled entities. The committee has also reviewed the results and financial statements for the financial year ended 31 December 2001 and the announcements of results made by the Company to the ASX and the SEHK and has recommended that the Board approves the financial statements and announcements.

### **ENVIRONMENTAL PROTECTION**

In the PRC, environmental protection is governed principally by the Environmental Protection Law and a number of related regulations covering air pollution, air quality, fresh water and ocean pollution and the administration of hazardous substances. Under the Environmental Protection Law, provincial and local governments are encouraged to supplement the central government's laws and regulations with local laws and standards to suit the prevailing local conditions.

The business undertaken by the Group in the PRC is subject to both PRC national and local environmental protection regulations. The Directors believe that the environmental protection measures adopted by the Joint Venture in its PRC operations have complied with the existing national and local environmental protection regulations in the PRC in all material respects. The last date of inspection on environmental protection by the relevant authorities was 7 January 2002.

The Joint Venture maintains an education programme for workers regarding environmental matters and issues guidelines to workers to assist in compliance with environmental regulations. The Joint Venture also monitors dust emissions to keep levels within the limits specified by government regulations. The Joint Venture also employs a contractor to dispose of solid wastes and is subject to Municipal Government regulations for the discharge of fluid wastes.

During the financial year ended 31 December 2001, expenses incurred by the Joint Venture on environmental protection were approximately A\$142,000 or HK\$592,000 (2000 – A\$124,000 or HK\$572,000).

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the register kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (“the SDI Ordinance”) showed that the following persons are interested in 10% or more of the shares:–

Name	Number of Shares	Percentage of Shares held
Pacific Union Pte Ltd *	37,590,000	35.76%
Kuala Lumpur Kepong Berhad **	32,085,976	30.52%
Batu Kawan Berhad ***	32,085,976	30.52%
Arusha Enterprise Sdn Bhd ***	32,085,976	30.52%
Wan Hin Investments Sdn Bhd ***	32,085,976	30.52%
KL-Kepong International Ltd	24,085,976	22.91%

\* *These shares are beneficially owned by Pacific Union Pte Ltd which has been a substantial shareholder of the Company since the shares of the Company were first listed on the Australian Stock Exchange Limited in January 1995. Pacific Union Pte Ltd is an investment holding company which does not have any business other than holding approximately 35.76% interests in the parent entity. The shares in Pacific Union Pte Ltd are in turn held as to 25% by Goh Nan Kioh, as to 25% by Hoe Seng Co. Pte Ltd (a company associated with Ang Guan Seng) and the balance by independent third parties. Save as disclosed herein, Pacific Union Pte Ltd and its substantial shareholders do not have any interests in or business relations with Kuala Lumpur Kepong Berhad. Ang Guan Seng is the Non-Executive Chairman of the Company while Goh Nan Kioh is the Deputy Chairman of the Company.*

\*\* *Kuala Lumpur Kepong Berhad is a company incorporated in Malaysia and listed on the Main Board of the Kuala Lumpur Stock Exchange. It has been a substantial shareholder of the Company since 1995. Save as disclosed herein, Kuala Lumpur Kepong Berhad and its controlling shareholders do not have any interests in or business relations with Pacific Union Pte Ltd. Yeow Ah Kow, who is one of the executive officers of Palm-Oleo Sdn Bhd, a subsidiary of Kuala Lumpur Kepong Berhad, is a non-executive director of the Company.*

*Ablington Holdings Sdn Bhd is the beneficial owner of 8,000,000 ordinary shares of the Company. Kuala Lumpur Kepong Berhad owns 100% of Ablington Holdings Sdn Bhd and 100% of KL-Kepong International Ltd and is accordingly deemed by the SDI Ordinance to be interested in a total of 32,085,976 ordinary shares beneficially owned by Ablington Holdings Sdn Bhd and KL-Kepong International Ltd.*

\*\*\* *As at 31 December 2001, Kuala Lumpur Kepong Berhad is 44.56% directly owned by Batu Kawan Berhad, which is, in turn, 41.70% directly owned by Arusha Enterprise Sdn Bhd. Wan Hin Investments Sdn Bhd directly owns 77.40% of Arusha Enterprise Sdn Bhd. Accordingly, Batu Kawan Berhad, Arusha Enterprise Sdn Bhd and Wan Hin Investments Sdn Bhd are also deemed by the SDI Ordinance to be interested in the ordinary shares owned by KL-Kepong International Ltd and Ablington Holdings Sdn Bhd as disclosed above.*

*Batu Kawan Berhad, Arusha Enterprise Sdn Bhd and Wan Hin Investments Sdn Bhd are companies incorporated in Malaysia and the shares of Batu Kawan Berhad are listed on the Main Board of the Kuala Lumpur Stock Exchange.*

### MATERIAL CONTRACTS WITH RELATED PARTY

Other than the related party transactions as disclosed in Note 25 to the financial statements, at the date of this report, no other contracts of significance in relation to the Group’s business, to which the Company or any of its controlled entities, associate entity and the Joint Venture was a party and in which a Director of the Company has or had a material beneficial interest, whether directly or indirectly, subsisted on 31 December 2001 or at any time during the financial year ended 31 December 2001.

## **DIRECTORS' REPORT**

### **INDEMNIFYING OFFICER OR AUDITOR**

The Company has not, during or since the end of the financial year in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:-

- (i) indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- (ii) paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

### **AUDITORS**

The financial statements have been audited by Horwath Sydney Partnership who retire and, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the forthcoming annual general meeting.

### **ROUNDING OF AMOUNTS**

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial statements. Amounts in the Directors' report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Approved and authorised for issue by the Board of Directors on 14 March 2002:-

**LIM THIAN SOO** (*Alternate to Goh Nan Kioh*)  
*Director*

**CHEN ZHEN GUO**  
*Director*

Date: 14 March 2002