



PEARL RIVER TYRE (HOLDINGS) LIMITED

(Registered under the Companies Act 1981 of Bermuda with limited liability)

(Stock Code: 01187)

INTERIM REPORT 2004

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The Directors of Pearl River Tyre (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months period ended 30 June 2004 (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 2003 Annual Report.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six Months Period Ended	
		30.6.2004	30.6.2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenues	3	1,488	389
Other income	4	–	2,112
		<u>1,488</u>	<u>2,501</u>
Costs and expenses			
Salaries and employee benefits		(1,023)	(979)
Depreciation expense		(94)	(78)
Loss on foreign exchange		–	(3,955)
Other expenses	5	(1,843)	(5,091)
Total costs and expenses		<u>(2,960)</u>	<u>(10,103)</u>
Loss from continuing operating activities		(1,472)	(7,602)
Share of net loss of the Joint Venture and Associate accounted for using the equity method	6	(4,013)	(10,054)
Loss before tax		(5,485)	(17,656)
Tax expense	7	–	–
Net loss for the current/corresponding period		<u>(5,485)</u>	<u>(17,656)</u>
Basic loss per share (Hong Kong cents)	8	<u>(5.2)</u>	<u>(16.8)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As At	
		30.6.2004	31.12.2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Non-current assets			
Equipment		573	715
Other financial assets	9	17,416	19,966
Investments accounted for using the equity method	10	236,820	236,815
Total non-current assets		254,809	257,496
Current assets			
Cash and cash equivalents		7,691	9,604
Receivables		6,835	7,684
Total current assets		14,526	17,288
Current liabilities			
Payables		1,172	1,003
Provisions		112	121
Total current liabilities		1,284	1,124
Net current assets		13,242	16,164
Net assets		268,051	273,660
Equity			
Issued capital	13	110,716	110,716
Share premium		113,157	113,157
Revaluation reserve		6,418	6,418
Capital reserves		41,866	41,866
Foreign currency translation reserve		12,842	12,966
Accumulated losses		(16,948)	(11,463)
Total equity		268,051	273,660

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Period Ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(1,760)	(4,128)
Investing activities		
Dividends received	18	106
Interest received	–	49
Purchase of listed securities	–	(5,042)
Payment for the balance of the unpaid portion on the partly paid-up shares in Associate	(755)	–
Proceeds from disposal of listed securities	1,207	1,948
Repayment from the Joint Venture	35	84
	<u>505</u>	<u>(2,855)</u>
Net cash generated from/(used in) investing activities		
Financing activity		
Repayment to a director	–	(301)
	<u>–</u>	<u>(301)</u>
Net cash used in financing activity		
Net decrease in cash and cash equivalents	(1,255)	(7,284)
Cash and cash equivalents at the beginning of the current/corresponding period	9,604	19,456
Exchange rate adjustment	(658)	1,661
	<u>7,691</u>	<u>13,833</u>
Cash and cash equivalents at the end of the current/corresponding period		

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Revaluation Reserve <i>HK\$'000</i>	Capital Reserves <i>HK\$'000</i>	Foreign Currency Translation Reserve <i>HK\$'000</i>	(Accumulated Losses)/ Retained Profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	110,716	113,157	6,418	41,866	12,966	(11,463)	273,660
Adjustments arising from the translation of the financial statements of the Joint Venture and Associate	-	-	-	-	(124)	-	(124)
Net loss for the current period	-	-	-	-	-	(5,485)	(5,485)
At 30 June 2004	<u>110,716</u>	<u>113,157</u>	<u>6,418</u>	<u>41,866</u>	<u>12,842</u>	<u>(16,948)</u>	<u>268,051</u>
At 1 January 2003	110,716	113,157	6,418	41,866	4,269	18,147	294,573
Adjustments arising from the translation of the financial statements of the Joint Venture and Associate	-	-	-	-	6,118	-	6,118
Net loss for the corresponding period	-	-	-	-	-	(17,656)	(17,656)
At 30 June 2003	<u>110,716</u>	<u>113,157</u>	<u>6,418</u>	<u>41,866</u>	<u>10,387</u>	<u>491</u>	<u>283,035</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 “Interim Financial Reporting”, as applicable to condensed interim financial statements, issued by the Hong Kong Society of Accountants, and Appendix 16 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“The Listing Rules”).

The principal accounting policies and methods of computation used in the preparation of these financial statements are consistent with those of the financial year ended 31 December 2003 (the “previous financial year”).

2. SEGMENTAL INFORMATION

The following tables present revenue and profit information regarding geographical segments for the current period and the corresponding period and certain asset and liability information regarding geographical segments as at 30 June 2004 and 31 December 2003:–

	The PRC ⁽¹⁾ HK\$'000	Australia ⁽²⁾ HK\$'000	Singapore ⁽³⁾ HK\$'000	Malaysia ⁽⁴⁾ HK\$'000	Total HK\$'000
Six months period ended 30 June 2004					
Revenues from external customers	586	–	512	390	1,488
Net (loss)/profit from continuing operations	<u>(9,558)</u>	<u>–</u>	<u>464</u>	<u>3,609</u>	<u>(5,485)</u>
As at 30 June 2004					
Segment assets	6,661	–	7,433	18,421	32,515
Investments accounted for using the equity method	<u>207,626</u>	<u>–</u>	<u>–</u>	<u>29,194</u>	<u>236,820</u>
Total assets	<u>214,287</u>	<u>–</u>	<u>7,433</u>	<u>47,615</u>	<u>269,335</u>
Segment liabilities	<u>1,284</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,284</u>
Six months period ended 30 June 2003					
Revenues from external customers	–	–	379	10	389
Net (loss)/profit from continuing operations	<u>(14,054)</u>	<u>(3,186)</u>	<u>1,437</u>	<u>(1,853)</u>	<u>(17,656)</u>
As at 31 December 2003					
Segment assets	7,613	–	7,509	22,847	37,969
Investments accounted for using the equity method	<u>213,168</u>	<u>–</u>	<u>–</u>	<u>23,647</u>	<u>236,815</u>
Total assets	<u>220,781</u>	<u>–</u>	<u>7,509</u>	<u>46,494</u>	<u>274,784</u>
Segment liabilities	<u>1,124</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,124</u>

Notes:–

1. “The PRC” refers to the Joint Venture in the PRC relating to the manufacture and sales of bias tyres.
2. “Australia” refers to a debt investment in Australia.
3. “Singapore” refers to the investment in securities listed on a prescribed stock exchange and cash deposits in Singapore.
4. “Malaysia” refers to the investment in securities listed on a prescribed stock exchange and cash deposits in Malaysia and an associate in Malaysia relating to the provision of “full turnkey” subcontracting services for the manufacture of semiconductor components which are supplied to multinational companies engaged in the manufacture of semiconductor products.

3. REVENUES

	Six Months Period Ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Dividends received and receivable from securities listed on prescribed stock exchanges, outside Hong Kong	18	106
Gain on disposal of securities listed on prescribed stock exchanges, outside Hong Kong	526	226
Gain on foreign exchange	944	–
Interest received and receivable from financial institutions	–	49
Other operating income	–	8
	<u>1,488</u>	<u>389</u>

4. OTHER INCOME

Other income in the corresponding period represented the write-back of the impairment loss previously made in relation to the securities listed on prescribed stock exchanges, outside Hong Kong.

5. OTHER EXPENSES

	Six Months Period Ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Impairment losses:		
– Available-for-sale securities	255	–
– Held-to-maturity securities	–	3,186
Other operating expenses	1,588	1,905
	<u>1,843</u>	<u>5,091</u>

6. SHARE OF NET LOSS OF THE JOINT VENTURE AND ASSOCIATE ACCOUNTED FOR USING THE EQUITY METHOD

	Six Months Period Ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of (loss)/profit before tax of:		
– the Joint Venture	(7,534)	(12,064)
– Associate	3,671	2,428
	<u>(3,863)</u>	<u>(9,636)</u>
Share of tax expense of:		
– the Joint Venture	–	(249)
– Associate	(150)	(169)
	<u>(150)</u>	<u>(418)</u>
Share of net loss of the Joint Venture	(7,534)	(12,313)
Share of net profit of Associate	3,521	2,259
	<u>(4,013)</u>	<u>(10,054)</u>

The results of the Joint Venture and Associate have been accounted for based on their unaudited financial statements made up from 1 January 2004 to 30 June 2004.

7. 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.

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.

8. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss of HK\$5,485,000 (30.6.2003 – net loss of HK\$17,656,000) for the current period and on the number of shares in issue during the current period of 105,116,280 (30.6.2003 – 105,116,280).

There is no dilutive effect on the basic loss per share for the current period and the corresponding period.

9. OTHER FINANCIAL ASSETS

	As At	
	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale securities:		
– Securities listed on prescribed stock exchanges, outside Hong Kong, at fair value (being market value)	13,275	15,491
Held-to-maturity securities:		
– Investment in 8% convertible notes ⁽¹⁾	–	–
Investment in an associate accounted for at cost ⁽²⁾	4,141	4,475
	<u>17,416</u>	<u>19,966</u>

Notes:–

1. The investment in 8% convertible notes is stated at cost less allowance for impairment loss.
2. The equity method is not applied to account for the investment in the associate, i.e. Thames Electronics Sdn Bhd, an investment holding company which was incorporated in Malaysia, as the amount involved is not material for equity accounting to be applied.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As At	
	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Investment in the Joint Venture	207,626	213,168
Investment in Associate	29,194	23,647
	236,820	236,815

The investments are stated at cost and adjusted to reflect changes in the Group's share of the net assets of the Joint Venture and the Associate. Information relating to the Joint Venture and the Associate are set out in Notes 11 and 12, respectively.

11. INVESTMENT IN THE JOINT VENTURE

Name	Place/Date of Incorporation/ Establishment	Authorised/ Issued and Fully Paid-Up Share Capital	Attributable Equity Interest		Principal Activities
			30.6.2004	31.12.2003	
Guangzhou Pearl River Rubber Tyre Limited	The People's Republic of China (the "PRC")/ 11 December 1993	US\$43,202,166/ US\$43,202,166	70%	70%	Manufacture and sales of bias tyres

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 Company, and 30% owned by Guangzhou Guang Xiang Tyre Enterprise Group Company Limited ("GGXTEG"), a state-owned enterprise, established in Guangzhou, the PRC, which was structured to take over the assets and liabilities of Guangzhou Rubber Tyre Factory ("GRTF").

	As At	
	30.6.2004 HK\$'000	31.12.2003 HK\$'000
The movement in the carrying amount of the investment in the Joint Venture is as follows:–		
At 1 January 2004/2003	213,168	237,644
Share of movement in reserves:		
– net loss for the current period/previous financial year	(7,534)	(23,548)
– foreign currency translation reserve	1,992	(928)
	207,626	213,168
At 30 June 2004/31 December 2003	207,626	213,168

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

Non-current assets	208,791	215,486
Current assets	128,573	122,338
Current liabilities	(131,858)	(126,433)
	<u>205,506</u>	<u>211,391</u>
Adjustment for the negative goodwill arising on acquisition	2,120	1,777
	<u>207,626</u>	<u>213,168</u>
At 30 June 2004/31 December 2003		

For better understanding of the Group's operating results, the results of the Joint Venture for the current period together with the comparative figures for the corresponding period are set out below:–

(i) Income Statement

	Six Months Period Ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	266,022	255,560
Cost of sales	(246,488)	(227,729)
	<u>19,534</u>	<u>27,831</u>
Gross profit		
Other revenue	1,909	929
Administrative and other operating costs	(20,039)	(31,722)
Selling and distribution costs	(7,951)	(10,295)
	<u>(6,547)</u>	<u>(13,257)</u>
Loss from continuing operations		
Finance costs	(4,216)	(3,977)
	<u>(10,763)</u>	<u>(17,234)</u>
Loss from continuing operations before tax		
Tax expense	–	(356)
	<u>(10,763)</u>	<u>(17,590)</u>
Net loss from continuing operations		

(ii) **Balance Sheet**

	As At	
	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	295,487	305,011
Intangibles	2,564	2,827
Other non-current assets	222	–
	<hr/>	<hr/>
Total non-current assets	298,273	307,838
	<hr/>	<hr/>
Current assets		
Cash and cash equivalents	26,439	25,136
Receivables	46,777	47,083
Inventories	110,459	102,550
	<hr/>	<hr/>
Total current assets	183,675	174,769
	<hr/>	<hr/>
Current liabilities		
Payables	55,862	43,017
Interest-bearing loans and borrowings	118,051	121,814
Tax liabilities	932	1,273
Provisions and other liabilities	13,523	14,514
	<hr/>	<hr/>
Total current liabilities	188,368	180,618
	<hr/>	<hr/>
Net current liabilities	(4,693)	(5,849)
	<hr/>	<hr/>
Net assets	293,580	301,989
	<hr/>	<hr/>
Equity		
Issued capital	348,470	348,470
Capital deficit	(6,090)	(6,090)
Revaluation reserve	9,169	9,169
Foreign currency translation reserve	28,944	26,590
Accumulated losses	(86,913)	(76,150)
	<hr/>	<hr/>
Total equity	293,580	301,989
	<hr/>	<hr/>

12. INVESTMENT IN ASSOCIATE

Name	Place/Date of Incorporation/ Establishment	Authorised/ Issued and Fully Paid-Up Share Capital	Attributable Equity Interest		Principal Activities
			30.6.2004	31.12.2003	
Omega Semiconductor Sdn Bhd	Malaysia/ 25 November 1993	RM5,000,000/ RM4,561,677	19.15%*	20.99%	Provision of "full turnkey" subcontracting services for the manufacture of semiconductor components
			As At		
			30.6.2004	31.12.2003	
			<i>HK\$'000</i>	<i>HK\$'000</i>	

The movement in the carrying amount of the investment in the Associate is as follows:-

At 1 January 2004/2003	23,647	22,514
New capital invested	1,574	175
Share of movement in reserves:		
– net profit for the current period/previous financial year	3,521	5,335
– interim/final dividends	–	(4,475)
– foreign currency translation reserve	452	98
	<hr/>	<hr/>
At 30 June 2004/31 December 2003	29,194	23,647

The Group's share of the Associate's assets and liabilities are as follows:-

Non-current assets	21,770	21,509
Current assets	14,198	8,887
Non-current liabilities	(1,626)	(14,194)
Current liabilities	(11,868)	(2,246)
	<hr/>	<hr/>
	22,474	13,956
Premium on acquisition	6,720	9,691
	<hr/>	<hr/>
At 30 June 2004/31 December 2003	29,194	23,647

* *PRT Capital Pte Ltd, a wholly-owned subsidiary of the Company, holds 873,595 ordinary shares, representing 19.15% of the ordinary shares of the Associate that carry 28.38% of the voting rights in the Associate, it is presumed that the Group does have significant influence and shall continue the use of the equity method to account for the investment in the Associate.*

13. ISSUED CAPITAL

The issued and fully paid-up share capital of the Company comprises 105,116,280 ordinary shares of A\$0.20 each. There was no change in the issued and paid-up share capital of the Company during the current period.

14. INTERIM 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 current period. No dividend was recommended for the previous financial year.

15. RELATED PARTY TRANSACTIONS

The following is a summary of the transactions with related parties, which were carried out in the normal course of operations of the Group:–

	Six Months Period Ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Transactions between the Joint Venture and Guangzhou Bolex Tyre Limited (“Bolex”)		
Contribution received and receivable for the processing of certain raw materials	2,014	2,991
Management fee received and receivable for the provision of certain administrative and management services	–	106
Interest income for advances outstanding	48	50
	<u>2,062</u>	<u>3,147</u>
Transactions between the Joint Venture and GGXTEG*		
Lease rental for a piece of land and buildings erected thereon	1,653	1,653
Lease rental for the exclusive right to use certain machinery	942	942
Lease rental for a hostel	14	14
Royalties for the right to use the trademark “Pearl River” and any technology and know-how necessary for the production of bias tyres	168	212
Share of the administrative expenses for a hospital and staff canteen under the management of GGXTEG	737	788
	<u>3,514</u>	<u>3,609</u>

* *The agreements relating to these transactions were between the Joint Venture and GRTE.*

The aggregate value of the transactions with Bolex has not exceeded either the higher of HK\$10 million or 3% of the Group's net tangible assets and the aggregate value of the transactions with GGXTEG has not exceeded 3% of the Group's net tangible assets.

16. CONTINGENT LIABILITIES

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

17. SIGNIFICANT EVENT

The Company was officially removed from the Australian Stock Exchange on 10 May 2004. Following the de-listing, the shareholders of the Company can only trade their shares solely on The Stock Exchange of Hong Kong Limited (“The Stock Exchange”).

18. SUBSEQUENT EVENTS

No event has since the end of the current period arisen that would be likely to materially affect 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.

BUSINESS REVIEW AND PROSPECTS

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 manufacture and sales of bias tyres for commercial vehicles, which has been one of the Group's core businesses and will be the focus for further development.

The Group's unaudited net loss for the current period amounted to HK\$5,485,000, a 69% decrease compared to the unaudited net loss of HK\$17,656,000 recorded in the corresponding period. Loss per share was 5.2 Hong Kong cents, representing an improvement of 69%.

The Group's revenues and net loss from continuing operations, including the Group's share of the Joint Venture's and an associate's results, are shown by geographical segment in Note 2 to the consolidated financial statements.

No event has since the end of the current period arisen that would be likely to materially affect 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.

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

Operating Results

	1.1.2004	1.1.2003	
	to	to	
	30.6.2004	30.6.2003	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Revenues	1,488	389	282.5
Other income	–	2,112	(100.0)
Costs and expenses	(2,960)	(10,103)	70.7
Share of net loss of the Joint Venture and an associate	(4,013)	(10,054)	60.1
Net loss	<u>(5,485)</u>	<u>(17,656)</u>	68.9

The net loss was much lower than that of the corresponding period, mainly due to a decrease in the share of loss of the Joint Venture, an increase in the share of profit of an associate, gain on disposal of listed securities (HK\$526,000) and gain on foreign exchange (HK\$944,000).

Financial Analysis

	At 30.6.2004	At 31.12.2003
Total assets (HK\$'000)	269,335	274,784
Net assets/Shareholders' equity (HK\$'000)	268,051	273,660
Returns on shareholders' equity (%)	(2.05)	(6.24)*
Current ratio	11.31	15.38

* Calculated by dividing net loss for the corresponding period over shareholders' equity as at 30 June 2003.

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 effectively hedged and there is no significant exposure to foreign currency risk.

The Company does not have any bank borrowings and does not need any source of funding for capital expenditure in the foreseeable future.

2. The Joint Venture

Turnover increased by approximately HK\$10.5 million or 4.1% as compared to the corresponding period. The average gross profit margin for the current period of 7.3% was lower than that of the corresponding period of 10.9%, despite the increase in turnover.

During the current period, the Joint Venture sustained a steady improvement. The demand for bias tyres in both the domestic and export markets was strong and the sales volume of bias tyres achieved was about 689,000 pieces. Of particular note during the current period were the continued success of the "Pearl River" and "Sunstone" brands and the strong performance of the other core brands.

Since the beginning of 2004, with the recovery of the world economy, the demand for oil further increased. Meanwhile, the unstable situation in the Middle East, and the decision made by Organisation of the Petroleum Exporting Countries to decrease oil output, led to the high level in oil price. As about 58% of the raw materials used for the production of bias tyres are petrochemical products (including synthetic rubber, carbon black and nylon cord), the cost of production is thus to a large extent dependent on the cost of petroleum.

The average selling price of bias tyres for the current period was approximately RMB407/piece as compared to RMB395/piece in the corresponding period. The increase in the average selling prices was less than proportionate to the increased cost of production, and hence the decrease in the average gross profit margin.

In order to minimise the adverse impact of the increasing raw material prices, the Joint Venture continues to adjust its operational strategies and control its operating costs. The substantial portion of the operating costs in the corresponding period was in respect of an additional allowance for doubtful debts, warranty claims and selling and distribution costs (mainly for advertisement and transportation), which contributed approximately 13.1%, 28.4% and 24.5%, respectively of the total operating costs. The warranty claims were down by RMB6.5 million or 51.5% and the selling and distribution costs were down by RMB2.5 million or 22.7%. There was no allowance for doubtful debts for the current period.

The current ratio, calculated as the ratio of current assets to current liabilities, was approximately 1 as at 30 June 2004 and 31 December 2003.

Bank borrowings decreased by RMB5 million to RMB125 million. The Joint Venture's gearing ratio, defined as total borrowings expressed as a percentage of shareholders' equity, remained fairly constant at approximately 40%. The Joint Venture has not experienced any problems with the loan and principal repayment to-date.

3. Outlook

With the encouraging first half year results and a healthy order book in the second half, sales of the Joint Venture are on track to achieve the budgeted full year growth target. The Joint Venture will continue to explore cost cutting measures including changes in tyre formula and construction.

The Board is cautiously optimistic that the second half year results will be better than the first half.

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

As at 30 June 2004, the interests and short positions of the Directors 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 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	Personal Interests	Family Interests	Corporate Interests
Ang Guan Seng	100,000	–	38,114,000 ⁽¹⁾
Goh Nan Kioh	–	957,790 ⁽²⁾	38,114,000 ⁽¹⁾
Sandy Chim Chun Kwan	102,252	–	–
Lim Thian Soo	134,308	–	–
Lim Loi Heng	80,000	–	–

Notes:-

1. These shares are beneficially held by two corporations in which Ang Guan Seng and Goh Nan Kioh individually hold more than 20% equity interest. In accordance with the applicable regulations in Australia, both Ang Guan Seng and Goh Nan Kioh are deemed interested in shares in the Company held by these corporations.
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.

Save as disclosed above, none of the other Directors or their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded 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 Listing Companies. None of the Directors or their associates had any interest (directly and/or deemed) in the equity in or debt securities of the associated corporations of the Company other than the investment in 8% convertible notes. The investment in 8% convertible notes is held by PRT Capital Pte Ltd in a proprietary limited company incorporated in Australia together with a company which is substantially and collectively owned and controlled by Ang Guan Seng and Goh Nan Kioh.

At no time during the current period, the Directors (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 the SFO).

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:–

LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY

Name	Number of Shares	Percentage of Shares Held
Pacific Union Pte Ltd ⁽¹⁾	37,590,000	35.76%
Kuala Lumpur Kepong Berhad ⁽²⁾	32,085,976	30.52%
Batu Kawan Berhad ⁽³⁾	32,085,976	30.52%
Arusha Enterprise Sdn Bhd ⁽³⁾	32,085,976	30.52%
Wan Hin Investments Sdn Bhd ⁽³⁾	32,085,976	30.52%
KL-Kepong International Ltd	24,085,976	22.91%

Notes:–

1. These shares are beneficially owned by Pacific Union Pte Ltd which has been a substantial shareholder of the Company since the shares of the Company were first listed on the Australian Stock Exchange Limited in January 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 held as to 25% by Goh Nan Kioh, as to 25% by Hoe Seng Co. Pte Ltd (a company associated with Ang Guan Seng) 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. Ang Guan Seng is the Non-Executive Chairman of the Company while Goh Nan Kioh is the Deputy Chairman of the Company.

2. Kuala Lumpur Kepong Berhad is a company incorporated in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange 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 and 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 2004, Kuala Lumpur Kepong Berhad is 45.79% directly owned by Batu Kawan Berhad, which is, in turn, 43.46% 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 Board of Bursa Malaysia Securities Berhad.

Save as disclosed above, as at 30 June 2004, no person, other than the Directors and chief executive of the Company whose interests are set out in the section “Directors’ 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.

CORPORATE GOVERNANCE

Compliance with the Code of Best Practice

None of the Directors are aware of information that would reasonably indicate that the Company is not or was not, for any part of the period under review, in compliance with the Code of Best Practice as set out in Appendix 14 of The Listing Rules, except that the non-executive directors of the Company have no set terms of office but retire from office on a rotational basis in accordance with the Company’s Bye-laws.

Audit Committee

The Audit Committee of the Company, which is chaired by an Independent Non-Executive Director, currently has a membership comprising 2 independent non-executive directors and 1 non-executive director. The Audit Committee meets at least twice a year with management and the external auditors of the Company and reviews 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.

A meeting of the Audit Committee was held on 14 September 2004 to review the Group’s interim results for the current period before they were presented to the Board for approval.

Adoption of Code of Conduct regarding Directors’ Securities Transactions

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listing Companies of The Listing Rules. The Directors have complied with such code of conduct throughout the current period.

DIRECTORS

The Directors of the Company at any time during or since the end of the current period are as follows:–

Ang Guan Seng	<i>Chairman and Non-Executive Director</i>
Goh Nan Kioh	<i>Deputy Chairman and Non-Executive Director</i>
Chen Zhen Guo	<i>Executive Director</i>
Sandy Chim Chun Kwan	<i>Executive Director</i>
Goh Nan Yang	<i>Executive Director</i>
Sun Zhi Yi	<i>Non-Executive Director</i>
Lim Loi Heng	<i>Independent Non-Executive Director</i>
Helen Zee	<i>Independent Non-Executive Director</i>
Lim Chong Puang	<i>Independent Non-Executive Director</i>
Lim Thian Soo	<i>Non-Executive Director (also alternate to Goh Nan Kioh)</i>

During the current period under review to the date of this report:–

- (i) At the Tenth Annual General Meeting of the Company held on 21 May 2004:
 - Ang Guan Seng who retired by rotation in accordance with the Company's Bye-laws was re-elected to the Board.
 - Goh Nan Kioh who retired by rotation in accordance with the Company's Bye-laws was re-elected to the Board.
 - Lim Loi Heng who retired by rotation in accordance with the Company's Bye-laws was re-elected to the Board.
- (ii) Tan Song Wee resigned as an Independent Non-Executive Director on 20 January 2004.
- (iii) Lim Thian Soo was appointed as a Non-Executive Director on 20 January 2004.
- (iv) Goh Nan Yang was appointed as an Executive Director on 20 January 2004 and took on the position of Chief Executive Officer with effect from 5 March 2004.
- (v) Goh Nan Kioh was re-designated as a Non-Executive Director on 5 March 2004.
- (vi) David Chong Eng Tee resigned as a Non-Executive Director on 21 May 2004.
- (vii) David James Humann resigned as an Independent Non-Executive Director on 10 September 2004.
- (viii) Lim Chong Puang was appointed as an Independent Non-Executive Director on 17 September 2004.

By order of the Board
Goh Nan Yang
Director

Guangzhou, China, 17 September 2004