# DIRECTOR'S STATEMENT

The Directors of Pearl River Tyre (Holdings) Limited (the "Company") are pleased to present to shareholders the results of the Group for the year ended 31 December 2005.

The Group recorded a consolidated profit of HK$7.023 million for the financial year ended 31 December 2005 as compared to a loss of HK$7.483 million in the previous year. Basic earnings per share was 6.7 Hong Kong cents.

The Directors are pleased to note the improved performance of our principal business, Guangzhou Pearl River Rubber Tyre Limited (the "Joint Venture") despite the challenging conditions in China.

The Company has no borrowings and does not plan to undertake any borrowings in the foreseeable future as the Directors believe that its current resources are sufficient.

The Directors do not recommend the payment of any dividend for the financial year.

**Guangzhou Pearl River Rubber Tyre Limited**

The Company's principal asset is its 70% equity interest in the Joint Venture. The principal activity of the Joint Venture is the manufacturing and marketing of bias tyres for commercial vehicles.

The results of this Joint Venture can be summarised as follows:–

1. Turnover increased by approximately RMB176.3 million to RMB833.5 million representing a 26.8% growth for the financial year. The growth in turnover was driven by an increase in the export market, which grew by 63.9%. Total unit of export sales increased by 202,543 units of tyres or 37% to 744,261 units of tyres.

2. The performance of the Joint Venture improved during the financial year under review due to the better prices from the export sales. The average selling price per unit for export sales was increased by approximately 22% as compared to previous financial year. Raw material costs was approximately 17%.

3. With the implementation of more stringent controls in administrative, selling and distribution and other operating cost, the Joint Venture reduced its overall operating expenses by RMB4.5 million or 6.8%. Warranty claims reduced by RMB2.8 million. Allowance for doubtful debts decreased by RMB2.4 million.

4. The Joint Venture currently sells almost exclusively on a cash basis in the local market, and by confirmed letter of credit in the export market. The Joint Venture currently does not give any new credit terms to its customers.

5. Sales in Guangdong Province and all outer provinces remain stable. The Joint Venture continues to contract manufacture for foreign tyre companies.

6. Despite the increased inroads made by radial tyres into the market, the Joint Venture was able to increase its sales due to our strong distribution system, which has also broadened our customer base. Efforts are now being concentrated on manufacturing specialty bias tyres as we believe there is a niche in the market for these bias tyres.

7. The Joint Venture has reduced its dependency on bank borrowings, all of which are in Renminbi (RMB). Borrowings of RMB107 million in the previous year are now down to RMB100 million. As cash flow remains positive, the Joint Venture, barring unforeseen circumstances, does not foresee any working capital difficulty and accordingly expects the level of bank borrowings to remain stable over the next few years.

8. In 2005, the Joint Venture also implemented various changes in the plant management to better control cost and improve plant efficiency. The results have been encouraging, reflected in various key performance indicators. The continuation of these programs will ensure our competitiveness in the industry.

**Outlook**

In the immediate future, the Joint Venture has embarked on and will continue with the following action plans:–

1. Increase its sales volume as demand for our tyres has remained strong despite the inroads made by radial tyres into the market. Growth in China continues to be strong with GDP growth rate targeted at 9.3% for 2006.

2. The Joint Venture 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 Joint Venture continues to review plant efficiency to ensure optimum levels of productivity are consistently achieved.

3. Strong demand for natural rubber is expected to keep the price of natural rubber around its current level. Petroleum prices are anticipated to remain high in view of the instability in the Middle East and various measures taken by OPEC. To ensure that we remain competitive, management will continuously explore costs cutting measures and improve efficiencies in the production process. A team was set up to explore all possible ways of improving product quality at optimum cost.

4. Upgrading of existing range and new product development is amongst the core task of technical and production departments. The Joint Venture will continue to explore and allocate resources in the R&D.

**Summary**

Despite the challenging market conditions, the performance of the Group in 2006 has been encouraging so far. The Directors are cautiously optimistic that with the strategies taken thus far and currently being implemented, we will show further improvements throughout this year.

**Goh Nan Yang**
*Chief Executive Officer*