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CORPORATE INFORMATION

Company Registered Office	Bermuda Commercial Bank Building 19 Par-La-Ville Road Hamilton HM 11 Bermuda
Principal place of business in Hong Kong	6/F, CRE Building 303 Hennessy Road Wan Chai Hong Kong
Company Secretaries	Randy King Kuen Hung, *FCPA* Tan Pei Choo, *ACIS*
Authorised Representatives in Hong Kong	Goh Nan Yang Randy King Kuen Hung
Share Registrars	*Bermuda Principal Registrar :* Bermuda Commercial Bank Building 19 Par-La-Ville Road Hamilton HM 11 Bermuda *Hong Kong Branch Registrar :* Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

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 2010.

The Group recorded a consolidated loss of HK$24.859 million for the financial year ended 31 December 2010 as compared to a profit of HK$33.334 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 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 various types of tyres mainly for commercial vehicles. The result of this Joint Venture can be summarised as follows:

1. Sale of goods increased by approximately HK$14,007,000 representing a growth in sales of 2.5% for the financial year. The growth was attributable to the increase in export sales.

2. The Joint Venture achieved a gross profit margin of 5.9% during the financial year as compared to a gross profit margin of 15.3% in the previous financial year. This was mainly due to increase in raw material prices and the write down in the value of inventories.

3. The year 2010 was a challenging year to the business of the Joint Venture, given the on-going fluctuation in raw material prices and decrease in domestic sales. The domestic sales have decreased approximately 11% as compared to the previous financial year.

4. The Joint Venture is moving into radial tyre production while maintaining a reasonable scale of bias ply commercial tyres. This is because the management believes in the future of the Light Truck Radial ("LTR") tyre market, therefore is moving forward to increase the LTR production capacity. The management's focus on the LTR market is expected to increase the future profitability of the Joint Venture.

5. The Joint Venture has bank borrowings of RMB116,600,000. As cash flow remains positive, the Joint Venture does not foresee any working capital funding constraints and accordingly expects the level of borrowing to remain manageable.

OUTLOOK

Although the global economy has recovered from its lowest point, the macro-business environment still has various uncertainties, among which, is the rising raw materials cost, particularly rubber. The speculation in the commodity market, which resulted in higher rubber prices, will have an adverse impact on our production cost. The Joint Venture is taking the initiative to monitor closely the production schedule and only produce what we can sell in order to reduce the cost of holding excessive inventories.

The bias tyre market is facing an intense competition from radial tyres which resulted in a significant decrease in the demand of bias tyres. Given that our market share in China for bias tyres is only about 20%, management will dedicate efforts to ensure we produce better quality bias tyres in order to steadily develop and expand our market share domestically.

In addition, production of radial tyres has come on stream. Other than the Light Truck Radial ("LTR") tyres, management is making plans for additional sizes and other range of radial tyres for various applications such as Sport Utility Vehicle ("SUV"), van and pickup. This move is expected to contribute positively to both turnover and profitability of the Joint Venture in the future.

SUMMARY

The business environment in 2011 will be more challenging to the Joint Venture given the increase in the production cost. The Chinese Government is encouraging the production of radial tyres vis-à-vis bias tyres. As such, the management's decision to increase its radial tyre production proved to be timely given that the radialisation of tyre industry is an imminent phenomenon worldwide.

Goh Nan Yang
Chief Executive Officer

BUSINESS REVIEW

The Chinese Rubber Industry Association reported that, since the fourth quarter of 2010, the price of natural rubber and other raw materials were trading near their all-time high. Based on the research conducted in fourth quarter of 2010 on 45 tyre manufacturers, the production output had decreased month-on-month by 2.5% in October, 3.1% in November and 2.2% in December.

The year 2010 has been a very challenging year to the Joint Venture which recorded only a 2.5% rise in revenue and registered a net loss of HK$43.1 million compared to a profit of HK$37.6 million profit in 2009. The increase in revenue was attributable to an increase in export sales by 13.5% as compared to previous year. However, the increased in export sales was off-set by a decrease in domestic sales of 11%.

Apart from the decrease in domestic sales, the significant rise in raw material prices especially natural rubber has severely affected the profitability of the Joint Venture. The Joint Venture was only able to achieve a gross profit margin of 5.9% in 2010 compared to 15.3% in 2009. In order to reduce the losses, the management has taken various measures to further reduce cost and improve efficiencies:

1. Price increase. As the raw material prices increased significantly in the year 2010, the Joint Venture made seven price adjustments during the year, increasing the selling price for domestic sales by 29% and export sales by 35%.

2. Producing only what we can sell. This has effectively reduced all inventories including raw material, work-in-progress and finished goods.

SALES

The Joint Venture recorded a turnover of HK$805.1 million, an increase of 2.5% as compared to previous year. This was mainly attributable to an increase in the selling price of export sales and the ability to expand market share in one of our main overseas markets, India.

However, the domestic market sales were not encouraging as compared to 2009. The decrease in domestic sales was mainly due to a slow down in the automobile market and intensifying competition from radial tyres to our main bias tyre segment.

The Light Truck Radial ("LTR") tyre plant was operating at optimal level. The LTR tyres continued to contribute about 12% of total sales. Since radialisation is taking place quite aggressively across markets worldwide, the Joint Venture is more optimistic of the LTR market outlook. The management expects a strong growth in this segment and plans are underway to increase its product range.

PRODUCTION

Management's efforts in ensuring better sales/production coordination have resulted in enhanced production efficiency and better cost control. The monthly production schedule and actual production has been rather stable and this has enhanced management's planning processes including raw material purchases, human resources and other operational costs.

We have also continued in our effort in streamlining and rationalizing the product line. More than 30% of the previous production sizes were either terminated or put on stricter production/ sales requirements. As a result, we have benefited from better cost efficiency and more stable product quality.

The challenges ahead would be our flexibility in producing of various product lines to meet the ever changing market demand. We are also clearly moving into radial tyre production while maintaining a reasonable scale of bias ply commercial tyres.

PROSPECT

While the global demand for rubber tyres continues to grow in 2011, the prime focus has been again on the continuous rise in raw material prices, led by natural rubber. Since the early part of the year, Chinese manufacturers have been scrambling to cope with the steep rise in cost while adapting to new local challenges such as stricter environmental rules, minimum wages and credit tightening by the authority. We expect 2011 to remain challenging for the entire industry.

The industry is still under a tremendous pressure to pass on the rising cost to consumers while expecting further rise in operational cost. The Joint Venture has developed a clear operational plan to overcome these challenges ahead.

The Directors of Pearl River Tyre (Holdings) Limited (the "Company") are pleased to present its report together with the audited financial statements of the Company and its subsidiaries and the Joint Venture (the "Group") for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of investment holding.

The Group's principal asset is a 70% equity interest in Guangzhou Pearl River Rubber Tyre Limited (the "Joint Venture"). The principal activity of the Joint Venture is the manufacturing and marketing of various types of tyres for commercial vehicles.

RESULTS

The results of the Group for the year ended 31 December 2010 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 22 to 91 of the annual report.

RESERVES

Details of movement in reserves of the Company and the Group during the year ended 31 December 2010 are set out in Note 31 to the financial statements and on page 72 of the annual report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company had retained profits available for distribution by way of dividends amounting to HK$313,000 (2009 — HK$5,324,000).

The Company's share premium account as at 31 December 2010 with a balance of HK$113,157,000 (2009 — HK$113,157,000) is distributable in the form of fully paid-up bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2010,

(a) 27% of sales of the Group and 35% of purchases (not including items which are of a capital nature) of the Group were attributable to the Group's five largest customers and suppliers respectively;

(b) the Group's largest customer accounted for 6% of sales of the Group whilst the Group's largest supplier accounted for 12% of purchases of the Group.

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 2010.

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 on page 92 of the annual report.

SHARE CAPITAL

There were no changes in the authorised and issued and paid-up share capital of the Company during the financial year ended 31 December 2010.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme (the "Scheme") are set out in Note 30 to the financial statements. No options had been granted under the Scheme since its date of adoption on 21 May 2004.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Bye-laws of the Company which could oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries, have sold or redeemed any of the Company's listed securities during the financial year ended 31 December 2010.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the financial year ended 31 December 2010 are set out in Note 14 to the financial statements.

MATERIAL INTERESTS IN ENTITIES

Details of the Company's subsidiaries, Joint Venture and the associate are set out in Notes 16, 17 and 18 respectively to the financial statements.

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 2010 except where otherwise indicated:

Chairman And Non-Executive Director

Goh Nan Kioh

Executive Director

Goh Nan Yang

Non-Executive Directors

Yeoh Eng Khoon
Yeow See Yuen*
Khoo Teng Keat*
Won Thean Sang*

* *Independent and Non-Executive Directors*

Pursuant to Clause 6.1 (f) (1) (A) of the Company's Bye-laws, Won Thean Sang and Yeow See Yuen retire by rotation at the forthcoming annual general meeting and, being eligible, offers themselves for re-election.

The Company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all of the independent non-executive directors are independent.

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 subsidiaries, which is not determinable by the employing entity within one year without payment of compensation, other than statutory compensations.

DIRECTORS' INTERESTS IN CONTRACTS

Other than the connected/related party transactions as disclosed in Note 34 to the financial statements, no contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material beneficial interest, whether directly or indirectly, subsisted at 31 December 2010 or at any time during the financial year ended 31 December 2010.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the financial year ended 31 December 2010.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in Note 34 to the financial statements headed "Connected/ Related Party Transactions", there is no contract of significance between the Company (or any of its subsidiaries) or the Joint Venture and the controlling shareholder of the Company (or any of its subsidiaries) or the Joint Venture.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors or chief executives of the Company in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("The Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company

Name	Capacity	Number of shares held in the Company	Percentage of the issued share capital of the Company (%)
Goh Nan Kioh	Family	957,790(2)	0.9
	Corporate	38,398,000(1)	36.52
Goh Nan Yang	Personal	94,000	0.1

Notes:

1. These shares are beneficially held by three corporations in which Goh Nan Kioh holds more than 20% equity interest.

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.

The Company does not have any listed debt securities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Save as disclosed above as at 31 December 2010, none of the Directors or the chief executives of the Company or any of their associates had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. None of the Directors or the chief executives of the Company or any of their associates had an interest (directly and/or deemed) in the equity in or debt securities of the associated corporations of the Company.

At no time during the financial year, the Directors or the chief executives of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, as far as is known to the Directors and the chief executives of the Company, the interests and short positions of 5% or more, other than a Director or chief executive of the Company, in the issued shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company

Name	Capacity	Number of shares held in the Company	Percentage of the issued share capital of the Company
Pacific Union Pte Ltd(1)	Beneficial owner	37,590,000	35.76%
Kuala Lumpur Kepong Berhad(2)	Beneficial owner	32,085,976	30.52%
Batu Kawan Berhad(3)	Beneficial owner	32,085,976	30.52%
Arusha Enterprise Sdn Bhd(3)	Beneficial owner	32,085,976	30.52%
Wan Hin Investments Sdn Bhd(3)	Beneficial owner	32,085,976	30.52%
KL-Kepong International Ltd	Beneficial owner	24,085,976	22.91%

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long positions in ordinary shares of the Company *(Continued)*

Notes:

1. These shares are beneficially owned by Pacific Union Pte Ltd which has been a substantial shareholder of the Company since 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 Company. The shares in Pacific Union Pte Ltd are in turn substantially held by Goh Nan Kioh 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. Goh Nan Kioh is the Non-Executive Chairman of the Company.

2. Kuala Lumpur Kepong Berhad is a company incorporated in Malaysia and listed on the Main Market of the Bursa Malaysia Securities Berhad. 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.

   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. Kuala Lumpur Kepong Berhad is accordingly deemed by the SFO to be interested in a total of 32,085,976 ordinary shares beneficially owned by Ablington Holdings Sdn Bhd and KL-Kepong International Ltd.

3. As at 31 December 2010, Kuala Lumpur Kepong Berhad is 46.57% directly owned by Batu Kawan Berhad, which is, in turn, 45.78% 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 SFO 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 Market of Bursa Malaysia Securities Berhad.

   Save as disclosed above, as at 31 December 2010, no person, other than the Directors or the chief executive of the Company whose interests are set out in the section "Directors' and the chief executives' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of connected transactions disclosed under the Listing Rules are set out in Note 34 to the financial statements.

SUFFICIENCY OF THE PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merits, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in Note 30 to the financial statements.

Directors' Interest In Competing Business

During the year ended 31 December 2010, the Directors are not aware of any business or interest of the Directors and their respective associates (as defined under the Listing Rules) that compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 16 to 19 of the annual report.

AUDITORS

The financial statements for the year ended 31 December 2009 were audited by BDO Limited. BDO Limited resigned as auditors of the company during the year. Crowe Horwath (HK) CPA Limited were then appointed as auditors to fill the casual vacancy. A resolution will be submitted to the forthcoming annual general meeting of the company to re-appoint Crowe Horwath (HK) CPA Limited as auditors of the company.

On behalf of the board

Goh Nan Yang
Executive Director

Hong Kong, 10 March 2011

DIRECTORS

Goh Nan Kioh
Mr Goh (age 58) is a graduate of the University of Malaya with a Bachelor of Economics (Honours) degree. He has wide and varied business investments in many countries. He is a Non-Executive Director. He joined the Company in 1995. He has been redesignated from Deputy Chairman to Chairman on 30 June 2008 and he is also member of remuneration committee.

Goh Nan Yang
Mr Goh (age 48) is a graduate from the University of Toledo with a Bachelor of Science (Engineering) (Honours) degree. He has wide and varied experience in property development and manufacturing activities in Melbourne, Australia. He was appointed to the Board of Directors of the Company on 20 January 2004 as an Executive Director and took on the position of Chief Executive Officer with effect from 5 March 2004.

Yeoh Eng Khoon
Mr Yeoh (age 64), holds a degree of Bachelor's of Arts in Economics (Honours) majoring in Business Administration from the University of Malaya and is a Barrister-at-law from Lincoln's Inn, United Kingdom. He has 39 years of experience in the banking, manufacturing and the retail sectors. He was appointed as a non-executive director of the Company with effect from 28 September 2005.

Yeow See Yuen
Mr Yeow (age 44), holds a first class honours degree in Accountancy from the National University of Singapore. He started his careers with Coopers & Lybrand in Singapore in 1991 in the audit division. He left the firm in 1994 to join Deutsche Securities Asia Limited ("Deutsche Securities") where he spent 9 years working in the Equity Research Department. During the period, he progressed through a series of positions including Deputy Head of Indonesia Research, Head of Malaysian Research and Head of Consumer Research Asia. Since leaving Deutsche Securities in 2003, he has been actively involved in investment banking related work, including investor relations corporate advisory and research consultancy. He was appointed as an Independent Non-Executive Director, member of audit committee and member of remuneration committee of the Company on 30 June 2008.

Khoo Teng Keat
Mr Khoo (age 41), holds a Bachelor of Commerce (Actuarial Science) honours degree from University of Melbourne, Australia. He has more than 14 years' experience as an equity analyst. He has held senior positions with several reputable international investment banks before co-founding a boutique financial advisory outfit, providing investor relations, corporate advisory and research consultancy. He was appointed as an Independent Non-Executive Director and member of audit committee of the Company on 30 June 2008.

Won Thean Sang
Mr Won (age 62), is a qualified electrical chargeman of more than 40 years. He started his career as an electrical contractor and founded KTL Sdn Bhd, a Grade A contractor in Malaysia in 1992. Backed by years of experience in the electrical field and as a businessman, he has vast hands-on experience in business operations. He was appointed as an Independent Non-Executive Director, member of audit committee and member of remuneration committee of the Company on 2 March 2009.

SENIOR MANAGEMENT

Chan Keng Kiong (age 42), is the General Manager of the Joint Venture. He is responsible for the operations of the Joint Venture. He graduated from the National University of Malaya with a Bachelor's Degree in Economics (Hon.). 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.

Chui Mee Chuen (age 32), is the Qualified Accountant of the Company. She is a member of the Malaysian Institute of Accountants and a Qualified Chartered Accountant registered with the Association of Chartered Certified Accountants. She started out as an auditor with RSM Robert Teo, Kuan & Co from 2003 to 2005. Subsequently, she joined Horwath for three years and then moved on to work with In-Fusion Solutions Sdn Bhd as Assistant Manager Corporate Planning for a year.

Chen Xu Ming (age 53), is a graduate of the Statistics Institute of China. He joined Guangzhou Rubber Tyre Factory in 1984 and was assigned to the Personnel Department whereby he contributed to the setting up of a 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 2004. He joined the Joint Venture in 1994.

Tang Xi Niu (age 48), is a graduate of Guangzhou Rubber Technology High School. He joined Guangzhou Rubber Tyre Factory in 1983 and was assigned to the Production Department. He was promoted to Assistant Workshop Supervisor in 1991 in charge of the rubber mixing workshop and later the tyre building workshop. In 2000, he was transferred to the Sales Department and promoted to Area Sales Manager. His latest promotion to Deputy General Manager responsible for the Production Department came in 2004. He then transferred to Sales Department as Deputy General Manager in 2007. He joined the Joint Venture in 1994.

Liang Guo An (age 48), has university degree in rubber engineering. He joined Guangzhou Rubber Tyre Factory in 1983 and was assigned to the Technical Center. Since 1989, he was promoted to Inspection Supervisor, Assistant Engineer and Secretary of the Branch Communist Party. From 1997 to 2002, he was assigned to the Communist Party Committee Office and held the positions of Deputy Head and Head as well as the Chairman of Workers' Union. In 2002, he was appointed by Guangzhou Guang Xiang Enterprises Group Co. Ltd ("GGXEG") as the Secretary of the Communist Party, Chairman of Workers' Union and Secretary of the Disciplinary Committee of the Communist Party of the Joint Venture. In 2007, Mr. Liang was promoted as the Deputy General Manager and was responsible for the operation of the Production Department. He joined the Joint Venture in 1994.

INTRODUCTION

The Company has complied with all Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2010 with the exception that the non-executive directors of the Company have no set terms of office but retire from office on rotational basis in accordance with the Company's Bye-laws.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Following specific enquiry made with the Directors, the Company has confirmed that each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

BOARD OF DIRECTORS AND BOARD MEETING

The Board of Directors comprises six 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 Bye-laws 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 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 at least twice a year to discuss operational issues, monitor progress and reassess policies and guidelines. The Company is represented by five persons on the Board of Directors of the Joint Venture. The Board of Directors of the Joint Venture has a total of nine members.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out on page 14 of the annual report. All Directors have given sufficient time and attention to the affairs of the Group. The executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Goh Nan Yang is a brother of Goh Nan Kioh. Other than these, there is no family relationship among the Directors of the Company.

The roles of chairman and chief executive officer are, respectively, performed by the Chairman, Mr. Goh Nan Kioh and the chief executive director, Mr. Goh Nan Yang. The roles of the Chairman and chief executive officer are segregated and assumed by these two separate individuals so that the responsibilities are not concentrated with any one person.

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

The Company also appointed four non-executive Directors, namely Mr. Yeoh Eng Khoon, Mr. Yeow See Yuen, Mr. Khoo Teng Keat and Mr. Won Thean Sang who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Among the non-executive Directors, Mr. Yeow See Yuen, Mr. Khoo Teng Keat and Mr. Won Thean Sang are independent non-executive Directors. All the Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

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 2010 are as follows:

Directors	**No. attended**	**No. eligible to attend**
Goh Nan Kioh	6	7
Goh Nan Yang	6	7
Yeoh Eng Khoon	7	7
Yeow See Yuen	6	7
Khoo Teng Keat	7	7
Won Thean Sang	7	7

REMUNERATION OF DIRECTORS

The Company has established a Remuneration Committee in 2005. The task of the Remuneration Committee is to make recommendation of remuneration for Directors and Senior Management so as to ensure that the Company attracts and retains the Directors needed to run the Group successfully. Composed of three Directors, the majority of whom are independent non-executive directors, the Remuneration Committee is mandated to meet once a year.

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the remuneration paid to the Company's auditor, Crowe Horwath (HK) CPA Limited, is set out below:

Category of services	**Fee paid/ payable**
Audit service	HK$447,000
Non-audit service	
— reviewing the preliminary announcement of results	HK$25,000
Total	HK$472,000

AUDIT COMMITTEE

The members of the Audit Committee are:

Khoo Teng Keat
Yeow See Yuen
Won Thean Sang

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

In performing its functions, the committee reviewed the overall scope of work of the external auditor and discussed with them the results of their examination and their evaluation of the system of internal controls operating within the Company, its subsidiaries and the Joint Venture. The committee has also reviewed the results and financial statements for the financial year ended 31 December 2010 and the announcements of results made by the Company to The Stock Exchange and has recommended that the Board approves the financial statements and announcements.

During the financial year ended 31 December 2010, there were two Audit Committee Meetings held. The details of the attendance of each member are as follows:

Name	**No. attended**	**No. eligible to attend**
Khoo Teng Keat	2	2
Yeow See Yuen	1	2
Won Thean Sang	1	2

NOMINATION OF DIRECTORS

Prior to the appointment of new directors, the Board is first provided with the qualifications of the relevant candidates for determining the suitability to the Company on the basis of his qualifications, experience and background beforehand for consideration. In view of this, the establishment of a nomination committee has not been effected as the Board carries out this function.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statement of the external auditor of the Company, Crowe Horwath (HK) CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure it is effective and adequate. The Company convened meetings periodically to discuss financial, operational and risk management control.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

國富浩華 (香港) 會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

34/F The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF PEARL RIVER TYRE (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pearl River Tyre (Holdings) Limited (the "Company"), its subsidiaries and its jointly controlled entity (together the "Group") set out on pages 22 to 91, which comprise the consolidated and Company statements of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants

Hong Kong, 10 March 2011
Alvin Yeung Sik Hung
(Practising Certificate Number P05206)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	6	563,553	549,546
Cost of sales		(530,380)	(465,511)
Gross profit		33,173	84,035
Other revenue and net income	7	11,575	9,382
Selling and distribution expenses		(15,479)	(12,722)
Administrative expenses		(26,491)	(37,963)
Other operating expenses		(24,472)	(5,905)
Finance costs	8	(2,914)	(3,313)
(Loss)/profit before taxation	9	(24,608)	33,514
Income tax expense	11	(251)	(180)
(Loss)/profit for the year		(24,859)	33,334
Other comprehensive (loss)/income			
Exchange differences on translating of			
— Joint Venture's financial statements		7,333	77
— Available-for-sale investments		36,563	1,996
Available-for-sale investments: movement in the revaluation reserve		(79,815)	54,010
Total other comprehensive (loss)/income		(35,919)	56,083
Total comprehensive (loss)/income for the year		(60,778)	89,417
Basic and diluted (loss)/earnings per share (Hong Kong cents)	12	(23.6)	31.7

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*14*	146,123	161,589
Prepaid lease payments	*15*	11,663	12,130
Investment in an associate	*18*	4,475	4,475
Investments in listed securities	*19*	102,663	145,915
Intangible asset	*20*	—	—
Total non-current assets		264,924	324,109
Current assets			
Investments in listed securities	*19*	27,234	18,356
Inventories	*21*	96,530	115,979
Trade and other receivables	*22*	56,296	31,381
Pledged bank deposits	*23*	47,409	115,074
Cash and cash equivalents	*24*	25,856	43,648
Total current assets		253,325	324,438
Current liabilities			
Trade and other payables	*25*	90,326	116,436
Provisions	*27*	2,836	2,742
Borrowings	*28*	96,037	139,541
Total current liabilities		189,199	258,719
Net current assets		64,126	65,719
Net assets		329,050	389,828
EQUITY			
Share capital	*29*	110,716	110,716
Reserves	*31*	218,334	279,112
Total equity		329,050	389,828

Approved and authorised for issue in accordance with a resolution of the Directors on 10 March 2011.

Goh Nan Yang
Director

Khoo Teng Keat
Director

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Equipment	14	6	9
Interests in subsidiaries	16	255,845	256,674
Total non-current assets		255,851	256,683
Current assets			
Other receivables and prepayment	22	477	327
Cash and cash equivalents	24	290	141
Total current assets		767	468
Current liabilities			
Other payables	25	32,314	27,836
Provisions	27	118	118
Total current liabilities		32,432	27,954
Net current liabilities		(31,665)	(27,486)
Net assets		224,186	229,197
EQUITY			
Share capital	29	110,716	110,716
Reserves	31	113,470	118,481
Total equity		224,186	229,197

Approved and authorised for issue in accordance with a resolution of the Directors on 10 March 2011.

Goh Nan Yang
Director

Khoo Teng Keat
Director

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 *HK$'000*	2009 *HK$'000*
Operating activities		
(Loss)/profit before taxation	(24,608)	33,514
Adjustments for:		
Amortisation of prepaid lease payments	881	871
Bad debts written off	120	—
Depreciation of property, plant and equipment	22,617	22,548
Impairment loss on plant and machinery	12,459	—
Interest expense	2,914	3,313
Plant and equipment written off	5	3,721
Unrealised gain on foreign exchange	(3,147)	(2,952)
Gain on disposal of equipment	—	(50)
Gain on fair value changes of listed securities — held for trading	(6,449)	(6,979)
Interest income	(231)	(673)
Dividend income from listed securities		
— available-for-sale	—	(926)
— held for trading	(1,016)	(727)
(Writeback of)/allowance for doubtful debts	(1,794)	2,001
	1,751	53,661
Decrease/(increase) in inventories	19,449	(50,108)
Increase in trade and other receivables	(19,296)	(12,554)
(Decrease)/increase in trade and other payables	(33,971)	43,299
Cash (used in)/generated from operations	(32,067)	34,298
Interest received	231	673
Interest paid	(2,914)	(3,313)
Net cash (used in)/generated from operating activities	(34,750)	31,658
Investing activities		
Decrease/(increase) in fixed deposits, net	65,194	(88,220)
Purchase of property, plant and equipment	(14,341)	(3,707)
Proceeds from disposal of equipment	—	50
Dividend received	765	1,473
Net cash generated from/(used in) investing activities	51,618	(90,404)

CONSOLIDATED STATEMENT OF CASH FLOWS

	2010	2009
	HK$'000	*HK$'000*
Financing activities		
Drawdown of borrowings	96,037	153,600
Repayment of borrowings	(144,553)	(94,907)
Advances from related parties	7,139	6,184
Advances from a director	—	65
Net cash (used in)/generated from financing activities	(41,377)	64,942
Net (decrease)/increase in cash and bank balances	(24,509)	6,196
Cash and cash equivalents at beginning of the year	43,648	34,598
Effect of foreign exchange rate changes, net	6,717	2,854
Cash and cash equivalents at end of the year, comprising cash and bank balances	25,856	43,648

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Share premium	Revaluation reserve	Capital reserve	Foreign currency translation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note 31 (a)	*Note 31 (b)*	*Note 31 (c)*	*Note 31 (d)*	*Note 31 (e)*	
At 1 January 2009	110,716	113,157	71,466	37,344	50,243	(82,515)	300,411
Changes in equity for 2009:							
Profit for the year	—	—	—	—	—	33,334	33,334
Other comprehensive income	—	—	54,010	—	2,073	—	56,083
Total comprehensive income	—	—	54,010	—	2,073	33,334	89,417
At 31 December 2009	110,716	113,157	125,476	37,344	52,316	(49,181)	389,828
At 1 January 2010	110,716	113,157	125,476	37,344	52,316	(49,181)	389,828
Changes in equity for 2010:							
Loss for the year	—	—	—	—	—	(24,859)	(24,859)
Other comprehensive loss	—	—	(79,815)	—	43,896	—	(35,919)
Total comprehensive loss	—	—	(79,815)	—	43,896	(24,859)	(60,778)
At 31 December 2010	110,716	113,157	45,661	37,344	96,212	(74,040)	329,050

The accompanying notes form part of these financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

1. CORPORATE INFORMATION

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 to Bermuda on 21 October 1994. The Company was registered in Hong Kong as a foreign company pursuant to Part XI of the Companies Ordinance on 24 May 1999.

The registered office and principal place of business are as follows:

Registered office	:	Bermuda Commercial Bank Building 19 Par-la-Ville Road Hamilton HM 11 Bermuda
Principal place of business	:	6/F, CRE Building 303, Hennessy Road Wanchai Hong Kong

2. PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of investment holding.

The Group's principal asset is a 70% equity interest in Guangzhou Pearl River Rubber Tyre Limited (the "Joint Venture"). The principal activity of the Joint Venture is the manufacturing and marketing of various types of tyres for commercial vehicles.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (revised 2008)	Business combinations
HKAS 27 (revised 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Financial instruments: Recognition and measurement — eligible hedged items
HK(IFRIC) 17	Distributions of non-cash assets to owners
HK (Int) 5	Presentation of financial statements — classification by the borrower of a term loan that contains a repayment on demand clause
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKAS 27 (revised 2008), consolidated and separate financial statements

The application of HKAS 27(revised 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. Previously, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised. For decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (revised 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, HKAS 27 (revised 2008) requires the derecognition of all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

In accordance with the transitional provisions of HKAS 27 (revised 2008), these changes in accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Revisions to HKAS 27 (revised 2008) have not had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of such previous transactions.

Amendments to HKAS 17 Leases, as part of Improvements to HKFRSs issued in 2009

HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant, and equipment retrospectively.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current, provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period, notwithstanding that the entity could be required by the counterparty to settle in shares at any time.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. SIGNIFICANT ACCOUNTING POLICIES

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollars ("HKD"), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company's functional and presentation currency.

The financial statements have been prepared on the basis of the historical cost convention except for certain financial instruments that are measured at fair values, as explained in the accounting policies and notes set out below.

a) Basis of preparation

The Company's ordinary shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The financial statements are presented in Hong Kong dollars. The financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the financial year ended 31 December each year. The Joint Venture has been accounted for in the consolidated financial statements using the proportionate consolidation method. The term "Group" used throughout the financial statements means the Company, the subsidiaries and the Joint Venture. Details of the investment in the subsidiaries, the Joint Venture and the associate are set out in Notes 16, 17 and 18 respectively.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Principles of consolidation *(Continued)*

The basis of consolidation is as follows:

Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The results of the subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group. All intra-group transactions, balances and any unrealised profits arising from intra-group transactions are eliminated in full on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's interests in a subsidiary that do not result in a loss of control care accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Principles of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010 (Continued)

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

In the Company's statement of financial position, the investment in subsidiaries is stated at cost less impairment loss, unless the investment is classified as held for sale.

Business combinations on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their acquisition-date fair values, except that:

- deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of acquisition are recognised and measured in accordance with HKAS 12, Income Tax;

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Principles of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010 (Continued)

Business combinations on or after 1 January 2010 *(Continued)*

- liabilities or assets relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;
- liabilities or equity instruments relating to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- assets that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Principles of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Principles of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

Business combinations prior to 1 January 2010 (Continued)

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. For the purposes of equipment testing, goodwill is allocated to each of the cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Principles of consolidation *(Continued)*

Associate

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

Where investment in associate is at company level:

In the company's statement of financial position, investments in associates are stated at cost less impairment losses unless classified as held for sale.

Joint Venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e., when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Principles of consolidation *(Continued)*

The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

When a Group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

c) Investments

Investments in listed securities are recognised on a trade date basis and are initially recognised at fair value for those that are held for trading. Available-for-sale investments are initially recognised at fair value plus directly attributable transaction costs.

Investments held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit and loss. The net gain or loss recognised in profit or loss does not include any interest or dividends earned on these investments as these are recognised in accordance with the policies set out in note 4(r)(ii) and (iii).

Available-for-sale investments are measured at fair value. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 4(r)(iii). When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated using the straight-line method to write off the cost over their estimated useful lives, allowing for their estimated residual values. The principal annual rates used for this purpose are as follows:

Buildings	4.35% to 5.26%
Plant and Machinery	4.65% to 20%
Equipment	6.43% to 9.50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

The depreciation method, useful life and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount of the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction-in-progress is carried at cost less any recognised impairment loss. No depreciation is provided in respect of construction-in-progress until it is substantially completed and ready for its intended use.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have reduced. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

f) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Operating lease prepayments

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease prepayments of the Group represent the payment made by the Joint Venture under an operating lease for a piece of land. Lease prepayments are stated at cost less accumulated amortisation and impairment losses, if any. The operating lease prepayments are amortised on a straight-line basis over the remaining period of the Joint Venture of 23 years.

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

h) Intangible asset

The intangible asset which represents the licence fee paid for the use of the trademark “Pearl River” and the transfer of technology and know-how relating to the production of bias tyres is stated at cost and amortised on a straight-line basis over the estimated useful life of 14 years.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

i) Inventories

Inventories are stated at the lower of cost, on a weighted average basis, and net realisable value. Cost comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

i) Inventories *(Continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

j) Trade and other receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Trade and other receivables *(Continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

l) Trade and other payables

Payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) Provisions and contingent liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

p) Foreign currency translation

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e., the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are determined in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

p) **Foreign currency translation** *(Continued)*

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e., Hong Kong dollars) at the rate of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in foreign currency translation reserve as a separate component of equity. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

q) **Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary difference respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

r) Revenue recognition

i) Sale of goods

Revenue from sale of goods represents the invoiced value of goods supplied to customers, net of returns, sales tax and trade discounts. Sales are recognised when the significant risks and rewards of ownership of the goods have been transferred, and no significant uncertainty exists relating to the cost of sales, the consideration and possibility of returns.

ii) Interest income

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

iii) Dividend income

Dividend is recognised when the Group's right to receive payment is established.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit or employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) Employee benefits

i) Short-term benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) Defined contribution plans

The Group's contributions to defined contribution plans are charged to the profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

5. ACCOUNTING ESTIMATES AND JUDGEMENT

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgements and other uncertainties affecting the application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 4. The Group believes the following significant accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

i) Estimated useful lives and depreciation of property, plant and equipment

The Group estimates the useful lives of the various categories of property, plant and equipment on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives.

ii) Impairment of long-lived assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in Note 4(e). In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

iii) Impairment loss of trade receivables

The Group estimates impairment losses of trade receivables resulting from the inability of the customers to make the required payment. The Group bases the estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs might be higher than expected and could significantly affect the results of future periods.

5. ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

iv) Write-down for obsolescence of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience on selling goods of similar nature. It could change significantly as a result of changes in market conditions.

v) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

vi) Warranty provision

As explained in note 27, the Group makes provision for the warranty it gives on sales based on the Group's recent claim experience. It is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

6. TURNOVER

Turnover of the Group, which is also its revenue, represents the invoiced value of goods sold and services rendered less discounts and returns.

7. OTHER REVENUE AND NET INCOME

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Other revenue		
Interest income on bank deposits	231	673
Total interest income on financial assets not at fair value through profit or loss	231	673
Dividends income from listed securities		
— available-for-sale	—	926
— held for trading	1,016	727
Others	2,085	27
	3,332	2,353
Other net income		
Gain on disposal of equipment	—	50
Gain on fair value changes of listed securities		
— held for trading	6,449	6,979
Writeback of allowance for doubtful debts *(Note 22)*	1,794	—
	8,243	7,029
	11,575	9,382

8. FINANCE COSTS

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within one year and total interest expense on financial liabilities not at fair value through profit or loss	2,914	3,313

9. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting) the following:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Cost of sales	530,380	465,511
Bad debts written off	120	—
Impairment loss on plant and machinery	12,459	—
Staff costs (including directors' remuneration)		
— Wages, salaries and other benefits	40,120	48,931
— Retirement benefit scheme contributions	10,120	15,747
Additional sales tax and VAT *(Note 17)*	8,977	—
Allowance for doubtful debts *(Note 22)*	—	2,001
Auditor's remuneration	472	472
Amortisation of prepaid lease payments (included in administrative expenses) *(Note 15)*	881	871
Depreciation of property, plant and equipment *(Note 14)*	22,617	22,548
Plant and equipment written off	5	3,721
Loss/(gain) on foreign exchange, net		
— realised	2,072	(306)
— unrealised	(3,147)	(2,952)
Operating lease payment:		
— land and buildings	3,217	3,258
— machinery	1,607	1,589
— hostel	438	29

10. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

i) Remuneration of directors

The emoluments paid or payable to each of the six (2009 — six) directors who held office during the year were as follows:

	2010					2009				
	Fees	Salaries and other benefits	Retirement scheme contributions	Discretionery bonuses	Total emoluments	Fees	Salaries and other benefits	Retirement scheme contributions	Discretionery bonuses	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Goh Nan Kioh	110	—	—	—	110	110	—	—	—	110
Goh Nan Yang	75	708	—	—	783	75	322	—	62	459
Khoo Teng Keat	75	—	—	—	75	75	—	—	—	75
Won Thean Sang	75	—	—	—	75	63	—	—	—	63
Yeoh Eng Khoon	75	—	—	—	75	75	—	—	—	75
Yeow See Yuen	75	—	—	—	75	75	—	—	—	75
	485	708	—	—	1,193	473	322	—	62	857

No directors waived any emoluments or received any inducement to join or compensation for loss of office during the years ended 31 December 2010 and 2009.

ii) Five highest paid employees

The aggregate amount of emoluments to the five highest paid employees who are not directors are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Bonuses	136	530
Salaries and allowances	2,216	1,882

The emoluments of these five non-directors, highest paid employees were all within the band of HK$0 to HK$1,000,000 for the years ended 31 December 2010 and 2009.

None of these non-director, highest paid employees waived any emoluments or received any inducement to join or compensation for loss of office during the years ended 31 December 2010 and 2009.

11. INCOME TAX EXPENSE

The Company was incorporated under the laws of The British Virgin Islands and continued under the laws of Bermuda subsequent to the migration of its domicile. At present, no income, profit, capital or capital gain taxes are levied in Bermuda. Accordingly, no provision for such taxes has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until 28 March 2016.

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

For the year ended 31 December 2010, the statutory corporate income tax rates applicable to the Joint Venture established and operating in the People's Republic of China (the "PRC") was 25% (2009 — 25%).

A reconciliation of the 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:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
(Loss)/profit before taxation	(24,608)	33,514
Tax at the statutory tax rates		
— Mainland China @ 25% (2009 — 25%)	(7,540)	6,588
— Hong Kong @ 16.5% (2009 — 16.5%)	915	1,182
	(6,625)	7,770
Tax effects of:		
Non-deductible expenses	828	725
Non-taxable income	(1,492)	(1,730)
Utilisation of unutilised tax losses brought forward	—	(6,585)
Deferred tax assets not recognised during the year	7,540	—
Income tax expense	251	180

12. BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is based on the loss for the year of HK$24,859,000 (2009 — profit of HK$33,334,000) and the number of shares in issue during the year of 105,116,280 (2009 — 105,116,280). There was no dilutive potential ordinary share outstanding during the year of 2010 and 2009.

As there is no dilutive event during the current and previous years, the basic and diluted (loss)/earnings per share for both years are equal.

13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity owners of the Company includes a loss of HK$5,011,000 (2009: loss of HK$4,407,000) which has been dealt with in the financial statements of the Company.

14. PROPERTY, PLANT AND EQUIPMENT

The Group
2010

	Buildings	Plant and machinery	Construction-in-progress	Equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1 January 2010	121,250	301,136	5,130	595	428,111
Additions	—	1,624	12,717	—	14,341
Transfer	2,183	6,405	(8,588)	—	—
Written off	—	(51)	—	—	(51)
Effect of foreign exchange translation	4,409	10,642	286	—	15,337
At 31 December 2010	127,842	319,756	9,545	595	457,738
Accumulated depreciation and impairment:					
At 1 January 2010	60,137	206,004	—	381	266,522
Charge for the year *(Note 9)*	4,845	17,729	—	43	22,617
Written off	—	(46)	—	—	(46)
Impairment	—	12,459	—	—	12,459
Effect of foreign exchange translation	2,281	7,782	—	—	10,063
At 31 December 2010	67,263	243,928	—	424	311,615
Carrying amount					
At 31 December 2010	60,579	75,828	9,545	171	146,123

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company
2010

	Buildings	Plant and machinery	Construction-in-progress	Equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount:					
At 1 January 2010	—	—	—	9	9
Depreciation charge	—	—	—	(3)	(3)
At 31 December 2010	—	—	—	6	6

Impairment losses recognised in the current year

During the year, the Group carried out a review of the recoverable amount of its manufacturing plant and machinery related to the production of Off the Road ("OTR"). These assets are used in the Group's manufacturing reporting segments. The review led to the recognition of an impairment loss of HK$12,459,000 which has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 8% per annum. The impairment losses have been included in the other operating expenses line items in the consolidated statement of comprehensive income.

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group
2009

	Buildings	Plant and machinery	Construction-in-progress	Equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1 January 2009	121,218	299,773	7,157	2,192	430,340
Additions	—	2,267	1,429	11	3,707
Disposal	—	—	—	(1,608)	(1,608)
Written off	—	(984)	(3,456)	—	(4,440)
Effect of foreign exchange translation	32	80	—	—	112
At 31 December 2009	121,250	301,136	5,130	595	428,111
Accumulated depreciation:					
At 1 January 2009	55,392	188,900	—	1,937	246,229
Charge for the year *(Note 9)*	4,726	17,770	—	52	22,548
Disposal	—	—	—	(1,608)	(1,608)
Written off	—	(719)	—	—	(719)
Effect of foreign exchange translation	19	53	—	—	72
At 31 December 2009	60,137	206,004	—	381	266,522
Carrying amount:					
At 31 December 2009	61,113	95,132	5,130	214	161,589

The Company
2009

	Buildings	Plant and machinery	Construction-in-progress	Equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount:					
At 1 January 2009	—	—	—	—	—
Additions	—	—	—	11	11
Depreciation charge	—	—	—	(2)	(2)
At 31 December 2009	—	—	—	9	9

The Group has pledged the buildings, plant and machinery to secure banking facilities granted to the Group (Note 28).

The buildings are situated on a land that is held under medium-term lease.

The plant and equipment of the Group are held outside Hong Kong.

15. PREPAID LEASE PAYMENTS

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Cost:		
At 1 January	20,048	20,043
Effect of foreign exchange translation	720	5
At 31 December	20,768	20,048
Accumulated amortisation:		
At 1 January	7,918	7,044
Charge for the year *(Note 9)*	881	871
Effect of foreign exchange translation	306	3
At 31 December	9,105	7,918
Carrying amount	11,663	12,130

The Group has pledged the leasehold land to secure banking facilities granted to the Group (Note 28). The leasehold land is held outside Hong Kong under medium-term lease.

16. INTERESTS IN SUBSIDIARIES

	The Company	
	2010	**2009**
	HK$'000	*HK$'000*
Unlisted shares, at cost(1)	214,707	214,707
Amounts due from subsidiaries	41,138	41,967
	255,845	256,674

The amounts due from subsidiaries are unsecured, interest-free and in substance represent the Company's investments in the subsidiaries in the form of quasi-equity loans.

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

Name	Place/Date Of Establishment	Authorised/ Issued And Fully Paid-up Share Capital	Direct Attributable Equity Interest 2010	2009	Principal Activities
PRT Capital Pte. Ltd.	The British Virgin Islands/ 3 December 1996	US$50,000/US$1	100%	100%	Investment holding
Carham Assets Limited	The British Virgin Islands/ 1 December 1996	US$50,000/ US$2	100%	100%	Investment holding

Note:

1 They represent investments of Australian Dollar ("A$") 1 and A$35,992,000 in two wholly-owned subsidiaries, PRT Capital Pte Ltd. and Carham Assets Limited respectively.

17. INVESTMENT IN A JOINT VENTURE

Particulars of the Joint Venture are as follows:

Name	Place/date of establishment	Authorised/ fully paid-up registered capital	Indirect attributable equity interest 2010	2009	Principal activities
Guangzhou Pearl River Rubber Tyre Limited	PRC/ 11 December 1993	US$43,202,166	70%	70%	Manufacturing and marketing of various types of tyres for commercial vehicles

The Joint Venture was established as a Sino-foreign joint venture under the Chinese Joint Venture Law. The Joint Venture is 70% owned by a wholly-owned subsidiary, Carham Assets Limited and 30% owned by Guangzhou Guang Xiang Enterprise Group Company Limited ("GGXEG"), a state-owned enterprise established in Guangzhou, the PRC.

17. INVESTMENT IN A JOINT VENTURE *(Continued)*

The Group's share of the Joint Venture's assets and liabilities is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Non-current assets	157,424	173,314
Current assets	214,802	296,228
Current liabilities	(169,961)	(244,452)
Net assets	202,265	225,090

The Group's share of the Joint Venture's revenues and expenses is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Revenues and other income	567,658	550,535
Costs and expenses	(594,902)	(520,883)
	(27,244)	29,652
Finance costs	(2,914)	(3,313)
(Loss)/profit before taxation	(30,158)	26,339
Income tax expense	—	—
(Loss)/profit for the year	(30,158)	26,339

During the years ended 31 December 2008, 2009, and 2010, the Joint Venture was subject to a tax audit by the PRC tax department for the years of assessment from 2002 to 2006.

During the year, the PRC tax department issued notices of final assessment demanding additional sales tax and VAT on the Joint Venture amounting approximately to RMB9,434,000 equivalent to HK$11,102,000, including approximately RMB2,464,000 equivalent to HK$2,900,000 of compound penalty, which was duly paid for full, and final settlement. HK$7,771,000 was proportionate by consolidated into the statement of comprehensive income and included in other operating expenses. For the years from 2007 to 2009, the PRC tax department requested a self assessment for the additional sales tax and VAT on the same basis. The Joint Venture estimated the total additional sales tax and VAT to be approximately RMB1,500,000 equivalent to HK$1,765,000 which was fully provided for and proportionately consolidated in other operating expenses during the year. Up to the date of this report, the PRC tax department had not yet confirmed the self assessment for the years from 2007 to 2009 and the Joint Venture had not yet paid the amount, but applied for extension. If the application is not approved, surcharge at 0.05% per day may be added to the outstanding fee.

18. INVESTMENT IN AN ASSOCIATE

	The Group 2010 HK$'000	2009 HK$'000
Investment in an associate, at cost	4,475	4,475

Particulars of the associate are as follows:

Name	Place/date of establishment	Authorised/ issued and fully paid-up share capital	Indirect attributable equity interest 2010	2009	Principal activities
Thames Electronics Sdn. Bhd.	Malaysia/ 30 January 2003	RM100,000	28.4%	28.4%	Investment holding

Summarised financial information of the Group's associates based on management and audited financial statements for the years ended 31 December 2010 and 2009 respectively is as follows:

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenues HK$'000	Profit/ (loss) HK$'000
2010					
100 per cent	19,419	(50)	(19,369)	—	(7)
Group's effective interest	5,515	(14)	(5,501)	—	(2)
2009					
100 per cent	17,424	(41)	(17,383)	—	(6)
Group's effective interest	4,948	(11)	(4,937)	—	(2)

19. INVESTMENTS IN LISTED SECURITIES

	The Group 2010 HK$'000	2009 HK$'000
Non-current		
Available-for-sale		
Securities listed outside Hong Kong:		
— available-for-sale, at fair value[1]	102,663	145,915
Current		
Trading securities		
Securities listed outside Hong Kong:		
— held for trading, at fair value	27,234	18,356

Note:

1. It relates to an investment in D&O Green Technologies Berhad ("D&O"), a company incorporated in Malaysia and listed in Bursa Malaysia Securities Bhd. As at 31 December 2010, the Group held 16.6% (2009 — 16.6%) equity interest in D&O. The carrying value represents the fair value of D&O based on the closing price as at the end of the reporting period.

20. INTANGIBLE ASSET

	The Group 2010 HK$'000	2009 HK$'000
Licence fee		
Cost:		
At 1 January	6,716	6,715
Effect of foreign exchange translation	241	1
At 31 December	6,957	6,716
Accumulated amortisation:		
At 1 January	6,716	6,715
Effect of foreign exchange translation	241	1
At 31 December	6,957	6,716
Carrying amount	—	—

The licence fee represents fee paid to Guangzhou Rubber Tyre Factory ("GRTF") for the use of the trademark "Pearl River" for a period of 14 years and the transfer of technology and know-how relating to the production of bias tyres.

21. INVENTORIES

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Raw materials	40,862	67,592
Work-in-progress	830	4,717
Finished goods	54,838	43,670
	96,530	115,979

The analysis of the amount of inventories recognised as an expense is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Write down of inventories	1,208	—
Carrying amount of inventories sold	530,380	465,511

22. TRADE AND OTHER RECEIVABLES

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Trade receivables	73,374	48,160
Less: allowance for impairment loss *(Note 22 (b))*	(31,995)	(32,660)
	41,379	15,500
Amount owing by a related party[(1)]	4,211	3,231
Other receivables	3,191	721
Loan and receivables	48,781	19,452
Deposits paid to suppliers	3,008	9,622
Prepayments and deposits	4,507	2,307
	56,296	31,381

	The Company	
	2010	**2009**
	HK$'000	*HK$'000*
Other receivables and prepayment	477	327

22. TRADE AND OTHER RECEIVABLES *(Continued)*

a) Ageing analysis

The ageing analysis of trade receivables as at the end of the reporting period is as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Less than one year	39,771	15,162
More than one year but less than two years	300	1,018
More than two years	33,303	31,980
	73,374	48,160
Less: allowance for doubtful debts	(31,995)	(32,660)
	41,379	15,500

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

b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
At 1 January	32,660	30,649
(Writeback)/Additional allowance for the year *(Note 7/Note 9)*	(1,794)	2,001
Effect of foreign exchange translation	1,129	10
At 31 December	31,995	32,660

22. TRADE AND OTHER RECEIVABLES *(Continued)*

c) Trade receivables that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Neither past due nor impaired	11,076	7,280
Less than one year past due	28,695	7,882
More than one year but less than two years past due	1,608	338
	41,379	15,500

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. In addition, in respect of receivables of HK$41,379,000, the Group had received Bank's Acceptance Bills for HK$38,400,000 during the year. The mature period of these Bank's Acceptance Bills is 3–6 months. The Group does not hold any collateral over these balances.

d) The analysis by currency of trade and other receivables is as follows:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong Dollar	313	1,959	314	185
Renminbi	43,171	7,378	—	—
Ringgit Malaysia	201	184	163	142
United States Dollar	12,611	21,860	—	—
	56,296	31,381	477	327

Notes:

1. The related party refers to Guangzhou Bolex Tyre Limited ("Bolex"), a company established in the PRC, in which certain directors of the Joint Venture are key management personnel. The amount owing is trading in nature, unsecured, interest-free and has no fixed terms of repayment.

23. PLEDGED BANK DEPOSITS

The weighted average interest rate of the short-term deposits which were held by the Joint Venture at the end of the reporting period was 1% (2009 — 2%) per annum.

The foreign currency exposure profile of fixed deposits is as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Renminbi	47,315	114,701
United States Dollar	94	373

The short-term deposits of the Group were pledged to licensed banks as security for bank loans (Note 28).

24. CASH AND CASH EQUIVALENTS

The foreign currency exposure profile of cash and cash equivalents is as follows:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and on hand	25,856	43,648	290	141
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	25,856	43,648	290	141

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi	3,131	2,861	—	—
Ringgit Malaysia	384	297	186	122
Singapore Dollar	10,084	9,083	—	—
United States Dollar	12,257	31,407	104	19

Renminbi is not freely convertible into foreign currencies. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	39,011	56,635	—	—
Other payables	28,906	44,820	581	682
Amount due to a subsidiary	—	—	22,168	22,173
Amount due to a director	6,051	5,676	436	438
Amount owing to related parties[(1)]	14,494	7,355	7,595	2,911
Accruals	1,864	1,950	1,534	1,632
	90,326	116,436	32,314	27,836

The amount due to a subsidiary is unsecured, interest-free and has no fixed term of repayment.

The amount due to a director is unsecured, interest-free and has no fixed term of repayment. The amount owing is denominated in Ringgit Malaysia.

The amount owing to related parties is non-trade in nature, unsecured, interest-free and has no fixed term of repayment.

Note:

1. The related parties refer to:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) GGXEG, a company established in the PRC, in which certain directors of the Joint Venture are key management personnel of GGXEG	3,652	4,444	—	—
(b) Cambrew Asia Limited, a company incorporated in Cayman Island, in which a director has substantial financial interests	10,842	2,911	7,595	2,911
	14,494	7,355	7,595	2,911

25. TRADE AND OTHER PAYABLES *(Continued)*

The analysis by currency of trade and other payables is as follows:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Australian Dollar	—	367	—	367
Hong Kong Dollar	915	882	915	882
Renminbi	71,317	101,368	—	—
Ringgit Malaysia	6,913	6,340	23,466	23,275
Singapore Dollar	—	62	—	62
United States Dollar	11,181	7,417	7,933	3,250
	90,326	116,436	32,314	27,836

The ageing analysis of trade payables as at the end of the reporting period is as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Less than one year	31,131	48,957
More than one year but less than two years	291	139
More than two years	7,589	7,539
	39,011	56,635

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Deferred tax assets not recognised:

As at 31 December 2010, subject to the agreement of the local tax authorities, the Joint Venture had tax losses arising in the PRC of HK$33,795,000 or RMB28,717,000 (2009 — HK$14,859,000 or RMB13,080,000) that were available for offsetting against future taxable profits. Such losses will be carried forward for five years from the year that the losses were incurred. The expiration years for the losses incurred by the Joint Venture are as follows:

	2010	**2010**	**2009**	**2009**
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*
Expiring in year:				
2013	15,393	13,080	14,859	13,080
2015	18,402	15,637	—	—
	33,795	28,717	14,859	13,080

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

No deferred tax assets have been recognised on the following temporary differences due to the unpredictability of the future profitability of the Group:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Allowance for doubtful debts	29,427	32,660
Allowance for obsolete inventories	4,444	3,439
Provision for product warranty	2,652	2,623
Accrual for sales incentives	8,841	6,362
Impairment loss on plant and machinery	12,459	—
Unutilised tax losses	23,657	10,401
Others	—	3,802
	81,480	59,287

27. PROVISIONS

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	2,624	2,622	—	—
Effect of foreign exchange translation	94	2	—	—
	2,718	2,624	—	—
Others	118	118	118	118
At 31 December	2,836	2,742	118	118

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within three years from the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within three years prior to the end of the reporting period. The amount of provision takes into account the Group's recent claims experience and is only made where a warranty claim is probable.

28. BORROWINGS

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Bank loans	96,037	139,541

The loans are wholly repayable within one year. The weighted average interest rate ranged from 4.43% to 6.11% (2009 — 1.86% to 5.89%) per annum. The directors estimated that the fair value of the bank loans is not significantly different from the carrying amount. The loans are secured by way of:

i) legal charges over the leasehold land, buildings, plant and machinery of the Joint Venture (Notes 14 and 15); and

ii) a lien over all the fixed deposits of the Joint Venture (Note 23).

The foreign currency exposure profile of borrowings is as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Renminbi	68,530	52,086
United States Dollar	27,507	87,455

29. SHARE CAPITAL

	2010	**2009**
	HK$'000	*HK$'000*
Authorised share capital		
150,000,000 ordinary shares of A$0.20 each	166,305	166,305
Issued and fully paid-up share capital		
105,116,280 ordinary shares of A$0.20 each	110,716	110,716

30. SHARE OPTION SCHEME

In accordance with the Company's share option scheme ("the Scheme") which was adopted on 21 May 2004, the Board of Directors of the Company may grant options to any director and employee of the Group and suppliers, consultants, advisors, agents, customers, service providers, contractors, any member of or any holder of any securities issued by any member of the Group or any invested entity ("the Participants") to subscribe for shares in the Company at a price determined by the Board of Directors being the highest of:

a) the closing price of the shares as stated in The Stock Exchange's daily quotations sheets on the date of grant;

b) the average closing price of the shares as stated in The Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and

c) the nominal value of a share on the date of grant.

The number of shares in respect of which options may be granted under the Scheme is subject to a maximum of 30% of the issued share capital of the Company from time to time. The primary purpose of the Scheme is to provide incentive to Participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are invaluable to the Group and any invested entity.

No employee or director (except for Goh Nan Kioh and Goh Nan Yang, who were given approval by shareholders at the Annual General Meeting held on 21 May 2004 to be granted options which will result in their share options exceeding 1% of the aggregate number of shares) shall be granted an option which, if exercised in full, would result in such employee or director becoming entitled to subscribe for more than 1% of the aggregate number of shares for the time being issued and issuable under the Scheme.

Any option granted must be taken up within 28 days of the date of grant. The consideration of HK$1 is payable on the grant of an option. The option may be exercised at any time within a period as specified by the directors, which should not be more than ten years from the date on which an option is granted.

No options had been granted under the Scheme to any of the directors and employees of the Group since the Scheme was adopted on 21 May 2004.

31. RESERVES

The Company	Share premium *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2009	113,157	9,731	122,888
Loss for the year	—	(4,407)	(4,407)
At 31 December 2009	113,157	5,324	118,481
At 1 January 2010	113,157	5,324	118,481
Loss for the year	—	(5,011)	(5,011)
At 31 December 2010	113,157	313	113,470

a) Share premium

The application of the share premium account is governed by section 40 of the Bermuda Companies Act 1981.

The Company's share premium account is distributable in the form of fully paid-up bonus shares.

b) Revaluation reserve

The revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the balance sheet date and the difference in fair values of buildings of the Joint Venture arising from land and buildings swap. The reserve for available-for-sale investment is dealt with in accordance with the accounting policies set out in note 4(c).

31. RESERVES *(Continued)*

b) Revaluation reserve *(Continued)*

	The Group 2010 HK$'000	The Group 2009 HK$'000
Net gain on fair value change of available-for-sale investment		
At 1 January	119,058	65,048
(Loss)/Gain on fair value change of available-for-sale investment	(62,125)	54,867
Effect of foreign exchange translation	(17,690)	(857)
At 31 December	39,243	119,058
Revaluation of buildings of the Joint Venture arising from land and buildings swap	6,418	6,418
	45,661	125,476

The revaluation reserve is not distributable by way of cash dividends.

Note:

The buildings were revalued in the financial year ended 31 December 2000 based on the assessment by an independent professionally qualified valuer in the PRC for the purpose of land and buildings swap with Guangzhou Rubber Tyre Factory for the acquisition of the independent, complete and freely transferable and disposable title to a piece of land with an area of 94,953 square meter and certain buildings erected thereon with a gross floor area of 4,847 square meters. Under this swap contract, the Joint Venture swapped part of its buildings with a total gross floor area of 43,561 square meters for the land and buildings at equal consideration. The valuation was determined on the market value basis and gave rise to a valuation surplus of HK$6,418,000.

c) Capital reserve

	The Group 2010 HK$'000	The Group 2009 HK$'000
Capital reserve is represented by:		
Transfer of non-distributable reserve funds by the Joint Venture	18,148	18,148
Capitalisation of retained profits for bonus issue by the Joint Venture	19,196	19,196
	37,344	37,344

31. RESERVES *(Continued)*

c) Capital reserve *(Continued)*

According to the prevailing PRC laws and regulations applicable to Sino-foreign joint ventures in the PRC, discretionary dedicated capital, which includes a general reserve fund and an enterprise expansion fund, should be maintained by the Joint Venture. The Board of Directors of the Joint Venture determines the amount of the annual appropriations to the dedicated capital. Such appropriations are reflected in the Joint Venture's statement of financial position under equity. The appropriations will not be available for distribution to shareholders once appropriated, but may be used to set off losses or be converted into paid-in capital.

d) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of non-monetary items in respect of which gains and losses are recognised directly in equity and of the financial statements of the foreign operations. The reserve is not distributable by way of cash dividends and is dealt with in accordance with the accounting policy set out in Note 4(p).

e) Accumulated losses

The dividends from the Joint Venture are declared based on profits reported in its statutory financial statements which are prepared in accordance with PRC accounting standards. Such profits will be different from the amounts reported under HKFRSs. No dividends were paid or recommended since the end of the previous financial year. The Joint Venture recorded accumulated losses of RMB53,712,000 or HK$63,208,000 as at 31 December 2010 (2009 - accumulated losses of RMB34,129,000 or HK$38,770,000), as prepared in accordance with PRC accounting standards.

f) Distributability of reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to owners of the company was HK$113,470,000 (2009: HK$118,481,000).

32. CAPITAL AND OPERATING LEASE COMMITMENTS

As at 31 December 2010, the capital commitment of the Joint Venture is as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Capital expenditure:		
— approved but not contracted for	—	1,326
— approved and contracted for	—	1,066
	—	2,392

32. CAPITAL AND OPERATING LEASE COMMITMENTS *(Continued)*

As at 31 December 2010, the total future minimum lease payments under non-cancellable operating leases payable by the Joint Venture to GRTF are as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Within one year	6,516	6,291
After one year but not more than five years	26,066	25,162
After five years	39,069	44,005
	71,651	75,458

The operating leases are in respect of land and buildings and machinery. None of these leases includes contingent rentals.

The Group's proportionate interest in the above capital and operating lease commitments is 70% (2009 — 70%).

33. FINANCIAL INSTRUMENTS

i) Financial risk management policies

The Group's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, market, credit, liquidity and cash flow risks. The Group operates within defined guidelines that are approved by the Board and the policies in respect of the major areas of treasury activity are as follows:

a) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, borrowings and investments that are denominated in foreign currencies. The Group does not use any derivative financial instruments to manage its exposure to foreign currency risk as the directors are of the opinion that the net exposure is not significant. The majority of the Group's foreign currency transactions and balances are denominated in Renminbi ("RMB") and United States Dollar ("USD").

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

a) *Foreign currency risk* (Continued)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against the USD and Singapore Dollar/Australia Dollar/Ringgit Malaysia against the HKD respectively. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A negative number below indicates an increase in loss and a decrease in other equity where the RMB strengthens 5% against the USD and Singapore Dollar/Australia Dollar/Ringgit Malaysia against the HKD. For a 5% weakening of the RMB against the USD and Singapore Dollar/Australia Dollar/Ringgit Malaysia against the HKD, there would be an equal and opposite impact on the loss and other equity, and the balances below would be positive. The analysis is performed on the same basis for 2009.

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Effect on (loss)/profit for the year	(1,331)	(2,751)
Effect on other equity	(1,361)	(2,748)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

b) *Interest rate risk*

The Group's exposure to interest rate risk arises mainly from interest-bearing bank borrowings. The Group's interest rate profile as monitored by management is set out below:

	The Group			
	Effective Interest Rate	**31 December 2010**	**Effective Interest Rate**	**31 December 2009**
	%	*HK$'000*	*%*	*HK$'000*
Variable rate borrowings:				
Bank loans	6.11	96,037	5.89	139,541

Interest rate sensitivity analysis

At 31 December 2010, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would decrease or increase the Group's loss for the year and increase or decrease accumulated losses by HK$49,000 (2009 — HK$371,000) respectively. The Joint Venture was required to place fixed deposits in RMB as collateral for certain short-term loans with no interest expense payable during the periods of borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis is performed on the same basis for 2009.

c) *Market risk*

The Group's exposure to market risk arises from equity investments classified as held for trading securities and available-for-sale equity securities.

The Group's listed investments are listed on the Bursa Malaysia Securities Berhad. Decision to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

c) Market risk *(Continued)*

At 31 December 2010, it is estimated that an increase/(decrease) of 5% (2009: 5%) in the relevant stock market index (for listed investments) with all other variables held constant, would have increased/decreased the group's profit after tax (and retained profits) and other components of consolidated equity as follows:

	2010		2009	
	Effect on profit after tax and retained profits	Effect on other components of equity	Effect on profit after tax and retained profits	Effect on other components of equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Change in the relevant equity price risk variable:				
Increase 5%	1,362	4,970	1,916	7,132
Decrease 5%	(1,362)	(4,970)	(1,916)	(7,132)

The sensitivity analysis indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group which expose the group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2009.

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

d) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables and deposits with financial institutions. Management has a credit policy in a place and the exposures to these credit risks are monitored on an ongoing basis.

(i) Trade and other receivables

The maximum exposure to credit risk is represented by the total carrying amounts of these financial assets in the statement of financial position reduced by the effects of any netting arrangements with counterparties.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had no significant concentrations of credit risk which individual trade and other receivables balance exceeds 10% of the total trade and other receivables at the end of the reporting period.

The Group manages its exposure to credit risk by investing its cash assets safely and profitably, and by the application of credit approvals, credit limits and monitoring procedures on an on-going basis.

(ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

As at 31 December 2010, the Group has certain concentration of credit risk as 1% (2009: 2%) of total cash and cash equivalents, pledged bank deposits and financial assets designated at fair value were deposited at one financial institution in mainland China with high credit ratings.

e) Liquidity and cash flow risks

Liquidity and cash flow risks arise mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash and the availability of funding through certain committed credit facilities.

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

e) *Liquidity and cash flow risks* *(Continued)*

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay:

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	HK$'000	*HK$'000*	*HK$'000*
The Group			
At 31 December 2010			
Trade and other payables, and accruals	84,275	84,275	84,275
Amount due to a director	6,051	6,051	6,051
Borrowings	96,037	96,086	96,086
	186,363	186,412	186,412
At 31 December 2009			
Trade and other payables, and accruals	110,760	110,760	110,760
Amount due to a director	5,676	5,676	5,676
Borrowings	139,541	139,912	139,912
	255,977	256,348	256,348

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

e) Liquidity and cash flow risks *(Continued)*

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	HK$'000	*HK$'000*	*HK$'000*
The Company			
At 31 December 2010			
Other payables and accruals	9,710	9,710	9,710
Amount owing to a subsidiary	22,168	22,168	22,168
Amount owing to a director	436	436	436
	32,314	32,314	32,314
At 31 December 2009			
Other payables and accruals	5,225	5,225	5,225
Amount owing to a subsidiary	22,173	22,173	22,173
Amount owing to a director	438	438	438
	27,836	27,836	27,836

ii) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities, as shown in the statement of financial position less cash and bank balances. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

33. FINANCIAL INSTRUMENTS *(Continued)*

ii) Capital risk management *(Continued)*

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain a gearing ratio of not more than 100%. The gearing ratios as at 31 December 2010 and 2009 were as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Total liabilities	189,199	258,719
Less: Pledged bank deposits	(47,409)	(115,074)
Less: Cash and bank balances	(25,856)	(43,648)
Net debt	115,934	99,997
Total equity	329,050	389,828
Total capital	444,984	489,825
Gearing ratio	26%	20%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

iii) Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following summarises the major methods and assumptions applied in determining the fair values of the following financial instruments.

(i) Securities

Fair value for quoted equity investments are based on listed market price at the end of the reporting period.

Fair values for the unquoted equity investments (where applicable) are estimated using the applicable price/earning ratios for similar listed companies adjusted for the specific circumstances of the issuer.

33. FINANCIAL INSTRUMENTS *(Continued)*

iii) Fair value estimation *(Continued)*

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

iv) Fair values of financial instruments

HKFRS 7 requires disclosure for financial instruments that are carried at fair value by level of the following fair value measurement hierarchy:

Level 1 — Quoted price (unadjusted) in active markets for identical assets or liabilities.

Level 2 — Inputs other than quoted price included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 — Inputs for the asset or liability that are not based on observable market data.

At 31 December 2010, the Group's investments in listed securities are measured at fair value. During the year, there were no transfers between instruments in Level 1 and Level 2.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Available-for-sale securities	102,663	—	—	102,663
Securities held for trading	27,234	—	—	27,234
	129,897	—	—	129,897

34. CONNECTED/RELATED PARTY TRANSACTIONS

In addition to the amount owing by/to related parties as disclosed in Notes 22 and 25 respectively to the financial statements, the following is a summary of the transactions with connected/related parties, which were carried out in the normal course of operations of the Group:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
a) Transactions between the Joint Venture and Bolex Contributions received and receivable from Bolex for:		
(i) processing/providing raw materials/ intermediate/consumable products	781	959
(ii) charging of utilities (water, electricity, steam and compressed air consumed)	21,482	20,000
(iii) the right to use the factory lift and the factory space	101	100
	22,364	21,059

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
b) Transactions between the Joint Venture and GGXEG[(1)]/GIGBM[(2)]		
Expenses:		
Lease rental for a piece of land and buildings erected thereon	4,597	4,654
Lease rental for the exclusive right to use certain machinery	2,270	2,270
Lease rental for a hostel	31	41
Royalties for the right to use the trademark "Pearl River" and any technology and know-how necessary for the production of bias tyres	791	833
Lease rental for workers' hostel*	595	—
Lease rental for the dining hall*	109	—
	8,393	7,798

34. CONNECTED/RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

1. The agreements relating to these transactions were between the Joint Venture and Guangzhou Rubber Tyre Factory, which was the former PRC partner owning 30% equity in the Joint Venture and which the former PRC partner was taken over by GGXEG in 2001.

2. GGXEG is a connected person of the Company under the Listing Rules as GGXEG is the owner of 30% equity interest in the Joint Venture (in which the Group owns the balance of 70% of equity interest). GGXEG is 100% owned by Guangzhou Rubber Enterprises Group Co. Ltd. ("GREG") and GREG is in turn 100% owned by Guangzhou International Group Co. Ltd. ("GIG"). Meanwhile, Guangzhou International Group Building Management Company Limited ("GIGBM") is 100% owned by GIG and thus, GIGBM is a fellow subsidiary of GGXEG and a connected person of the Company. As such, the GIGBM Transactions constitute continuing connected transactions for the Company.

   In addition, pursuant to Rule 14.23 of the Listing Rules, given GIGBM is connected with GGXEG, the GIGBM Transactions marked * above are required to be aggregate with the GGXEG Transactions.

The relevant percentage ratios on aggregate value of the transactions with each of Bolex and GGXEG/GIGBM were less than 25% (on the basis of proportionate consolidation of the Joint Venture in accordance with the prevailing accounting standards applicable to the Group) and the transaction amounts with GGXEG/ GIGBM were less than HK$10 million.

Meanwhile, the transaction amounts with Bolex have not exceeded the caps approved by the shareholders in the Special General Meeting held on 28 September 2009.

c) Compensation of key management personnel:

The remuneration of directors and other members of key management during the years was as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Directors' Fee	485	473
Discretionery bonuses	56	562
Salaries and other benefits	1,861	1,271
Retirement scheme contribution	68	68
	2,470	2,374

The independent non-executive directors of the Company have reviewed the above-mentioned transactions and confirmed that these on-going connected/related party transactions are in the ordinary and usual course of business, on normal commercial terms and are fair and reasonable so far as the shareholders of the Company are concerned.

35. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision-makers ("CODM") who is the Chief Executive Officer of the Group, for the purposes of resource allocation and performance assessment.

The CODM considers the business from both geographic and product perspective. Geographically, management considers the performance of the segment in Mainland China (excluding Hong Kong), Republic of India, Republic of Yemen, the People's Republic of Bangladesh, Singapore and Malaysia separately.

The Group has presented the following two reportable segments. These segments are managed separately. The manufacturing segments and the investment holding segment offers very different products and services:

1. Manufacturing

2. Investment holding

The manufacturing segment derives its revenue primarily from the manufacture and sale of various types of tyres for commercial vehicles.

The investment holding segment derives its revenue primarily from dividends income from listed securities.

No reportable operating segment has been aggregated.

a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit/(loss) represents the profit earned by/loss from each segment without allocation of central administration costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Sales between segments are carried out on arm's length basis. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the statement of comprehensive income.

35. SEGMENT REPORTING *(Continued)*

a) Segment results, assets and liabilities *(Continued)*

All assets are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

All liabilities are allocated to reportable segments. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Information regarding the Group's reportable segments as provided to the Group's CODM is set out below:

	Manufacturing		Investment holding		Eliminations		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	563,553	549,546	—	—	—	—	563,553	549,546
Reportable segment (loss)/ profit before taxation	(27,473)	28,996	5,548	7,146	—	12	(21,925)	36,154
Interest income	231	656	—	17	—	—	231	673
Finance costs	(2,914)	(3,313)	—	—	—	—	(2,914)	(3,313)
Depreciation and amortisation	(23,455)	(23,367)	(43)	(52)	—	—	(23,498)	(23,419)
Material non-cash items:								
Writeback of/(impairment losses) on trade and other receivables	1,794	(2,001)	—	—	—	—	1,794	(2,001)
Impairment loss on plant and machinery	(12,459)	—	—	—	—	—	(12,459)	—
Income tax expense	—	—	(251)	(180)	—	—	(251)	(180)
Reportable segment assets	372,338	469,542	145,911	179,005	—	—	518,249	648,547
Additions to non-current assets (other than financial instruments and deferred tax assets)	14,341	3,696	—	11	—	—	14,341	3,707
Reportable segment liabilities	170,072	244,452	19,127	14,267	—	—	189,199	258,719

35. SEGMENT REPORTING *(Continued)*

b) Reconciliations of reportable segment revenues, profit or (loss), assets and liabilities

	2010 *HK$'000*	2009 *HK$'000*
Revenue		
Total reportable segments' revenues	563,553	549,546
Elimination of inter-segment revenue	—	—
Consolidated turnover	563,553	549,546
Profit		
Total reportable segments' (loss)/profit	(21,925)	36,154
Finance costs	(2,914)	(3,313)
Interest income	231	673
Consolidated (loss)/profit before tax expense	(24,608)	33,514

c) Revenue from major product and services

The following is an analysis of the Group's revenue from its major products and services:

	2010 *HK$'000*	2009 *HK$'000*
Manufacturing and sales of tyres	563,553	549,546

d) Geographic information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The Group's non-current assets include property, plant and equipment, intangible assets and interests in associate. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of intangible assets, it is based on the location of operation to which these intangibles are allocated. In the case of interests in associates, it is the location of operations of such associates.

35. SEGMENT REPORTING *(Continued)*

d) Geographic information *(Continued)*

	Revenue from external customers		Specified Non-current assets	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mainland China (place of domicile)	258,820	279,525	157,424	173,506
Republic of India	40,126	17,272	—	—
Republic of Yemen	32,400	49,125	—	—
The People's Republic of Bangladesh	41,519	37,710	—	—
Singapore	41,696	46,414	—	—
Malaysia	36,178	31,439	4,837	4,688
Others	112,814	88,061	—	—
	563,553	549,546	162,261	178,194

e) Information about major customers

For the year of 2010 and 2009, the revenue from the Group's largest customer was less than 10% of the Group's total revenue.

36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010.

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010 *(Continued)*

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 January 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010 *(Continued)*

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) — Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HKFRIC 19 will affect the required accounting. In particular, under HKFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

37. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to current year's presentation.

FIVE-YEAR FINANCIAL SUMMARY

	2010	**2009**	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	563,553	549,546	453,190	656,502	609,947
(Loss)/profit before taxation	(24,680)	33,514	(66,893)	(1,146)	(7,075)
Non-current assets	264,924	324,109	291,494	324,009	299,372
Current assets	253,325	324,438	159,372	337,505	231,332
Current liabilities	(189,199)	(258,719)	(150,455)	(283,635)	(173,036)
Equity	329,050	389,828	300,411	377,879	357,668

The comparative figures in respect of turnover for the financial years 2006, 2007, 2008 and 2009 have been reclassified to conform with the current financial year's presentation.