The Company registered a consolidated profit after tax of A$1,160,000 or HK$4,624,000 for the financial year ended 31 December 2001. Basic earnings per share was 1.1 Australian cents per share or 4.4 Hong Kong cents per share. This is particularly pleasing as it reverses a loss registered in the first half of the year.

During the financial year under review, the Company transferred its 70% equity interest in Guangzhou Pearl River Rubber Tyre Limited to Carham Assets Limited, a wholly owned entity.

The Company has no debt, and does not plan to undertake any borrowings in the foreseeable future.

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

Guangzhou Pearl River Rubber Tyre Limited

The Company's principal asset is its 70% equity in Guangzhou Pearl River Rubber Tyre Limited (the "Joint Venture"). The principal activity of the Joint Venture is the manufacture and marketing of bias tyres for commercial vehicles.

The Joint Venture registered a turnover of A$119,170,000 or HK$497,045,000 for the financial year end 31 December 2001, up 55% from the previous year. Net profit after tax was A$2,264,000 or HK$9,444,000, reversing a net loss from the previous year.

Market conditions in the tyre industry in China continued to be difficult during the financial year under review, and prices of tyres remained low throughout this period. This is largely due to the oversupply of bias tyres in China and the tendency for the state owned tyre companies to reduce prices.

The Joint Venture was able to increase sales despite the very competitive market conditions by the implementation a strong distribution system, which has also broadened our customer base. This distribution system was set up 2 years ago, and the results have been extremely pleasing. Sales in Guangdong Province remain stable, and sales in all outer provinces continue to grow. The Joint Venture has also increased its export sales, and is currently contract manufacturing for a foreign tyre company. Despite low initial sales volume, the Joint Venture is confident that this relationship will lead to much higher volumes, and will be beneficial to both parties in the longer term.

The low prices of tyres in the industry was offset by aggressive cost cutting measures undertaken by the Joint Venture. The implementation of a purchasing system have significantly lowered our raw material costs. Plant efficiency was also reviewed to ensure optimum levels of productivity. The Joint Venture now employs a total of approximately 2,000 employees, down from a high of 3,200 employees. We expect this level of workforce to be stable for the foreseeable future. Pay rates are maintained at competitive levels and bonuses are awarded on a performance related basis.

The Joint Venture has bank borrowings of A$35,315,000 or HK$140,841,000 and a total equity of A$89,255,000 or HK$355,958,000. The bank borrowings are in RMB, and the majority of the Joint Venture's purchases and sales are in China. The Joint Venture has not experienced any problem with loan and principal repayment, and expect the level of bank borrowings to remain stable over the next few years. Cash flow remains strong, and the Joint Venture does not foresee any working capital problems. There are no current plans for any significant capital expenditure.

The Joint Venture currently sells almost exclusively on a cash basis in the local market, and by confirmed letter of credit in the export market. The Joint Venture currently does not give any new credit terms to customers, and all current trade receivables are 'old' debts. The Joint Venture continues to aggressively reduce its existing trade debtors.

Outlook

Overcapacity and price pressure within the tyre industry over the last few years have resulted in a rationalisation and consolidation of the industry, with several tyre factories closing down. The factory is currently running at full capacity, and demand for our tyres has been increasing in the first few months of this year. The factory is in the process of revising its work schedule to further increase capacity.

Raw material prices, such as natural rubber, synthetic rubber and nylon cloth, have risen over the last few months. The factory has somewhat offset this by purchasing a significant amount of its raw material several months in advance, and will also consider a revision its tyre prices over the next few months.

We have targeted an improvement in our sales volume by 10% to 15% this year, and the sales volume over the first few months of this year have suggested that this is achievable. This increase in sales volume will result in the reduction of our unit cost.

The Directors are cautiously optimistic that with the strategies implemented over the last few years together with a rationalisation and consolidation of the tyre industry in China, we should show further improvements this year.

Goh Nan Kioh
Director