



PEARL RIVER TYRE (HOLDINGS) LIMITED

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

(Stock Code: 01187)

INTERIM REPORT 2010

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 2010 (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 2009 Annual Report.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	Six Months Period Ended	
		30.6.2010	30.6.2009
		<i>HK\$ '000</i>	<i>HK\$ '000</i>
Revenue	3	308,615	248,241
Cost of sales		<u>(278,360)</u>	<u>(198,356)</u>
Gross profit		30,255	49,885
Other income	4	4,779	1,764
Selling and distribution expenses		(8,259)	(6,856)
Administrative expenses		(15,698)	(18,170)
Other operating expenses	5	<u>(2,794)</u>	<u>(7,669)</u>
Profit from continuing operations		8,283	18,954
Finance costs	6	<u>(2,606)</u>	<u>(2,818)</u>
Profit before taxation		5,677	16,136
Income tax expense	7	<u>(178)</u>	<u>(114)</u>
Net profit for the period		<u>5,499</u>	<u>16,022</u>
Basic and diluted earnings per share <i>(Hong Kong cents)</i>	8	<u>5.2</u>	<u>15.2</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six Months Period Ended	
	30.6.2010	30.6.2009
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Profit for the period	5,499	16,022
Other comprehensive income, net of tax:		
Exchange differences on translating financial statements of Joint Venture	17,803	(195)
Fair value gain/(loss) on available-for-sale investments	<u>44,326</u>	<u>(41,238)</u>
Total comprehensive income for the period	<u>67,628</u>	<u>(25,411)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As At	
		30.6.2010	31.12.2009
Note		HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-Current Assets			
	Property, plant and equipment	155,162	161,589
	Operating lease prepayments	11,803	12,130
	Investment in an associate	4,475	4,475
9	Investment in listed securities	<u>205,945</u>	<u>145,915</u>
	Total Non-Current Assets	<u>377,385</u>	<u>324,109</u>
Current Assets			
9	Investment in listed securities	22,797	18,356
	Inventories	89,360	115,979
11	Trade receivables	40,086	15,500
	Other receivables and prepayments	16,649	15,881
	Cash and cash equivalents	<u>161,310</u>	<u>158,722</u>
	Total Current Assets	<u>330,202</u>	<u>324,438</u>
Current Liabilities			
12	Trade payables	41,697	56,635
	Other payables and accruals	40,755	54,125
	Amount due to a director	5,674	5,676
	Provisions	2,766	2,742
	Borrowings	<u>159,239</u>	<u>139,541</u>
	Total Current Liabilities	<u>250,131</u>	<u>258,719</u>
	Net Current Assets	<u>80,071</u>	<u>65,719</u>
	Net Assets	<u>457,456</u>	<u>389,828</u>
EQUITY			
13	Share capital	110,716	110,716
	Share premium	113,157	113,157
14	Revaluation reserve	169,802	125,476
	Capital reserve	37,344	37,344
	Foreign currency translation reserve	70,119	52,316
	Accumulated losses	<u>(43,682)</u>	<u>(49,181)</u>
	Total Equity	<u>457,456</u>	<u>389,828</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six Months Period Ended	
	30.6.2010	30.6.2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating Activities		
Profit before taxation	5,677	16,136
Adjustments for:		
Allowance for doubtful debts	—	657
Amortisation of operating lease prepayments	437	436
Construction-in-progress written off	—	3,547
Depreciation of property, plant and equipment	10,020	9,797
Equipment written off	5	—
Interest expense	2,193	2,236
Dividend income	(712)	(459)
Interest income	(56)	(187)
Gain on fair value changes of listed securities		
— held for trading	(2,612)	(1,615)
Unrealised (gain)/loss on foreign exchange	(2,167)	174
Writeback of allowance for doubtful debts	—	(5)
	<u>12,785</u>	<u>30,717</u>
Decrease/(Increase) in inventories	26,619	(26,367)
Increase in trade and other receivables	(24,048)	(16,915)
(Decrease)/Increase in trade and other payables	<u>(32,784)</u>	<u>31,088</u>
Cash (used for)/generated from operations	(17,428)	18,523
Tax paid	(178)	(114)
Interest received	56	187
Interest paid	<u>(2,193)</u>	<u>(2,236)</u>
Net cash (used in)/generated from operating activities	<u>(19,743)</u>	<u>16,360</u>
Investing Activities		
Purchase of property, plant and equipment	(2,446)	(2,257)
Dividend received	<u>534</u>	<u>459</u>
Net cash used in investing activities	<u>(1,912)</u>	<u>(1,798)</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (CONT'D)

	Six Months Period Ended	
	30.6.2010	30.6.2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financing Activities		
Net drawdown/(repayment) of borrowings	18,409	(15,613)
Net advances from related parties	3,650	2,546
(Repayment to)/Advances from a director	<u>(2)</u>	<u>313</u>
Net cash generated from/(used in) financing activities	<u>22,057</u>	<u>(12,754)</u>
Net increase in cash and cash equivalents	402	1,808
Cash and cash equivalents at beginning of the current/ corresponding period		
	158,722	61,452
Effect of foreign exchange rate changes, net	<u>2,186</u>	<u>1,819</u>
Cash and cash equivalents at end of the current/ corresponding period	<u>161,310</u>	<u>65,079</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Revaluation Reserve	Capital Reserve	Foreign Currency Translation Reserve	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>
At 1 January 2010	110,716	113,157	125,476	37,344	52,316	(49,181)	389,828
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>44,326</u>	<u>—</u>	<u>17,803</u>	<u>5,499</u>	<u>67,628</u>
At 30 June 2010	<u>110,716</u>	<u>113,157</u>	<u>169,802</u>	<u>37,344</u>	<u>70,119</u>	<u>(43,682)</u>	<u>457,456</u>
At 1 January 2009	110,716	113,157	71,466	37,344	50,243	(82,515)	300,411
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>(41,238)</u>	<u>—</u>	<u>(195)</u>	<u>16,022</u>	<u>(25,411)</u>
At 30 June 2009	<u>110,716</u>	<u>113,157</u>	<u>30,228</u>	<u>37,344</u>	<u>50,048</u>	<u>(66,493)</u>	<u>275,000</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 11 August 2010.

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 2009, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 January 2010. 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 2009 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 INFORMATION

The following tables present information regarding revenue, profit, assets and liabilities for each reportable segment:

	Manufacturing <i>(Note 1)</i> <i>HK\$'000</i>	Investment Holding <i>(Note 2)</i> <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Group <i>HK\$'000</i>
Six months period ended 30 June 2010				
Revenue	<u>307,903</u>	<u>712</u>	<u>—</u>	<u>308,615</u>
Results:				
Segment results (external)	<u>5,193</u>	<u>(1,689)</u>	<u>—</u>	3,504
Other income				4,779
Finance costs				<u>(2,606)</u>
Profit before taxation				5,677
Income tax expense				<u>(178)</u>
Profit for the period				<u>5,499</u>
OTHER INFORMATION:				
Segment assets	<u>463,144</u>	<u>244,443</u>		<u>707,587</u>
Segment liabilities	<u>233,368</u>	<u>16,763</u>		<u>250,131</u>
Capital expenditure	2,446	—		2,446
Depreciation and amortisation	10,430	27		10,457

2. SEGMENT INFORMATION (CONT'D)

	Manufacturing <i>(Note 1)</i> <i>HK\$'000</i>	Investment Holding <i>(Note 2)</i> <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Group <i>HK\$'000</i>
Six months period ended 30 June 2009				
Revenue	<u>247,765</u>	<u>476</u>	—	<u>248,241</u>
Results:				
Segment results (external)	<u>18,359</u>	<u>(1,169)</u>	—	17,190
Other income				1,764
Finance costs				<u>(2,818)</u>
Profit before taxation				16,136
Income tax expense				<u>(114)</u>
Profit for the period				<u>16,022</u>
OTHER INFORMATION:				
Segment assets	<u>469,542</u>	<u>179,005</u>		<u>648,547</u>
Segment liabilities	<u>244,452</u>	<u>14,267</u>		<u>258,719</u>
Capital expenditure	2,246	11		2,257
Depreciation and amortisation	10,208	25		10,233

Notes:

The Group operates in the following 2 areas:

1. the Joint Venture in the PRC relating to the manufacturing and marketing of various types of tyres mainly for commercial vehicles; and
2. investment in securities listed on a prescribed stock exchange and cash deposits in Malaysia and Singapore.

3. REVENUE

	Six Months Period Ended	
	30.6.2010	30.6.2009
	HK\$'000	HK\$'000
Sale of goods	307,882	247,572
Dividends received from securities listed on prescribed stock exchanges, outside Hong Kong	712	459
Other operating income	21	210
	<u>308,615</u>	<u>248,241</u>

4. OTHER INCOME

	Six Months Period Ended	
	30.6.2010	30.6.2009
	HK\$'000	HK\$'000
Gain on foreign exchange		
— realised	—	144
— unrealised	2,167	—
Gain on fair value changes of listed securities		
— held for trading	2,612	1,615
Writeback of allowance for doubtful debts	—	5
	<u>4,779</u>	<u>1,764</u>

5. OTHER OPERATING EXPENSES

	Six Months Period Ended	
	30.6.2010	30.6.2009
	HK\$'000	HK\$'000
Allowance for doubtful debts	—	657
Amortisation of operating lease prepayments	437	436
Construction-in-progress written off	—	3,533
Depreciation charges	2,345	2,270
Equipment written off	5	—
Loss on foreign exchange		
— realised	7	—
— unrealised	—	174
Product warranty	—	599
	<u>2,794</u>	<u>7,669</u>

6. FINANCE COSTS

Included in the finance costs of the Group is the interest on bank loans amounting to HK\$2,193,000 (30.6.2009 — HK\$2,236,000).

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.

8. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the net profit of HK\$5,499,000 (30.6.2009 — net profit of HK\$16,022,000) for the current period and on the number of shares in issue during the current period of 105,116,280 (30.6.2009 — 105,116,280).

As there is no dilutive event during the current and previous periods, the basic and diluted earnings per share for both periods are equal.

9. INVESTMENT IN LISTED SECURITIES

	As At	
	30.6.2010	31.12.2009
	HK\$'000	HK\$'000
Non-Current		
Securities listed outside Hong Kong:		
— available-for-sale, at fair value (<i>Note 1</i>)	<u>205,945</u>	<u>145,915</u>
Current		
Securities listed outside Hong Kong:		
— held for trading, at fair value	<u>22,797</u>	<u>18,356</u>

Note:

1. Relates to investment in D & O Green Technologies Berhad (formerly known as D & O Ventures Berhad) (“D & O”), a public company incorporated in Malaysia and its securities listed on Bursa Malaysia Securities Berhad (Malaysia Stock Exchange). As at 30 June 2010, the Group held 16.6% (31 December 2009 — 16.6%) equity interests in D & O. The carrying value represents the fair value of D & O based on the last quoted market price as at the end of the reporting period.

10. INVESTMENT IN THE JOINT VENTURE

Name	Place/Date Of Incorporation	Authorised/ Fully Paid-Up Registered Capital	Indirect Attributable Equity Interest		Principal Activities
		US\$	30.6.2010	31.12.2009	
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 Company, and 30% owned by Guangzhou Guang Xiang Enterprise Group Company Limited ("GGXEG"), a state-owned enterprise, established in Guangzhou, the PRC.

	As At	
	30.6.2010 HK\$'000	31.12.2009 HK\$'000
The Group's share of the Joint Venture's assets and liabilities are as follows:		
Non-current assets	166,587	173,314
Current assets	296,557	296,228
Current liabilities	<u>(233,368)</u>	<u>(244,452)</u>
Net assets	<u>229,776</u>	<u>225,090</u>

	Six Months Period Ended	
	30.6.2010 HK\$'000	30.6.2009 HK\$'000
The Group's share of the Joint Venture's revenues and expenses are as follows:		
Revenues and other income	307,903	247,913
Costs and expenses	<u>(302,710)</u>	<u>(229,412)</u>
Profit from continuing operations	5,193	18,501
Finance costs	<u>(2,606)</u>	<u>(2,818)</u>
Profit before taxation	2,587	15,683
Income tax expense	<u>—</u>	<u>—</u>
Net profit from continuing operations	<u>2,587</u>	<u>15,683</u>

11. TRADE RECEIVABLES

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

	As At	
	30.6.2010 <i>HK\$'000</i>	31.12.2009 <i>HK\$'000</i>
Outstanding less than one year	39,563	15,162
Outstanding more than one year but less than two years	365	1,018
Outstanding more than two years	<u>33,120</u>	<u>31,980</u>
	73,048	48,160
Less: Allowance for doubtful debts	<u>(32,962)</u>	<u>(32,660)</u>
	<u>40,086</u>	<u>15,500</u>

12. TRADE PAYABLES

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

	As At	
	30.6.2010 <i>HK\$'000</i>	31.12.2009 <i>HK\$'000</i>
Outstanding less than one year	33,786	48,957
Outstanding more than one year but less than two years	285	139
Outstanding more than two years	<u>7,626</u>	<u>7,539</u>
	<u>41,697</u>	<u>56,635</u>

13. SHARE 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. REVALUATION RESERVE

	As At	
	30.6.2010	31.12.2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net gain on fair value change of available-for-sale investment		
At 1 January	119,058	65,048
Gain on fair value change of available-for-sale investment	52,118	54,867
Effect of foreign exchange translation	<u>(7,792)</u>	<u>(857)</u>
At 30 June/31 December	163,384	119,058
Revaluation of buildings of the Joint Venture arising from land and buildings swap	<u>6,418</u>	<u>6,418</u>
	<u>169,802</u>	<u>125,476</u>

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

15. 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.

16. CONNECTED/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	
	30.6.2010	30.6.2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	642	446
— charging of utilities (water, electricity, steam and compressed air consumed)	10,277	8,131
— the right to use the factory lift and the factory space	<u>50</u>	<u>50</u>
	<u>10,969</u>	<u>8,627</u>
Transactions between the Joint Venture and GGXEG ⁽¹⁾ /GIGBM ⁽²⁾		
Payments relating to:		
— lease rental for a piece of land and buildings erected thereon	2,336	2,326
— lease rental for the exclusive right to use certain machinery	1,140	1,135
— lease rental for a hostel	21	21
— royalties for the right to use the trademark “Pearl River” and any technology and know-how necessary for the production of bias tyres	413	249
— lease rental for workers’ hostel*	268	—
— lease rental for the dining hall*	<u>54</u>	<u>—</u>
	<u>4,232</u>	<u>3,731</u>

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

Notes:

1. 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 the former PRC partner were taken over by GGXEG in 2001.
2. 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, given GIGBM is connected with GGXEG, the GIGBM Transactions in * 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 GGXEG/GIGBM were less than HK\$10 million.

Meanwhile, the transaction amounts with Bolex have not exceeded the caps approved by the shareholders in the Special General Meeting held on 28 September 2009.

17. CONTINGENT LIABILITIES

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

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

On 12 July 2010, a wholly-owned subsidiary of the Company, PRT Capital Pte Ltd ("PRTC") entitled 40,381,300 new ordinary shares from D & O arising from D & O's bonus issue on the basis of 1 bonus share for 3 existing shares held.

Save as disclosed above, no significant event has arisen during and end of the subsequent 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 manufacturing and sale of tyres for commercial vehicles.

The Group's unaudited net profit for the six months period ended 30 June 2010 (the "current period") was at HK\$5,499,000 compared to the unaudited net profit of HK\$16,022,000 recorded in the corresponding period last year. Net earnings per share was 5.2 Hong Kong cents for the current period under review.

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.

No event has arisen since the end of the current period that would likely to materially affect the operations of the Group, the results of the Group or the state of affairs of the Group.

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

Operating Results

	Six Months Period Ended		Change %
	30.6.2010 HK\$'000	30.6.2009 HK\$'000	
Revenue	308,615	248,241	24.3
Costs and expenses	(307,895)	(233,983)	31.6
Other income	4,779	1,764	170.9
Net profit	<u>5,499</u>	<u>16,022</u>	<u>(65.7)</u>

The net profit of the Group was HK\$5,499,000, mainly derived from the share of the Joint Venture's operating profit of HK\$2,587,000 and the gain on fair value changes of listed securities of HK\$2,612,000 as a result of the recovery in the market value of shares invested in Malaysia.

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	
	30.6.2010	31.12.2009
Total assets (HK\$'000)	707,587	648,547
Shareholders' equity (HK\$'000)	457,456	389,828
Return on shareholders' equity (%)	1.20	5.83*
Current ratio	<u>1.32</u>	<u>1.25</u>

* Calculated by dividing net profit for the corresponding period last year over shareholders' equity as at 30 June 2009.

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 and does not need any source of funding for capital expenditure in the foreseeable future.

The Joint Venture

During the period under review, the Joint Venture recorded a turnover of HK\$307,903,000, an increase of 24% as compared to the previous corresponding period. However, the Joint Venture is only able to make a profit of HK\$2,587,000, a decrease of 84% as compared to the previous corresponding period. This is largely due to rising in raw material costs such as natural rubber and nylon threads.

The first half of 2010 is a challenging year to the business of Joint Venture, given the on-going fluctuation in raw material prices and decrease in the domestic sales. The decrease in the domestic sales is mainly due to slowing down in the automobile market in China. Moreover, serious flooding in Southern Region of China, which is also our main market, has further deteriorated the Joint Venture domestic sales.

The Joint Venture export sales have increase approximately 41% as compared to the previous corresponding period. The increase is mainly due to the 25% increase in selling price implemented in first quarter of 2010 and the ability to expand market share in one of our main overseas market, India.

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)

Outlook

Although the global economy has recovered from its lowest point, the macro-business environment still has various uncertainties among which is the rising raw materials cost, particularly rubber. The speculation in the commodity market which resulted in higher rubber prices which directly affected our production cost. The Joint Venture is taking the initiative to monitor closely the production schedule, only produce what we can sell in order to reduce the cost of holding excessive inventories.

The bias tyre market is facing an intense competition from radial tyres which resulted in a significant decrease in the demand of bias tyres. Given that our market share in China for bias tyres is only about 20%, management will dedicate efforts to ensure we produce better quality bias tyres in order to steadily develop and expand our market share in China.

In addition, production of radial tyres has come on stream. Other than the Light Truck Radial ("LTR") tyres, management is making plans for additional sizes and other range of radial tyres for various applications such as Sport Utility Vehicle ("SUV"), van and pickups. This move is expected to contribute positively to both turnover and profitability of the Joint Venture in the future.

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

As at 30 June 2010, 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	38,280,000 ⁽¹⁾	36.4
Goh Nan Yang	Personal	94,000	0.1

Notes:

- These shares are beneficially held by two 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.

The Company does not have any listed debt securities.

Save as disclosed above as at 30 June 2010, 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.

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

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 2010, 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 share 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

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)

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 2010, Kuala Lumpur Kepong Berhad is 46.57% directly owned by Batu Kawan Berhad, which is, in turn, 45.61% 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 2010, 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 2010, with the exception 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 3 independent non-executive directors. The Audit Committee meets at least twice a year with management and annually 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 2010 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 at any time during or since the end of the current period are as follows:

Goh Nan Kioh	Chairman and Non-Executive Director
Goh Nan Yang	Executive Director
Yeoh Eng Khoon	Non-Executive Director
Khoo Teng Keat	Independent Non-Executive Director
Yeow See Yuen	Independent Non-Executive Director
Won Thean Sang	Independent Non-Executive Director

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

- (i) At the Sixteenth Annual General Meeting of the Company held on 1 June 2010:
- Mr Goh Nan Kioh who retired by rotation in accordance with the Company’s Bye-laws was re-elected to the Board.
 - Mr Yeoh Eng Khoon who retired by rotation in accordance with the Company’s Bye-laws was re-elected to the Board.

By order of the Board

Goh Nan Yang

Director and CEO

Kuala Lumpur, 11 August 2010