

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 2006.

The Group recorded a consolidated loss of HK\$7.075 million for the financial year ended 31 December 2006 as compared to a profit of HK\$7.023 million in the previous year.

The Company 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 Joint Venture")

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. 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 performance of the Joint Venture has been significantly affected by the drastic rise in overall raw material and utilities cost. Despite continuous increases in the selling price, the overall cost, especially that of natural rubber, has badly affected the 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 2005.
3. 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 credit terms to its new customers.
4. The Joint Venture has successfully commissioned the new Off The Road ("OTR") tyre plant with commercial production beginning February 2007. This addition to the product mix will generate new business with better returns and serve as a long term driving force to the Joint Venture.
5. The Joint Venture has also made progress in the radial tyre sector. In addition to acquiring some new equipment, part of the plant is being upgraded and transformed into radial tyre production facilities. The Joint Venture expects to make its foray into the radial segment by introducing Light Truck Radial ("LTR") tyres in the second half of 2007. This move will further strengthened our position in the marketplace.
6. The Joint Venture has bank borrowings of RMB117.7 million, all of which are in Renminbi ("RMB"). The additional bank borrowing of RMB17.7 million was used to fund the OTR and LTR projects. As cash flow remains positive, the Joint Venture does not foresee any working capital difficulty and accordingly expects the level of bank borrowings to remain stable over the next few years.

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Outlook

1. We expect raw material prices to remain at current high levels. While this will certainly pose as a threat, the end result is the reduction in total supply and no new player in the market. This then provides a reasonably good ground for pricing adjustment.
2. The export market will continue to grow given the market acceptance and credibility of our product quality. Being the premium Chinese brand, our products are sought after for a wide application, especially in the heavy duty segment. The widespread export destinations have also minimised our risk of over reliance on a specific market.
3. The RMB is expected to further strengthen given the strong Chinese economic growth. This will directly affect the profitability of the export segment. Management is confident that this issue will be overcome gradually as this is a general phenomenon worldwide.

Summary

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 just relying on the bias tyres for commercial vehicle, OTR and LTR will be our next growth sector. The Directors are confident that we will show an improvement throughout this year.

Goh Nan Yang

Chief Executive Officer