



PEARL RIVER TYRE (HOLDINGS) LIMITED

(Registered in Bermuda with limited liability)

(Stock Code: 01187)

INTERIM REPORT 2012

The Directors of Pearl River Tyre (Holdings) Limited (the “Company”) are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months period ended 30 June 2012 (the “current period”) together with the comparative figures for the corresponding period last year (the “corresponding period”).

This interim report does not include all the notes normally included in an annual report. Accordingly, this interim report should be read in conjunction with the 2011 Annual Report.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	Six Months Period Ended	
		30.6.2012	30.6.2011
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	321,607	194,260
Cost of sales		<u>(280,764)</u>	<u>(199,408)</u>
Gross profit/(loss)		40,843	(5,148)
Other income	4	1,212	1,180
Selling and distribution expenses		(8,448)	(3,718)
Administrative expenses		(23,489)	(23,376)
Other operating expenses	5	<u>(2,679)</u>	<u>(33,826)</u>
Profit/(Loss) from continuing operations		7,439	(64,888)
Finance costs	6	<u>(1,926)</u>	<u>(1,367)</u>
Profit/(Loss) before taxation		5,513	(66,255)
Income tax expense	7	<u>(169)</u>	<u>(1)</u>
Net profit/(loss) for the period		<u>5,344</u>	<u>(66,256)</u>
Earnings/(loss) per share (<i>Hong Kong cents</i>)			
— Basic	8	<u>5.08</u>	<u>(63.0)</u>
— Diluted	8	<u>5.03</u>	<u>(63.0)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six Months Period Ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
Profit/(Loss) for the period	5,344	(66,256)
Other comprehensive loss:		
Exchange differences on translating of		
— Joint Venture's financial statements	(1,339)	5,597
— Available-for-sale investments	(47)	490
Available-for-sale investments:		
movement in the revaluation reserve	<u>(9,869)</u>	<u>(15,750)</u>
Total other comprehensive loss for the period	<u>(5,911)</u>	<u>(75,919)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As At	
		30.6.2012	31.12.2011
Note		HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-Current Assets			
	Property, plant and equipment	105,785	112,697
	Prepaid lease payments	10,692	11,264
	Investment in an associate	4,475	4,475
9	Investment in listed securities	57,239	67,154
	Total Non-Current Assets	<u>178,191</u>	<u>195,590</u>
Current Assets			
9	Investment in listed securities	24,506	24,661
	Inventories	119,294	108,202
11	Trade and other receivables	47,592	45,440
	Pledged bank deposits	8,199	11,221
	Cash and cash equivalents	34,915	32,856
	Total Current Assets	<u>234,506</u>	<u>222,380</u>
Current Liabilities			
12	Trade and other payables	123,874	115,913
	Provisions	2,083	2,101
	Borrowings	67,962	75,497
	Total Current Liabilities	<u>193,919</u>	<u>193,511</u>
	Net Current Assets	<u>40,587</u>	<u>28,869</u>
	Net Assets	<u>218,778</u>	<u>224,459</u>
EQUITY			
13	Share capital	1,051	1,051
	Share premium	113,157	113,157
15	Revaluation reserve	36,808	46,677
	Share option reserve	5,704	5,474
	Capital reserve	37,344	37,344
	Foreign currency translation reserve	66,177	67,563
	Contributed surplus	109,665	109,665
	Accumulated losses	(151,128)	(156,472)
	Total Equity	<u>218,778</u>	<u>224,459</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six Months Period Ended	
	30.6.2012	30.6.2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating Activities		
Profit/(Loss) before taxation	5,513	(66,255)
Adjustments for:		
Amortisation of operating lease prepayments	548	456
Bad debts written off	—	255
Depreciation of property, plant and equipment	7,162	11,371
Equipment written off	8	48
Impairment loss on plant and machinery	—	28,312
Interest expense	1,926	1,367
Loss on fair value changes of listed securities		
— held for trading	138	1,239
Share-based payments	230	5,696
Unrealised loss/(gain) on foreign exchange	17	(110)
Write down of inventories	—	2,455
Dividend income	(879)	(9)
Interest income	(42)	(43)
Gain on disposal of equipment	(97)	—
Gain on disposal of listed securities	—	(95)
	<hr/>	<hr/>
	14,524	(15,313)
Increase in inventories	(11,091)	(2,162)
(Increase)/Decrease in trade and other receivables	(2,461)	15,079
Increase in trade and other payables	6,822	3,766
	<hr/>	<hr/>
Cash generated from operations	7,794	1,370
Interest received	42	43
Interest paid	(1,926)	(1,367)
	<hr/>	<hr/>
Net cash generated from operating activities	5,910	46
Investing Activities		
Purchase of property, plant and equipment	(1,368)	(3,426)
Dividend received	710	8
Proceed from disposal of equipment	143	—
Proceed from disposal of listed securities	—	311
	<hr/>	<hr/>
Net cash used in investing activities	(515)	(3,107)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (CONT'D)

	Six Months Period Ended	
	30.6.2012	30.6.2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financing Activities		
Net repayment of borrowings	(6,839)	(36,091)
Net advances from/(repayment to) related parties	1,139	(395)
Repayment to a director	—	(6,051)
	<u> </u>	<u> </u>
Net cash used in financing activities	<u>(5,700)</u>	<u>(42,537)</u>
Net increase in cash and cash equivalents	(305)	(45,598)
Cash and cash equivalents at beginning of the current/ corresponding period	44,077	73,265
Effect of foreign exchange rate changes, net	(658)	4,010
	<u> </u>	<u> </u>
Cash and cash equivalents at end of the current/ corresponding period	<u>43,114</u>	<u>31,677</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Revaluation Reserve	Share Option Reserve	Capital Reserve	Foreign Currency Translation Reserve	Contributed Surplus	Accumulated Losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2012	1,051	113,157	46,677	5,474	37,344	67,563	109,665	(156,472)	224,459
Total comprehensive loss for the period	—	—	(9,869)	—	—	(1,386)	—	5,344	(5,911)
Share options granted	—	—	—	230	—	—	—	—	230
At 30 June 2012	<u>1,051</u>	<u>113,157</u>	<u>36,808</u>	<u>5,704</u>	<u>37,344</u>	<u>66,177</u>	<u>109,665</u>	<u>(151,128)</u>	<u>218,778</u>
At 1 January 2011	110,716	113,157	45,661	—	37,344	96,212	—	(74,040)	329,050
Total comprehensive loss for the period	—	—	(15,750)	—	—	6,087	—	(66,256)	(75,919)
Share options granted	—	—	—	5,696	—	—	—	—	5,696
At 30 June 2011	<u>110,716</u>	<u>113,157</u>	<u>29,911</u>	<u>5,696</u>	<u>37,344</u>	<u>102,299</u>	<u>—</u>	<u>(140,296)</u>	<u>258,827</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“The Listing Rules”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. It was authorised for issuance by the Board of Directors on 24 August 2012.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the financial year ended 31 December 2011, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 January 2012. The effect of the adoption of these standards, amendments and interpretations was not material to the Group’s results of operations or financial position.

This interim report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

2. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the directors of the Company for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

The Group has presented the following two reportable segments. These segments are managed separately. The manufacturing segment 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 directors of the Company monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, deferred tax assets and other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments and bank borrowings managed directly by the segments.

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.

The measure used for reporting segment profit is “adjusted EBITDA” i.e., “adjusted earnings before interest, taxes, depreciation and amortisation”, where “interest” is regarded as including investment income and “depreciation and amortisation” is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group’s earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors’ emoluments and auditors’ remuneration and other head office or corporate administration costs.

2. SEGMENT REPORTING (CONT'D)

(a) Segment results, assets and liabilities (Cont'd)

In addition to receiving segment information concerning adjusted EBITDA, the directors of the Company are provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the directors of the Company for the purpose of resource allocation and assessment of segment performance for the six months period ended 30 June 2012 and 2011 is set out below:

	Manufacturing		Investment holding		Eliminations		Total	
	Six months period ended		Six months period ended		Six months period ended		Six months period ended	
	30.6.2012 HK\$'000	30.6.2011 HK\$'000	30.6.2012 HK\$'000	30.6.2011 HK\$'000	30.6.2012 HK\$'000	30.6.2011 HK\$'000	30.6.2012 HK\$'000	30.6.2011 HK\$'000
Revenue from external customers	321,607	194,260	—	—	—	—	321,607	194,260
Reportable segment profit/(loss) (adjusted EBITDA)	15,893	(14,662)	(786)	(124,730)	—	114,600	15,107	(24,792)
Interest income	38	43	4	—	—	—	42	43
Finance costs	(1,926)	(1,367)	—	—	—	—	(1,926)	(1,367)
Depreciation and amortisation	(7,694)	(11,811)	(16)	(16)	—	—	(7,710)	(11,827)
Material non-cash items:								
Impairment loss on plant and machinery	—	(28,312)	—	—	—	—	—	(28,312)
Income tax expense	—	—	(169)	(1)	—	—	(169)	(1)
	As At	As At	As At	As At	As At	As At	As At	As At
	30.6.2012 HK\$'000	31.12.2011 HK\$'000	30.6.2012 HK\$'000	31.12.2011 HK\$'000	30.6.2012 HK\$'000	31.12.2011 HK\$'000	30.6.2012 HK\$'000	31.12.2011 HK\$'000
Reportable segment assets	323,225	318,260	84,997	95,235	—	—	408,222	413,495
Interest in associates	—	—	4,475	4,475	—	—	4,475	4,475
Additions to non-current assets (other than financial instruments and deferred tax assets)	1,368	8,384	—	—	—	—	1,368	8,384
Reportable segment liabilities	177,646	177,651	16,273	15,860	—	—	193,919	193,511

2. SEGMENT REPORTING (CONT'D)

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

	Six Months Period Ended	
	30.6.2012	30.6.2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit		
Reportable segment profit/(loss)	15,107	(24,792)
Finance costs	(1,926)	(1,367)
Depreciation and amortisation	(7,710)	(11,827)
Impairment loss on plant and machinery	—	(28,312)
Interest income	42	43
	<hr/>	<hr/>
Consolidated profit/(loss) before tax expense	5,513	(66,255)
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	As At	
	30.6.2012	31.12.2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets		
Reportable segment assets	408,222	413,495
Interest in an associate	4,475	4,475
	<hr/>	<hr/>
Consolidated assets	412,697	417,970
	<hr/>	<hr/>

(c) Revenue from major product and services

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

	Six Months Period Ended	
	30.6.2012	30.6.2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Manufacturing and sales of tyres	321,607	194,260
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2. SEGMENT REPORTING (CONT'D)

(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, prepaid lease payments and interests in an associate. The geographical location of property, plant and equipment and prepaid lease payments are 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 an associate, it is the location of operations of the associate.

	Revenue from external customers		Specified Non-current assets	
	Six Months Period Ended		As At	
	30.6.2012	30.6.2011	30.6.2012	31.12.2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China (place of domicile)	144,511	93,799	116,356	123,824
The People's Republic of Bangladesh	35,802	20,273	—	—
Republic of Yemen	35,025	11,755	—	—
Singapore	27,940	13,909	—	—
Malaysia	23,677	14,415	4,596	4,612
Kingdom of Cambodia	11,144	8,083	—	—
Republic of Indonesia	6,716	4,120	—	—
Federative Republic of Brazil	6,043	3,206	—	—
Hong Kong	5,600	2,685	—	—
Republic of the Union of Myanmar	4,067	1,498	—	—
Taiwan	3,735	4,922	—	—
Republic of India	3,717	3,986	—	—
United States of America	2,623	1,229	—	—
Republic of Philippines	2,314	1,235	—	—
The United Arab Emirates	2,149	4,324	—	—
Others	6,544	4,821	—	—
	<u>321,607</u>	<u>194,260</u>	<u>120,952</u>	<u>128,436</u>

3. REVENUE

	Six Months Period Ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
Sale of goods	<u>321,607</u>	<u>194,260</u>

4. OTHER INCOME

	Six Months Period Ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
Dividends income from listed securities		
— held for trading	879	9
Gain on disposal of equipment	97	—
Gain on disposal of quoted investment	—	95
Gain on foreign exchange		
— realised	183	—
— unrealised	—	110
Government grant	—	292
Interest income	42	43
Others	11	631
	<u>1,212</u>	<u>1,180</u>

5. OTHER OPERATING EXPENSES

	Six Months Period Ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
Bad debts written off	—	255
Depreciation of property, plant and equipment	2,516	1,140
Equipment written off	8	48
Impairment loss on plant and machinery	—	28,312
Loss on fair value changes of listed securities		
— held for trading	138	1,239
Loss on foreign exchange		
— realised	—	377
— unrealised	17	—
Write down of inventories	—	2,455
	<u>2,679</u>	<u>33,826</u>

6. FINANCE COSTS

	Six Months Period Ended	
	30.6.2012	30.6.2011
	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	<u>1,926</u>	<u>1,367</u>

7. INCOME TAX EXPENSE

The Company was incorporated under the laws of the British Virgin Islands and continued under the laws of Bermuda subsequent to its migration. At the present time, 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.

The income tax expense represents the income tax on the dividend receivable from the investment in listed securities outside Hong Kong.

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 period and the corresponding period.

No provision for China corporate income tax has been made as the Joint Venture has unutilised tax losses from prior years available to offset future taxable profits.

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

The calculation of the basic earnings/(loss) per share is based on the net profit of HK\$5,344,000 (30.6.2011 — net loss of HK\$66,256,000) for the current period and on the number of shares in issue during the current period of 105,116,280 (30.6.2011 — 105,116,280).

The calculation of diluted earnings per share is based on the net profit of HK\$5,344,000 for the current period and the weighted average number of 106,169,907 ordinary shares in issue during the period after adjusting for the effect of dilutive options. The basic and diluted loss per share for the previous period were equal as there is anti-dilutive effect.

9. INVESTMENT IN LISTED SECURITIES

	As At	
	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
Non-Current		
Securities listed outside Hong Kong:		
— available-for-sale, at fair value (<i>Note 1</i>)	57,239	67,154
Current		
Securities listed outside Hong Kong:		
— held for trading, at fair value	24,506	24,661

Note:

1. It relates to the investment in D&O Green Technologies Berhad (“D&O”), a company incorporated in Malaysia and listed in Bursa Malaysia Securities Bhd. As at 30 June 2012, the Group held a 16.6% (31 December 2011 — 16.6%) equity interests 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.

10. INVESTMENT IN A JOINT VENTURE

Name	Place/Date Of Establishment	Authorised/ Fully Paid-Up Registered Capital	Indirect Attributable Equity Interest		Principal Activities
		30.6.2012	31.12.2011		
Guangzhou Pearl River Rubber Tyre Limited ("Joint Venture")	The People's Republic of China ("the PRC")/ 11 December 1993	US\$43,202,166	70%	70%	Manufacturing and marketing of various types of tyres mainly 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 Carham Assets Limited, a wholly-owned subsidiary of the Group, and 30% owned by Guangzhou Guang Xiang Enterprise Group Company Limited ("GXEG"), a state-owned enterprise, established in Guangzhou, the PRC.

	As At	
	30.6.2012 HK\$'000	31.12.2011 HK\$'000
The Group's share of the Joint Venture's assets and liabilities are as follows:		
Non-current assets	116,356	123,824
Current assets	206,869	194,436
Current liabilities	(177,646)	(177,651)
Net assets	<u>145,579</u>	<u>140,609</u>

	Six Months Period Ended	
	30.6.2012 HK\$'000	30.6.2011 HK\$'000
The Group's share of the Joint Venture's revenues and expenses are as follows:		
Revenues and other income	321,937	195,148
Costs and expenses	(313,700)	(249,890)
Profit/(Loss) from continuing operations	8,237	(54,742)
Finance costs	(1,926)	(1,367)
Profit/(Loss) before taxation	6,311	(56,109)
Income tax expense	—	—
Net profit/(loss) from continuing operations	<u>6,311</u>	<u>(56,109)</u>

11. TRADE AND OTHER RECEIVABLES

	As At	
	30.6.2012 <i>HK\$'000</i>	31.12.2011 <i>HK\$'000</i>
Trade receivables	61,050	67,709
Less: allowance for impairment loss	<u>(33,127)</u>	<u>(33,435)</u>
	27,923	34,274
Amount owing by a connected/related party ⁽¹⁾	2,046	3,211
Other receivables	<u>1,638</u>	<u>836</u>
Loan and receivables	31,607	38,321
Deposits paid to suppliers	15,829	4,986
Prepayments and deposits	<u>156</u>	<u>2,133</u>
	<u>47,592</u>	<u>45,440</u>

Note:

- The connected/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.

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

	As At	
	30.6.2012 <i>HK\$'000</i>	31.12.2011 <i>HK\$'000</i>
Outstanding less than one year	26,712	31,735
Outstanding more than one year but less than two years	822	811
Outstanding more than two years	<u>33,516</u>	<u>35,163</u>
	61,050	67,709
Less: Allowance for doubtful debts	<u>(33,127)</u>	<u>(33,435)</u>
	<u>27,923</u>	<u>34,274</u>

12. TRADE AND OTHER PAYABLES

	As At	
	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
Trade payables	73,820	47,844
Other payables	21,792	19,731
Amount owing to connected/related parties ⁽¹⁾	18,134	16,995
Accruals	2,352	2,432
	<u>116,098</u>	<u>87,002</u>
Financial liabilities measured at amortised cost	116,098	87,002
Sales deposits received	7,776	28,911
	<u>123,874</u>	<u>115,913</u>

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

Note:

- The connected/related parties refer to:

	As At	
	30.6.2012	31.12.2011
	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	4,259	3,608
(b) Cambrew Asia Limited, a company incorporated in Cayman Island, in which a director has substantial financial interests	13,875	13,387
	<u>18,134</u>	<u>16,995</u>

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

	As At	
	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
Outstanding less than one year	64,944	41,660
Outstanding more than one year but less than two years	2,721	186
Outstanding more than two years	6,155	5,998
	<u>73,820</u>	<u>47,844</u>

13. SHARE CAPITAL

The issued and fully paid-up share capital of the Company comprises 105,116,280 ordinary shares of HK\$0.01 each. There was no change in the issued and paid-up share capital of the Company during the current period.

14. 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 on The Stock Exchange's daily quotations sheets on the date of grant;
- (b) the average closing price of the shares as stated on 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 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.

The total number of securities available for issue under the share option scheme as at 30 June 2012 was 31,534,884 shares (including outstanding options for 10,511,628 shares that have been granted as at 30 June 2012) which represented 30% of the issued share capital of the Company at 30 June 2012. During the financial period under review, 410,000 options have been granted to a director.

14. SHARE OPTION SCHEME (CONT'D)

Each option gives the holder right to subscribe for ordinary shares in the Company.

- (a) The terms and conditions of the share options granted under the financial period under review are as follows:

	Number of shares issuable under options granted	Vesting conditions	Contractual life of options
Number of shares issuable under:			
Options granted to a director:			
— on 15 May 2012	<u>410,000</u>	At the date of grant	2.00 years

- (b) The movements of the outstanding options under the share option scheme are as follows:

	30.6.2012		31.12.2011	
	Weighted average exercise price	Number of Shares issuable under options	Weighted average exercise price	Number of Shares issuable under options
Outstanding at 1 January	HK\$1.66	10,101,628	—	—
— Granted during the period/year	HK\$1.79	410,000	HK\$1.66	10,511,628
Lapsed during the period/year	—	<u>—</u>	HK\$1.66	<u>(410,000)</u>
Exercisable at 30 June/31December	HK\$1.67	<u>10,511,628</u>	HK\$1.66	<u>10,101,628</u>

The share options outstanding at 30 June 2012 had an weighted average exercise price of HK\$1.67 and a weighted average remaining contractual life of 2.00 years.

15. REVALUATION RESERVE

The revaluation reserve is the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period.

	As At	
	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
Net gain on fair value change of available-for-sale investment		
At 1 January	46,677	45,661
Loss on fair value change of available-for-sale investment	(11,843)	(31,551)
Effect of foreign exchange translation	1,974	32,567
	<u>36,808</u>	<u>46,677</u>
At 30 June/31 December	<u>36,808</u>	<u>46,677</u>

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

16. INTERIM DIVIDENDS

No dividend was paid since the end of the previous financial year and the Directors have not recommended and declared any dividend for the current period. No dividend was recommended and declared for the previous financial year.

17. CONNECTED/RELATED PARTY TRANSACTIONS

In addition to the amount owing by/to connected/related parties as disclosed in Notes 11 and 12 respectively to the interim report, 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:

	Six Months Period Ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
Transactions between the Joint Venture and Guangzhou Bolex Tyre Limited ("Bolex")		
Contribution received and receivable from Bolex for:		
— processing/providing raw material/intermediate/ consumable products	13	20
— charging of utilities (water, electricity, steam and compressed air consumed)	7,444	9,579
— the right to use the factory lift and the factory space	45	52
	<u>7,502</u>	<u>9,651</u>

17. CONNECTED/RELATED PARTY TRANSACTIONS (CONT'D)

	Six Months Period Ended	
	30.6.2012	30.6.2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Transactions between the Joint Venture and GGXEG ⁽¹⁾ / GIGBM ⁽²⁾		
Payments relating to:		
— lease rental for a piece of land and buildings erected thereon	2,418	2,341
— lease rental for the exclusive right to use certain machinery	1,229	1,190
— royalties for the right to use the trademark “Pearl River” and any technology and know-how necessary for the production of bias tyres	356	291
— lease rental for workers’ hostel*	347	336
— lease rental for the dining hall*	58	56
	<u>4,408</u>	<u>4,214</u>

Notes:

- 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 was the former PRC partner was taken over by GGXEG in 2001.
- GGXEG is a connected person of the Company under the Listing Rules as GGXEG is the owner of 30% equity in the Joint Venture (in which the Group owns the balance of 70% equity). 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 each of Bolex and GGXEG/GIGBM were less than HK\$10 million.

18. CONTINGENT LIABILITIES

During or since the end of the current period, the Group does not have any contingent liabilities.

19. SIGNIFICANT EVENT DURING AND END OF THE SUBSEQUENT REPORTING PERIOD

No significant event has arisen during and after the end of the reporting period that would likely have a material effect on the operations of the Group, the results of the Group or the state of affairs of the Group which has not been disclosed or recognised in this interim financial statements

20. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

The Company is principally engaged in the business of investment holding. The Group's principal asset is a 70% equity interest in the Joint Venture. The principal activity of the Joint Venture is the manufacturing and marketing of various types of tyres for commercial vehicles.

The Group's unaudited net profit for the six months period ended 30 June 2012 (the "current period") was at HK\$5,344,000 compared to the unaudited net loss of HK\$66,256,000 recorded in the corresponding period last year. Net earnings per share was 5.1 Hong Kong cents.

The Group's revenue and net profit, including the Group's share of the Joint Venture's result, are shown by business segments in Note 2 to the condensed consolidated financial statements.

1. Analysis on the Operating Results and Financial Position of the Group

Operating Results

	Six Months Period Ended		Change %
	30.6.2012 HK\$'000	30.6.2011 HK\$'000	
Revenue	321,607	194,260	65.6
Costs and expenses	(317,475)	(261,696)	21.3
Other income	1,212	1,180	2.7
Net profit/(loss)	<u>5,344</u>	<u>(66,256)</u>	<u>108.1</u>

The net profit for the Group of HK\$5,344,000 was mainly derived from the share of the Joint Venture's operating profit of HK\$6,311,000.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW AND PROSPECTS (CONT'D)

1. Analysis on the Operating Results and Financial Position of the Group (Cont'd)

Financial Analysis

	As at	
	30.6.2012	31.12.2011
Total assets (HK\$'000)	412,697	417,970
Shareholders' equity (HK\$'000)	218,778	224,459
Return on shareholders' equity (%)	2.44	(25.60)*
Current ratio	1.21	1.15

* Calculated by dividing net loss for the corresponding period last year over shareholders' equity as at 30 June 2011.

The Group's cash and cash equivalents are held in currencies other than Hong Kong Dollar. The Hong Kong Dollar equivalents of foreign currency monetary items included in the financial statements are not hedged. The Directors acknowledge the exposure to currency risk and will continue to monitor closely and minimise the exchange risk by using applicable derivatives when necessary.

The Company does not have any bank borrowings. The Group's borrowings which are denominated in Renminbi are for working capital purposes in the Joint Venture.

The Joint Venture

In the first half of 2012, the global economy and financial markets plunged into great uncertainty as a result of an aggravating Euro debt crisis and visible slowdown in China's economy owing to weaker export demand.

The severe impact of the economic slowdown however had its positive side. The exodus of a number of bias tyre manufacturers in the industry gave the Joint Venture an opportunity to increase its market share amidst a slowing industry's wide demand. Consequently, the Joint Venture recorded robust sales volume growth in both the domestic and export markets in the first half of 2012, translating into a 65.6% increase in turnover to HK\$459,441,000.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW AND PROSPECTS (CONT'D)

1. Analysis on the Operating Results and Financial Position of the Group (Cont'd)

The Joint Venture (Cont'd)

Additionally, lower raw material prices, in particular natural rubber, also resulted in improvements in gross margin for the Joint Venture. Together with higher sales volume, the Joint Venture achieved a profit of HK\$9,016,000, as compared to a loss of HK\$80,156,000 in the previous corresponding period.

PROSPECTS

Joint Venture

The Joint Venture which specialises in producing and selling bias tyre for various commercial applications, especially heavy duty tyres, clearly operates in a niche segment in all its present markets. However, the bias tyre market is facing intense competition from radial tyre which resulted in a significant decrease in the overall demand for bias tyre.

Since last year, the Joint Venture has moved into radial tyre and has been gradually building up its radial capacity, while maintaining a reasonable scale of bias commercial tyre. Moving forward, the radial tyre business will be a major focus for the Joint Venture which the Board expects would contribute significantly to the Joint Venture's turnover and profitability in the future.

New Business Development

Despite the Joint Venture reporting satisfactory performance in the first half of 2012, the principal business of the Group is subject to an increased level of market risk. Given the strength of the Group's balance sheet, the Board is therefore exploring new strategic businesses to diversify its earnings base and to enhance long term shareholder value.

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

As at 30 June 2012, the interests and short positions of the Directors or chief executive of the Company in shares, underlying shares and debentures of the Company or 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 Listing Companies, 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	38,418,000 ⁽¹⁾	36.55
Goh Nan Yang	Personal	94,000	0.1

Notes:

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

Number of Shares Issuable Under Options

	At 1.1.2012	Exercised/		At 30.6.2012
		Granted	Lapsed	
Goh Nan Kioh	1,500,000	—	—	1,500,000
Goh Nan Yang	2,500,000	—	—	2,500,000
Yeow See Yuen	800,000	—	—	800,000
Khoo Teng Keat	800,000	—	—	800,000
Won Tian Loong	—	410,000	—	410,000

The Company does not have any listed debt securities.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONT'D)

Long positions in ordinary shares of the Company (Cont'd)

Save as disclosed above as at 30 June 2012, none of the Directors or the chief executive 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 executive of the Company or any of their associates had an interest (directly and/or deemed) in the equity or debt securities of the associated corporations of the Company.

At no time during the current period, the Directors or the chief executive 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 30 June 2012, as far as is known to the Directors and the chief executive 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 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
Ablington Holdings Sdn Bhd	Beneficial owner	8,000,000	7.61

SUBSTANTIAL SHAREHOLDERS (CONT'D)

Long positions in ordinary shares of the Company (Cont'd)

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 30 June 2012, Kuala Lumpur Kepong Berhad is 46.57% directly owned by Batu Kawan Berhad, which is, in turn, 45.95% 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 30 June 2012, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and the chief executive's 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.

GROUP STRUCTURE

There were no changes in the composition of the Group during the current period, including business combinations, acquisition and disposal of subsidiaries and long-term investments, restructurings and discontinuing operations.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries, associates and the Joint Venture purchased, sold or redeemed any of the Company's listed securities during the current period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied and complied with the code provisions on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the period ended 30 June 2012.

AUDIT COMMITTEE

The Audit Committee of the Company comprising 3 independent non-executive directors and a non-executive director and is chaired by an Independent Non-Executive Director. The Audit Committee meets at least twice a year with management and with the external auditors of the Company to review matters relating to audit, accounting and financial statements as well as the accounting policies, internal controls and financial reporting of the Company, its subsidiaries and the Joint Venture.

The interim financial statements for the period ended 30 June 2012 which were not required to be audited and have been reviewed by the Audit Committee of the Company which is of the opinion that such financial statements complied with the applicable accounting standards, and that adequate disclosures have been made, and has recommended their adoption by the Board.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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 the Appendix 10 of the Listing Rules.

Following specific enquiry made with the Directors, the Company confirmed that all directors had complied with the standard set out in the Model Code regarding securities transactions during the period under review.

DIRECTORS

The Directors of the Company as the date of this report are as follows:

Non-executive Chairman

Goh Nan Kioh

Executive Director, Chief Executive Officer

Goh Nan Yang

Non-executive Directors

Dato Yeoh Eng Khoon

Khoo Teng Keat

Independent Non-executive Directors

Won Tian Loong

Wong Meng Tak

Yeow See Yuen

There are 4 Board committees. Below provides membership information of these committees on which each Board member serves:

Audit Committee

Yeow See Yuen (*Chairman*)

Khoo Teng Keat (*Member*)

Won Tian Loong (*Member*)

Wong Meng Tak (*Member*)

Remuneration Committee

Yeow See Yuen (*Chairman*)

Goh Nan Kioh (*Member*)

Wong Meng Tak (*Member*)

Nomination Committee

Wong Meng Tak (*Chairman*)

Goh Nan Kioh (*Member*)

Won Tian Loong (*Member*)

Share Option Committee

Goh Nan Kioh (*Chairman*)

Wong Meng Tak (*Member*)

Goh Nan Yang (*Member*)

By order of the Board

Goh Nan Yang

Director and CEO

Kuala Lumpur, 24 August 2012