

DIRECTORS' REPORT

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 2006.

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 manufacture and sale of bias tyres for commercial vehicles.

RESULTS

The results of the Group for the year ended 31 December 2006 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 23 to 71 in this annual report.

RESERVES

Details of movement in reserves of the Company and the Group during the year ended 31 December 2006 are set out in note 32 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company had retained profits available for distribution by way of dividends amounting to HK\$19,130,000 (2005 – HK\$24,097,000).

The Company's share premium account as at 31 December 2006 with a balance of HK\$ 113,157,000 (2005 – HK\$113,157,000) may be distributable in the form of fully paid-up bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2006,

- (a) 31% of sales of the Group and 40% 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 accounts for 7% of sales of the Group whilst the Group's largest supplier accounts for 15% 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.

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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 2006.

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 72 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 2006.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme (the "Scheme") are set out in note 31 to the financial statements. No options had been granted under the Scheme since its date of adoption of 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 2006.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the financial year ended 31 December 2006 are set out in note 13 to the financial statements.

MATERIAL INTERESTS IN ENTITIES

Details of the Company's subsidiaries, associates and the Joint Venture are set out in notes 17, 18 and 19 to the financial statements.

DIRECTORS' REPORT

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 2006:-

Chairman and Non-Executive Director

Ang Guan Seng

Deputy Chairman and Non-Executive Director

Goh Nan Kioh

Executive Directors

Goh Nan Yang
Sandy Chim Chun Kwan

Non-Executive Directors

Lim Thian Soo (also alternate to Goh Nan Kioh)
Lim Loi Heng*
Helen Zee*
Lim Chong Puang*
Yeoh Eng Khoon
Lim Boon Seh (Appointed on 29 May 2006)

* *Independent and Non-Executive Directors*

Pursuant to Clause 6.1 (f) (1) (A) and (B) of the Company's Bye-laws, Sandy Chim Chun Kwan retires by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

Pursuant to Clause 6.1 (f) (1) (A) of the Company's Bye-laws, Ang Guan Seng and Lim Loi Heng retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Pursuant to Clause 6.1 (e) of the Company's Bye-laws, Lim Boon Seh, who was appointed after the last annual general meeting, retires at the forthcoming annual general meeting and, being eligible, offers himself 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.

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DIRECTORS' INTERESTS IN CONTRACTS

Other than the connected/related party transactions as disclosed in note 35 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 2006 or at any time during the financial year ended 31 December 2006.

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 2006.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in the note headed "Connected/Related Party Transactions" in note 35 to the financial statements, there is no contract of significance between the Company (or any of its subsidiaries) or the Joint Venture and its controlling shareholder (or any of its subsidiaries) or the Joint Venture or by the controlling shareholder of the Company (or any of its subsidiaries) or the Joint Venture to the Company.

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

As at 31 December 2006, 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 (%)
Ang Guan Seng	Personal	100,000	0.1
	Corporate	38,114,000 ⁽¹⁾	36.3
Goh Nan Kioh	Family	957,790 ⁽²⁾	0.9
	Corporate	38,114,000 ⁽¹⁾	36.3
Goh Nan Yang	Personal	94,000	0.1
Sandy Chim Chun Kwan	Personal	102,252	0.1
Lim Thian Soo	Personal	134,308	0.1
Lim Loi Heng	Personal	80,000	0.1

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

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

Notes:-

1. These shares are beneficially held by two corporations in which Ang Guan Seng and Goh Nan Kioh each hold 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.

Save as disclosed above as at 31 December 2006, 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 2006, 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%

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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 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 the Bursa Malaysia Securities Berhad (formerly known as The Kuala Lumpur Stock Exchange). 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 2006, Kuala Lumpur Kepong Berhad is 46.57% directly owned by Batu Kawan Berhad, which is, in turn, 43.93% 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 (formerly known as The Kuala Lumpur Stock Exchange).

Save as disclosed above, as at 31 December 2006, 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 35 to the financial statements.

SUFFICIENCY OF THE PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2006.

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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 31 to the financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year ended 31 December 2006, 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 17 to 20 of the annual report.

AUDITORS

On 29 May 2006, Horwath Hong Kong CPA Limited were appointed as auditors of the Company for the year ended 31 December 2006 to fill the casual vacancy caused by the resignation of Messers Horwath. There has been no other change of auditors in the past years. Horwath Hong Kong CPA Limited retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the Annual General Meeting of the Company to reappoint Horwath Hong Kong CPA Limited as auditors of the Company.

By Order of the Board

Goh Nan Yang
Executive Director

Hong Kong, 13 April 2007