

DIRECTOR'S STATEMENT

I am pleased to present to shareholders the results of the Group for the year ended 31 December, 2004.

There was a decrease in the consolidated loss after tax. The consolidated loss for the financial year was A\$1,217,000 or HK\$7,297,000 as compared to A\$5,795,000 or HK\$29,610,000 recorded in the previous financial year. Basic loss per share was 1.2 Australian cents or 6.9 Hong Kong cents. This includes a foreign exchange loss of approximately A\$134,000 or HK\$774,000, and a further sum of approximately A\$226,000 or HK\$1,303,000 due to a loss on the disposal of quoted shares.

Our principal business, Guangzhou Pearl River Rubber Tyre Limited (the "Joint Venture") continues to be sustainable despite the difficult operating conditions in China.

During the financial year, our associate company, Omega Semiconductor Sdn Bhd ("Omega") completed a corporate exercise in conjunction with its flotation on the Bursa Malaysia Securities Berhad ("Bursa Malaysia"). Through this exercise, the Company's shares in Omega was swapped into shares in D&O Ventures Bhd ("D&O"). Upon the listing of D&O in Bursa Malaysia, new D&O shares were issued to the public and this resulted in a dilution in the equity interest of the Company in D&O from 21.0% to 16.5%. As a result of the dilution, the Company ceased to account for the investment in Omega/D&O as an associate. A detailed explanation of the corporate exercise of Omega is set out in Note 10 of the notes to the financial statements in this annual report.

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 any dividend for the financial year.

Guangzhou Pearl River Rubber Tyre Limited ("the Joint Venture")

The Company's principal asset is its 70% equity interest in the Joint Venture. The principal activity of the Joint Venture is the manufacturing and marketing of bias tyres for commercial vehicles. The results of this Joint Venture can be summarised as follows:-

1. Turnover increased by approximately 13% from the previous financial year to RMB654,001,000 for this financial year. Total unit sales increased to 1,546,296 tyres. Export sales increased by 89% to RMB235,944,000. Despite the increase in turnover of approximately RMB73,430,000, the Joint Venture continued to incur a net loss after tax of approximately RMB6,622,000.
2. The performance of the Joint Venture was affected during the financial year under review due to an increase of approximately 20% in the price of natural rubber. Other raw material prices such as nylon cloth and synthetic rubber also increased in line with the rise in the price of petroleum products. The increase of raw material costs was approximately RMB53,000,000 as compared to the previous financial year. Increasing its tyre prices by 8% was insufficient to offset the rapid rise in raw material prices. The overall increase in raw material prices has resulted in a decrease in the average gross profit margin from 10.6% achieved in the previous financial year to 8.8% in this financial year.

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3. With the implementation of more stringent controls in administrative, selling and distribution and other operating costs, the Joint Venture reduced its overall operating expenses by 30%, dropping from RMB84,600,000 in 2003 to RMB59,100,000 in 2004. Warranty claims reduced from RMB18,100,000 in 2003 to RMB9,100,000 in 2004. Allowance for doubtful debts decreased by RMB8,500,000 from RMB12,000,000 in year 2003 to RMB3,500,000 in year 2004, a decrease of 70.8%. Expenses as a percentage of revenue dropped from 16.1% in 2003 to 10.3% in 2004.
4. Sales in Guangdong Province and all outer provinces remain stable. The Joint Venture increased its export sales, and continues to contract manufacture for a foreign tyre company.
5. Despite the losses suffered, the Joint Venture has reduced its dependency on bank borrowings, all of which are in Renminbi (RMB). Borrowings of RMB130,000,000 in the previous year is now down to RMB107,000,000. As cash flow remains positive, the Joint Venture does not foresee any working capital difficulty and accordingly expects the level of bank borrowings to remain stable over the next few years.
6. 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 its new customers and accordingly, no new provision for bad debts is anticipated in the coming year.

Outlook

For the outlook in the immediate future, the Joint Venture has embarked and will continue with the following action plans:-

1. Increase its sales volume by approximately 25% this year. Demand for our tyres has remained strong despite an overcapacity of bias tyres in the domestic market. Growth in China continues to be strong with GDP growth rate targeted at 8% for year 2005.
2. Continuously explore other cost cutting measures. The continued conflicts in the Middle East and other parts of the world are expected to force natural rubber and petroleum prices to remain at its current level. It is therefore essential that various alternative cost cutting measures are explored and implemented to ensure the continued sustainability of the operations.
3. The Joint Venture currently employs a total of approximately 2,000 employees. We expect this level of workforce to be stable for the foreseeable future despite an increase in production. Wages are maintained at competitive levels and bonuses are awarded on a performance related basis. Nevertheless, the Joint Venture continues to review plant efficiency to ensure optimum levels of productivity are achieved consistently.

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Summary

The performance of the Group in 2005 has been encouraging so far. The Directors are cautiously optimistic that with the strategies implemented, we will show further improvements throughout this year.

Mr Chen Zhen Guo and Mr Sun Zhi Yi, having been with the Company since inception, have indicated to the Company of their intention to retire at this 11th Annual General Meeting. The Board would like to thank Mr Chen and Mr Sun for their valuable contribution to the Company.

Goh Nan Yang

Director