



PEARL RIVER TYRE (HOLDINGS) LIMITED



ANNUAL REPORT 2011

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CORPORATE INFORMATION

Company Registered Office	Bermuda Commercial Bank Building 19 Par-La-Ville Road Hamilton HM 11 Bermuda
Principal place of business in Hong Kong	Room 1902 Yue Shing Commercial Building 15 Queen Victoria Street Central Hong Kong
Company Secretaries	Randy King Kuen Hung, <i>FCPA</i> Tan Pei Choo, <i>ACIS</i>
Authorised Representatives in Hong Kong	Goh Nan Yang Randy King Kuen Hung
Share Registrars	<i>Bermuda Principal Registrar:</i> Bermuda Commercial Bank Building 19 Par-La-Ville Road Hamilton HM 11 Bermuda <i>Hong Kong Branch Registrar:</i> Computershare Hong Kong Investor Services Limited 17M Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

DIRECTOR'S STATEMENT

The Directors of Pearl River Tyre (Holdings) Limited (the “Company”) are pleased to present to shareholders the results of the Group for the year ended 31 December 2011.

The Group recorded a consolidated loss of HK\$82.654 million for the financial year ended 31 December 2011 as compared to a loss of HK\$24.859 million in the previous year.

The Company does not plan to undertake any borrowings in the foreseeable future as the Directors believe that its current resources are sufficient.

The Directors do not recommend 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 various types of tyre mainly for commercial vehicles. The result of this Joint Venture can be summarized as follows:

1. Sale of good decreased approximately HK\$100,425,000 representing a decline in sales of 17.8% for the financial year. The decline is attributable to the decrease in both domestic and export volumes.
2. In order to minimise losses and strengthen cash flow and cash position, the Joint Venture has implemented sales-based production. Given weak and unstable market condition, the Joint Venture substantially scaled down its operation and close down the inner tube workshop.
3. The Joint Venture currently sells almost exclusively on a cash basis in the local market and on confirmed letter of credit for the export market. The Joint Venture currently does not give any credit terms to its customers except certain original equipment manufacturers (“OEM”) with good credit track record.
4. Light Truck Radial (“LTR”) tyre plants are now operating at optimal level. The Joint Venture is more optimistic of the LTR tyre market outlook. Plans are underway to expand the product sizes to fully utilise the production facilities.
5. In view of the performance of the Joint Venture for the current year and management’s view of the market, an impairment loss of HK\$27,920,000 on the plant and machinery to produce bias tyre has been recognised in profit or loss.
6. The Joint Venture has bank borrowings of RMB87,549,000. As cash flow remains positive, the Joint Venture does not foresee any working capital funding constraints and accordingly expects the level of borrowings to remain manageable.

DIRECTOR'S STATEMENT

OUTLOOK

The bias tyre market is facing intense competition from radial tyre which resulted in a significant decrease in the demand of bias tyre. On the other hand, the languished bias tyre industry was forced to consolidate with many weaker players being edged out. The Joint Venture will benefit from this development due to reduced of competition in the market. Therefore, management expects the company to be able to expand the market share for Light Truck Bias (“LTB”) tyre.

The Joint Venture has developed a clear operational plan to overcome the challenges ahead by moving to increase the production of Light Truck Radial (“LTR”) tyre. Since radialisation is taking place quite aggressively across markets worldwide, the Joint Venture is more optimistic of the LTR market. Management expects a strong growth in this segment and plans are underway to increase the product range.

SUMMARY

Since the early part of the year, Chinese manufacturers have been trying hard to cope up with the steep rise in cost while adapting to new local challenges such as stricter environmental rules, minimum wages and credit tightening by the authorities. However, the prime focus has been again on the volatile raw material prices.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year 2011 has been a very challenging year for all tyre manufacturers in China given the substantial increase in raw material prices, particularly rubber and the domestic economic slowdown. The natural rubber price was at an all time high of US\$5,000 to US\$6,500 per ton for almost three quarters of the year before dropping to US\$4,000 per ton in the fourth quarter.

Given that a substantial portion of the production cost of tyre is natural rubber, it is not surprising that the Joint Venture recorded a loss of HK\$99 million for the year. In 2011, the Joint Venture was only able to achieve a gross profit margin of 0.39% compared to 5.9% in 2010. While rubber prices remained high, it was difficult to fully pass on the cost increases to the customers due to competition in both the domestic and export markets given the economic slowdown domestically and globally. Nonetheless as the rubber price started to decline, the Joint Venture managed to record lower losses in the fourth quarter.

In order to reduce the losses, the Joint Venture has initiated various programs to further reduce cost and improve efficiencies. These measures included:

1. Producing only what we can sell. This has effectively improved our cash flow management and reduces the cost of holding excessive inventories.
2. In view of political instability in Middle East country and to reduce the risk of non-collectible debts, the management has tightened the collection policy.
3. Clear business model. Identify and develop product range that has higher demand and profit margin.

SALES

Given the decrease in both domestic and export sales, the Joint Venture managed to record a turnover of HK\$661.6 million, a 17.8% decline compared to 2010. The lower domestic sales are mainly attributable to the decrease in demand of bias truck tyres, which is facing stiff competition from radial tyres.

On the other hand, sales to two of our major export markets were affected by country specific issues. Exports to India has plunged 84% due to Anti Dumping Duty imposed by the Indian Government on bias tyre, tube and flap import from China. The 33% decrease in sales to Republic of Yemen is due to political instability in the country.

On the positive side, Light Truck Radial ("LTR") tyres contribute positively to the Joint Venture. The production output has been increased over the year. Sales increase about 15.5% as compared to previous financial year. LTR only contributes about 10% of the total sales in 2011. Management is targeting to develop another 30 sizes of LTR tyres in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

PRODUCTION

The management's strategy of "build-to-order" has had a profound impact on production. The Joint Venture runs the production to its highest efficiency and stops as soon as able to meet customers' requirements. In this way, the management have not only improved cash flow but also able to avoid holding excessive inventory.

The new plant and machinery for LTR tyres bought in 2010 and 2011 have been operating at optimal level. The workers have mastered the technical skill in producing LTR tyres. Given the management's effort in ensuring better production coordination and planning have resulted in enhanced production efficiency and better cost control.

A proper product mix will put us in a much better footing to weather any fluctuation in commodity prices and market risks.

PROSPECT

The prospect of China tyre industry in 2012 continues to remain in the balance. Domestic economic growth is unlikely to improve much from 2011 while the global outlook remains uncertain given the European debt crisis.

The domestic market for bias tyre is expected to shrink further especially the truck bus bias tyres. However, management expects to expand the market share in light truck bias ("LTB") tyres. With a proper distribution network and superior product quality, we expect to maintain our domestic sales volume despite this shrinking market.

The Joint Venture's main focus for 2012 would be on radial tyre segment. Management is targeting to increase production output of LTR tyres to 400,000 units in 2012. Other than LTR tyres, management is going to develop additional sizes and other range of radial tyres for various segments such as Sport Utility Vehicle ("SUV"), van and pickup. This move is expected to contribute positively to both turnover and profitability in the future.

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 2011.

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 manufacturing and marketing of various types of tyres for commercial vehicles.

RESULTS

The results of the Group for the year ended 31 December 2011 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 22 to 103 of the annual report.

RESERVES

Details of movement in reserves of the Company and the Group during the year ended 31 December 2011 are set out in Note 31 to the financial statements and on page 82 to 86 of the annual report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the aggregate amount of reserves available for distribution to owners of the Company was HK\$169,818,000 (2010: HK\$113,470,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2011,

- (a) 34% of sales of the Group and 48% 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 accounted for 8% of sales of the Group whilst the Group's largest supplier accounted for 12% 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.

DIRECTORS' REPORT

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 2011.

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 104 of the annual report.

SHARE CAPITAL

Details of movements in the authorised and issued and paid-up share capital of the Company during the year are set out in Note 29 to the financial statements.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme (the "Scheme") are set out in Note 30 to the financial statements.

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 2011.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the financial year ended 31 December 2011 are set out in Note 14 to the financial statements.

MATERIAL INTERESTS IN ENTITIES

Details of the Company's subsidiaries, Joint Venture and the associate are set out in Notes 16, 17 and 18 respectively 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 2011 except where otherwise indicated.

Chairman And Non-Executive Director

Goh Nan Kioh

Executive Director

Goh Nan Yang

Non-Executive Directors

Yeoh Eng Khoon

Yeow See Yuen*

Khoo Teng Keat*

Won Thean Sang* (Deceased on 28 July 2011)

Wong Meng Tak* (Appointed on 25 October 2011)

* *Independent and Non-Executive Director*

Pursuant to Clause 6.1 (f) (1) (A) of the Company's Bye-laws, Goh Nan Yang and Khoo Teng Keat 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, Wong Meng Tak retires by rotation 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.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

Other than the connected/related party transactions as disclosed in Note 34 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 2011 or at any time during the financial year ended 31 December 2011.

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 2011.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in Note 34 to the financial statements headed "Connected/Related Party Transactions", there is no contract of significance between the Company (or any of its subsidiaries) or the Joint Venture and the controlling shareholder of the Company (or any of its subsidiaries) or the Joint Venture.

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

As at 31 December 2011, 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 (%)
Goh Nan Kioh	Family	957,790 ⁽²⁾	0.91
	Corporate	38,398,000 ⁽¹⁾	36.52
Goh Nan Yang	Personal	94,000	0.09

Notes:

- These shares are beneficially held by three 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.

DIRECTORS' REPORT

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

	Number of Shares Issuable Under Options			
	At 1.1.2011	Granted	Exercised/ Lapsed	At 31.12.2011
Goh Nan Kioh	—	1,500,000	—	1,500,000
Goh Nan Yang	—	2,500,000	—	2,500,000
Yeow See Yuen	—	800,000	—	800,000
Khoo Teng Keat	—	800,000	—	800,000
Won Thean Sang (Deceased on 28 July 2011)	—	410,000	(410,000)	—

The Company does not have any listed debt securities.

Save as disclosed above as at 31 December 2011, 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).

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, 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%
Ablington Holdings Sdn Bhd	Beneficial owner	8,000,000	7.61%

Notes:

- 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.
- 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.

- As at 31 December 2011, Kuala Lumpur Kepong Berhad is 46.57% directly owned by Batu Kawan Berhad, which is, in turn, 45.95% 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 31 December 2011, 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.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

Details of connected transactions disclosed under the Listing Rules are set out in Note 34 to the financial statements.

SUFFICIENCY OF THE PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2011.

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 30 to the financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year ended 31 December 2011, 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 16 to 19 of the annual report.

AUDITORS

The financial statements have been audited by Crowe Horwath (HK) CPA Limited, who retire and, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the forthcoming annual general meeting.

On behalf of the board

Goh Nan Yang
Executive Director

Hong Kong, 22 March 2012

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Goh Nan Kioh

Mr Goh (age 59) is a graduate of the University of Malaya with a Bachelor of Economics (Honours) degree. He has wide and varied business investments in many countries. He is a Non-Executive Director. He joined the Company in 1995. He has been redesignated from Deputy Chairman to Chairman on 30 June 2008 and he is also a member of remuneration committee, member of nomination committee and the chairman of share option committee.

Goh Nan Yang

Mr Goh (age 49) is a graduate from the University of Toledo with a Bachelor of Science (Engineering) (Honours) degree. He has wide and varied experience in property development and manufacturing activities in Melbourne, Australia. He was appointed to the Board of Directors of the Company on 20 January 2004 as an Executive Director and took on the position of Chief Executive Officer with effect from 5 March 2004. He is a member of share option committee.

Yeoh Eng Khoon

Dato Yeoh (age 65), holds a degree of Bachelor's of Arts in Economics (Honours) majoring in Business Administration from the University of Malaya and is a Barrister-at-law from Lincoln's Inn, United Kingdom. He has 39 years of experience in the banking, manufacturing and the retail sectors. He was appointed as a non-executive director of the Company with effect from 28 September 2005.

Yeow See Yuen

Mr Yeow (age 45), holds a first class honours degree in Accountancy from the National University of Singapore. He started his careers with Coopers & Lybrand in Singapore in 1991 in the audit division. He left the firm in 1994 to join Deutsche Securities Asia Limited ("Deutsche Securities") where he spent 9 years working in the Equity Research Department. During the period, he progressed through a series of positions including Deputy Head of Indonesia Research, Head of Malaysian Research and Head of Consumer Research Asia. Since leaving Deutsche Securities in 2003, he has been actively involved in investment banking related work, including investor relations corporate advisory and research consultancy. He was appointed as an Independent Non-Executive Director, a member of audit committee and the chairman of remuneration committee of the Company on 30 June 2008.

Khoo Teng Keat

Mr Khoo (age 42), holds a Bachelor of Commerce (Actuarial Science) honours degree from University of Melbourne, Australia. He has more than 14 years' experience as an equity analyst. He has held senior positions with several reputable international investment banks before co-founding a boutique financial advisory outfit, providing investor relations, corporate advisory and research consultancy. He was appointed as an Independent Non-Executive Director and chairman of audit committee of the Company on 30 June 2008. He is also member of nomination committee.

Wong Meng Tak

Mr Wong (age 64), obtained a Bachelor of Arts (Honours) degree majoring in Economics from the University of Malaya in 1971. He began his career in 1971 with The HongKong and Shanghai Banking Corporation Ltd in Malaysia and held various positions within the bank. In 2002, he retired from the Bank as Senior Manager Regional Credit. He was appointed as an Independent Non-Executive Director, member of audit committee and member of share option committee and remuneration committee of the Company on 25 October 2011. He is also the chairman of nomination committee.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Chan Keng Kiong (age 43), is the General Manager of the Joint Venture. He is responsible for the operations of the Joint Venture. He graduated from the National University of Malaysia with a Bachelor's Degree in Economics (Hon.). He has experience in managing and developing distribution networks in the auto parts trade in both domestic and international markets. He joined the Group in 1995.

Chui Mee Chuen (age 33), is the Qualified Accountant of the Company. She is a member of the Malaysian Institute of Accountants and a Qualified Chartered Accountant registered with the Association of Chartered Certified Accountants. She started out as an auditor with RSM Robert Teo, Kuan & Co from 2003 to 2005. Subsequently, she joined Horwath for three years and then moved on to work with In-Fusion Solutions Sdn Bhd as Assistant Manager Corporate Planning for a year.

Chen Xu Ming (age 54), is a graduate of the Statistics Institute of China. He joined Guangzhou Rubber Tyre Factory in 1984 and was assigned to the Personnel Department whereby he contributed to the setting up of a scientific human resources allocation and payroll system. He was a Personnel Supervisor since 1998 before his latest promotion to Deputy General Manager responsible for the Purchasing and Logistic Department and the Personnel Department in 2004. He joined the Joint Venture in 1994.

Tang Xi Niu (age 49), is a graduate of Guangzhou Rubber Technology High School. He joined Guangzhou Rubber Tyre Factory in 1983 and was assigned to the Production Department. He was promoted to Assistant Workshop Supervisor in 1991 in charge of the rubber mixing workshop and later the tyre building workshop. In 2000, he was transferred to the Sales Department and promoted to Area Sales Manager. His latest promotion to Deputy General Manager responsible for the Production Department came in 2004. He then transferred to Sales Department as Deputy General Manager in 2007. He joined the Joint Venture in 1994.

Liang Guo An (age 49), has university degree in rubber engineering. He joined Guangzhou Rubber Tyre Factory in 1983 and was assigned to the Technical Center. Since 1989, he was promoted to Inspection Supervisor, Assistant Engineer and Secretary of the Branch Communist Party. From 1997 to 2002, he was assigned to the Communist Party Committee Office and held the positions of Deputy Head and Head as well as the Chairman of Workers' Union. In 2002, he was appointed by Guangzhou Guang Xiang Enterprises Group Co. Ltd ("GGXEG") as the Secretary of the Communist Party, Chairman of Workers' Union and Secretary of the Disciplinary Committee of the Communist Party of the Joint Venture. In 2007, Mr. Liang was promoted as the Deputy General Manager and was responsible for the operation of the Production Department. He joined the Joint Venture in 1994.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Company has complied with all Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2011 with the exception that the non-executive directors of the Company have no set terms of office but retire from office on rotational basis in accordance with the Company's Bye-laws.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 Appendix 10 of the Listing Rules.

Following specific enquiry made with the Directors, the Company has confirmed that each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

BOARD OF DIRECTORS AND BOARD MEETING

The Board of Directors comprises six directors, of whom five are non-executive directors. The Chairman is a non-executive Director. Directors are selected to achieve a broad range of skills and experience on the Board. The Bye-laws of the Company require the directors to retire by rotation at the Annual General Meeting once every three years.

The Board provides direction to management, and approves the aims, strategies and policies of the Company. Owing to the size of the operations of the Company which is fairly small, the Company does not require formal committees to formulate policies and establish broad guidelines in the areas of investment and business risk. The Chairman, as assisted by the Board, formulates such policies and guidelines.

The Joint Venture has its own separate Board of Directors which is responsible for formulating and establishing policies and guidelines in the areas of remuneration, investment and business risk. The Board of the Joint Venture meets at least twice a year to discuss operational issues, monitor progress and reassess policies and guidelines. The Company is represented by five persons on the Board of Directors of the Joint Venture. The Board of Directors of the Joint Venture has a total of nine members.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out on page 14 of the annual report. All Directors have given sufficient time and attention to the affairs of the Group. The executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Mr Goh Nan Yang is a brother of Mr Goh Nan Kioh. Other than these, there is no family relationship among the Directors of the Company.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

The roles of chairman and chief executive officer are, respectively, performed by the Chairman, Mr Goh Nan Kioh and the chief executive officer, Mr Goh Nan Yang. The roles of the Chairman and chief executive officer are segregated and assumed by these two separate individuals so that the responsibilities are not concentrated with any one person.

The Company also appointed four non-executive Directors, namely Dato Yeoh Eng Khoon, Mr Yeow See Yuen, Mr Khoo Teng Keat and Mr Wong Meng Tak who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Among the non-executive Directors, Mr Yeow See Yuen, Mr Khoo Teng Keat and Mr Wong Meng Tak are independent non-executive Directors. All the Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

The number of Directors' meetings held, including meetings held by circulation of minutes, and the number of those meetings attended by each of the Directors of the Company, while is a Director, during the financial year ended 31 December 2011 are as follows:

Directors	No. attended	No. eligible to attend
Goh Nan Kioh	16	16
Goh Nan Yang	16	16
Yeoh Eng Khoon	16	16
Yeow See Yuen	16	16
Khoo Teng Keat	16	16
Won Thean Sang (Deceased on 28 July 2011)	8	8
Wong Meng Tak (Appointed on 25 October 2011)	1	1

REMUNERATION OF DIRECTORS

The Company has established a Remuneration Committee in 2005. The task of the Remuneration Committee is to make recommendation of remuneration for Directors and Senior Management so as to ensure that the Company attracts and retains the Directors needed to run the Group successfully. Composed of three Directors, the majority of whom are independent non-executive directors, the Remuneration Committee is mandated to meet once a year.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the remuneration paid to the Company's auditor, Crowe Horwath (HK) CPA Limited, is set out below:

Category of services	Fee paid/ payable
Audit service	<u>HK\$715,000</u>

AUDIT COMMITTEE

The members of the Audit Committee are:

Khoo Teng Keat
Yeow See Yuen
Won Thean Sang (Deceased on 28 July 2011)
Wong Meng Tak (Appointed on 25 October 2011)

The functions of the Audit Committee are to review the accounting policies, internal controls and financial reporting of the Company, its subsidiaries and the Joint Venture on behalf of the Board and make recommendations to the Board. The committee is to meet at least twice a year, with a representative from the external auditor.

In performing its functions, the committee reviewed the overall scope of work of the external auditor and discussed with them the results of their examination and their evaluation of the system of internal controls operating within the Company, its subsidiaries and the Joint Venture. The committee has also reviewed the results and financial statements for the financial year ended 31 December 2011 and the announcements of results made by the Company to The Stock Exchange and has recommended that the Board approves the financial statements and announcements.

During the financial year ended 31 December 2011, there were two Audit Committee Meetings held. The details of the attendance of each member are as follows:

Name	No. attended	No. eligible to attend
Khoo Teng Keat	2	2
Yeow See Yuen	2	2
Won Thean Sang (Deceased on 28 July 2011)	1	1
Wong Meng Tak (Appointed on 25 October 2011)	0	0

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

Prior to the appointment of new directors, the Board is first provided with the qualifications of the relevant candidates for determining the suitability to the Company on the basis of his qualifications, experience and background beforehand for consideration. The establishment of a nomination committee on 29 March 2012.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statement of the external auditor of the Company, Crowe Horwath (HK) CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure it is effective and adequate. The Company convened meetings periodically to discuss financial, operational and risk management control.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

INDEPENDENT AUDITOR'S REPORT



國富浩華 (香港) 會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

34/F The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF PEARL RIVER TYRE (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pearl River Tyre (Holdings) Limited (the "Company"), its subsidiaries and its jointly controlled entity (together the "Group") set out on pages 22 to 103, which comprise the consolidated and Company statements of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

INDEPENDENT AUDITOR'S REPORT

estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants

Hong Kong, 22 March 2012
Alvin Yeung Sik Hung
(Practising Certificate Number P05206)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Turnover	6	463,128	563,553
Cost of sales		<u>(461,308)</u>	<u>(530,380)</u>
Gross profit		1,820	33,173
Other revenue and net income	7	6,266	11,575
Selling and distribution expenses		(10,467)	(15,479)
Administrative expenses		(39,123)	(26,491)
Other operating expenses		(37,809)	(24,472)
Finance costs	8	<u>(3,015)</u>	<u>(2,914)</u>
Loss before taxation	9	(82,328)	(24,608)
Income tax expense	11	<u>(326)</u>	<u>(251)</u>
Loss for the year		(82,654)	(24,859)
Other comprehensive loss			
Exchange differences on translating of:			
— Joint Venture's financial statements		7,876	7,333
— Available-for-sale investments		(36,525)	36,563
Available-for-sale investments: movement in the revaluation reserve		<u>1,016</u>	<u>(79,815)</u>
Total other comprehensive loss		<u>(27,633)</u>	<u>(35,919)</u>
Total comprehensive loss for the year		<u><u>(110,287)</u></u>	<u><u>(60,778)</u></u>
Loss per share (Hong Kong cents)			
— Basic	12	(78.6)	(23.6)
— Diluted	12	<u>(78.6)</u>	<u>(23.6)</u>

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	Notes	2011 HK\$'000	2010 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	112,697	146,123
Prepaid lease payments	15	11,264	11,663
Investment in an associate	18	4,475	4,475
Investments in listed securities	19	67,154	102,663
Intangible asset	20	—	—
Total non-current assets		195,590	264,924
Current assets			
Investments in listed securities	19	24,661	27,234
Inventories	21	108,202	96,530
Trade and other receivables	22	45,440	56,296
Pledged bank deposits	23	11,221	47,409
Cash and cash equivalents	24	32,856	25,856
Total current assets		222,380	253,325
Current liabilities			
Trade and other payables	25	115,913	90,326
Provisions	27	2,101	2,836
Borrowings	28	75,497	96,037
Total current liabilities		193,511	189,199
Net current assets		28,869	64,126
Net assets		224,459	329,050
EQUITY			
Share capital	29	1,051	110,716
Reserves	31	223,408	218,334
Total equity		224,459	329,050

Approved and authorised for issue in accordance with a resolution of the Directors on 22 March 2012.

Goh Nan Yang
Director

Khoo Teng Keat
Director

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	Notes	2011 HK\$'000	2010 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Equipment	14	4	6
Interests in subsidiaries	16	190,451	255,845
Total non-current assets		190,455	255,851
Current assets			
Other receivables and prepayment	22	196	477
Cash and cash equivalents	24	1,549	290
Total current assets		1,745	767
Current liabilities			
Other payables	25	15,739	32,314
Provisions	27	118	118
Total current liabilities		15,857	32,432
Net current liabilities		(14,112)	(31,665)
Net assets		176,343	224,186
EQUITY			
Share capital	29	1,051	110,716
Reserves	31	175,292	113,470
Total equity		176,343	224,186

Approved and authorised for issue in accordance with a resolution of the Directors on 22 March 2012.

Goh Nan Yang
Director

Khoo Teng Keat
Director

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 HK\$'000	2010 HK\$'000
Operating activities		
Loss before taxation	(82,328)	(24,608)
Adjustments for:		
Amortisation of prepaid lease payments	924	881
Bad debts written off	255	120
Depreciation of property, plant and equipment	18,889	22,617
Equity-settled share-based payments	5,696	—
Impairment loss on plant and machinery	27,920	12,459
Impairment loss on receivables	424	—
Write down of inventories	2,813	—
Interest expense	3,015	2,914
Plant and equipment written off	49	5
Unrealised loss/(gain) on foreign exchange	1,198	(3,147)
Loss on disposal of equipment	141	—
Loss/(gain) on fair value changes of listed securities		
— held for trading	1,230	(6,449)
Interest income	(66)	(231)
Dividend income from listed securities		
— held for trading	(1,314)	(1,016)
Gain on disposal of listed securities	(95)	—
Reversal of provision for warranty	(843)	—
Reversal of impairment loss on trade receivables	(481)	(1,794)
	(22,573)	1,751
(Increase)/decrease in inventories	(14,485)	19,449
Decrease/(increase) in trade and other receivables	12,156	(19,296)
Increase/(decrease) in trade and other payables	29,129	(33,971)
Cash generated from/(used in) operations	4,227	(32,067)
Interest received	66	231
Interest paid	(3,015)	(2,914)
Net cash generated from/(used in) operating activities	1,278	(34,750)
Investing activities		
Decrease in pledged bank deposits, net	36,188	65,194
Purchase of listed securities	(61)	—
Purchase of plant and equipment	(8,384)	(14,341)
Proceeds from disposal of listed securities	310	—
Proceeds from disposal of equipment	546	—
Dividend received	987	765
Net cash generated from investing activities	29,586	51,618

CONSOLIDATED STATEMENT OF CASH FLOWS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Financing activities		
Drawdown of borrowings	116,076	96,037
Repayment of borrowings	(137,463)	(144,553)
Advances from related parties	2,502	7,139
Repayment of advances from a director	<u>(6,051)</u>	<u>—</u>
Net cash used in financing activities	<u>(24,936)</u>	<u>(41,377)</u>
Net increase/(decrease) in cash and bank balances	5,928	(24,509)
Cash and cash equivalents at beginning of the year	25,856	43,648
Effect of foreign exchange rate changes, net	<u>1,072</u>	<u>6,717</u>
Cash and cash equivalents at end of the year, comprising cash and bank balances	<u><u>32,856</u></u>	<u><u>25,856</u></u>

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital HK\$'000	Share premium HK\$'000 Note 31 (a)	Revaluation reserve HK\$'000 Note 31 (b)	Share option reserve HK\$'000 Note 31 (c)	Capital reserve HK\$'000 Note 31 (d)	Foreign currency translation reserve HK\$'000 Note 31 (e)	Contributed surplus HK\$'000 Note 31 (f)	Accumulated losses HK\$'000 Note 31 (g)	Total HK\$'000
At 1 January 2010	110,716	113,157	125,476	—	37,344	52,316	—	(49,181)	389,828
Changes in equity for 2010:									
Loss for the year	—	—	—	—	—	—	—	(24,859)	(24,859)
Other comprehensive income/(loss):									
Exchange difference on translations of:									
— Joint venture's financial statements	—	—	—	—	—	7,333	—	—	7,333
— Available-for-sale investments	—	—	—	—	—	36,563	—	—	36,563
Available-for-sale investments:									
— Movement in the revaluation reserve	—	—	(79,815)	—	—	—	—	—	(79,815)
	—	—	(79,815)	—	—	43,896	—	—	(35,919)
Total comprehensive income/(loss)	—	—	(79,815)	—	—	43,896	—	(24,859)	(60,778)
At 31 December 2010	110,716	113,157	45,661	—	37,344	96,212	—	(74,040)	329,050
At 1 January 2011	110,716	113,157	45,661	—	37,344	96,212	—	(74,040)	329,050
Changes in equity for 2011:									
Loss for the year	—	—	—	—	—	—	—	(82,654)	(82,654)
Other comprehensive income/(loss):									
Exchange difference on translations of:									
— Joint venture's financial statements	—	—	—	—	—	7,876	—	—	7,876
— Available-for-sale investments	—	—	—	—	—	(36,525)	—	—	(36,525)
Available-for-sale investments:									
— Movement in the revaluation reserve	—	—	1,016	—	—	—	—	—	1,016
	—	—	1,016	—	—	(28,649)	—	—	(27,633)
Total comprehensive income/(loss)	—	—	1,016	—	—	(28,649)	—	(82,654)	(110,287)
Equity-settled share-based transactions	—	—	—	5,696	—	—	—	—	5,696
Capital reduction	(109,665)	—	—	—	—	—	109,665	—	—
Share options lapse during the year	—	—	—	(222)	—	—	—	222	—
	(109,665)	—	—	5,474	—	—	109,665	222	5,696
At 31 December 2011	1,051	113,157	46,677	5,474	37,344	67,563	109,665	(156,472)	224,459

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. CORPORATE INFORMATION

The Company was incorporated in The British Virgin Islands on 17 February 1994 and continued under the laws of Bermuda by migration of its domicile to Bermuda on 21 October 1994. The Company was registered in Hong Kong as a foreign company pursuant to Part XI of the Companies Ordinance on 24 May 1999.

The registered office and principal place of business are as follows:

Registered office	:	Bermuda Commercial Bank Building 19 Par-La-Ville Road Hamilton HM 11 Bermuda
Principal place of business	:	Room 1902 Yue Shing Commercial Building 15 Queen Victoria Street Central Hong Kong

2. 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 manufacturing and marketing of various types of tyres for commercial vehicles.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are first effective for the current accounting period.

Amendments to HKFRSs HKAS 24 (as revised in 2009)	Improvements to HKFRSs issued in 2010 Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

NOTES TO THE FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

Except as described below, the application of the new and revised HKFRS in the current year has had no material effect on the Group’s financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group’s related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because no entity within the Group is a government-related entity.

Improvements to HKFRSs issued in 2010

Improvements to HKFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 Financial instruments: Disclosures. The disclosures about the Group’s and the Company’s financial instruments in note 33 have conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

4. SIGNIFICANT ACCOUNTING POLICIES

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollars (“HKD”), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company’s functional and presentation currency.

The financial statements have been prepared on the basis of the historical cost convention except for certain financial instruments that are measured at fair values, as explained in the accounting policies and notes set out below.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

a) **Basis of preparation**

The Company's ordinary shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The financial statements are presented in Hong Kong dollars. The financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

b) **Principles of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the financial year ended 31 December. The Joint Venture has been accounted for in the consolidated financial statements using the proportionate consolidation method. The term "Group" used throughout the financial statements means the Company, the subsidiaries and the Joint Venture. Details of the investment in the subsidiaries, the Joint Venture and the associate are set out in Notes 16, 17 and 18 respectively.

The basis of consolidation is as follows:

Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The results of the subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group. All intra-group transactions, balances and any unrealised profits arising from intra-group transactions are eliminated in full on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

b) Principles of consolidation (*Continued*)

Subsidiaries and non-controlling interests (Continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards). Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Principles of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

In the Company's statement of financial position, the investment in subsidiaries is stated at cost less impairment loss, unless the investment is classified as held for sale.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their acquisition-date fair values, except that:

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carry-forward of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12, Income Tax;
- assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into the replaced share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

b) Principles of consolidation (*Continued*)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, Financial Instruments: Recognition and Measurement or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

b) Principles of consolidation (*Continued*)

Business combinations (Continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e., the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

Associate

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

b) Principles of consolidation (*Continued*)

Associate (Continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in a jointly-controlled entity.

Where investment in associate is at company level:

In the company's statement of financial position, investments in associates are stated at cost less impairment losses unless classified as held for sale.

Joint Venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e., when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group reports its interests in jointly controlled entities using the proportionate consolidation method, except when the investment is classified as held for sale. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

When a Group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that is not related to the Group.

c) Investments

Investments in listed securities are recognised on a trade date basis and are initially recognised at fair value for those that are held for trading. Available-for-sale investments are initially recognised at fair value plus directly attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Investments *(Continued)*

Investments held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit and loss. The net gain or loss recognised in profit or loss does not include any interest or dividends earned on these investments as these are recognised in accordance with the policies set out in note 4(r)(ii) and (iii).

Available-for-sale investments are measured at fair value. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 4(r)(iii). When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

d) Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated using the straight-line method to write off the cost over their estimated useful lives, allowing for their estimated residual values. The principal annual rates used for this purpose are as follows:

Buildings	4.35% to 5.26%
Plant and Machinery	4.65% to 20%
Equipment	6.43% to 9.50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

The depreciation method, useful life and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) **Property, plant and equipment** *(Continued)*

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction-in-progress is carried at cost less any recognised impairment loss. No depreciation is provided in respect of construction-in-progress until it is substantially completed and ready for its intended use.

e) **Impairment of assets**

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries and associates (including those recognised using the equity method (see note 4(b)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 4(e)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 4(e)(ii).
- For unquoted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Impairment of assets *(Continued)*

(i) *Impairment of investments in equity securities and other receivables (Continued)*

- For available-for-sale equity securities which are stated at fair value, when a decline in the fair value has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepaid lease payments;

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

- interest in subsidiaries; and
- investment in an associate.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

g) Operating lease payments

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments of the Group represent the payments made by the Joint Venture under an operating lease for a piece of land. Lease payments are stated at cost less accumulated amortisation and impairment losses, if any. The operating lease payments are amortised on a straight-line basis over the remaining period of the Joint Venture of 23 years.

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Intangible asset

The intangible asset which represents the licence fee paid for the use of the trademark “Pearl River” and the transfer of technology and know-how relating to the production of bias tyres is stated at cost and amortised on a straight-line basis over the estimated useful life of 14 years.

Gains or losses arising from derecognition or an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

i) Inventories

Inventories are stated at the lower of cost, on a weighted average basis, and net realisable value. Cost comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

p) Foreign currency translation

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e., the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are determined in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

For the purpose of presentation on the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e., Hong Kong dollars) at the rate of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in foreign currency translation reserve as a separate component of equity. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Foreign currency translation *(Continued)*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e., partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary difference respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) **Income tax** *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

q) **Income tax** (*Continued*)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously;
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

r) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) *Sale of goods*

Revenue from sale of goods represents the invoiced value of goods supplied to customers, net of returns, sales tax and trade discounts. Sales are recognised when the significant risks and rewards of ownership of the goods have been transferred, and no significant uncertainty exists relating to the cost of sales, the consideration and possibility of returns.

ii) *Interest income*

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) **Revenue recognition** *(Continued)*

iii) *Dividend income*

Dividend is recognised when the Group's right to receive payment is established.

iv) *Government grant*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

s) **Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) **Related parties** *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies:
(Continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

t) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision-makers ("CODM") for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

u) **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income or net off against directly related borrowing costs (see note 4n), over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is presented as deferred revenue and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

v) Employee benefits

i) *Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

NOTES TO THE FINANCIAL STATEMENTS

5. ACCOUNTING ESTIMATES AND JUDGEMENT

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgements and other uncertainties affecting the application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 4. The Group believes the following significant accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

i) Estimated useful lives and depreciation of property, plant and equipment

The Group estimates the useful lives of the various categories of property, plant and equipment on the basis of their designed lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives.

ii) Impairment of long-lived assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 4(e). In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

iii) Impairment loss of trade receivables

The Group estimates impairment losses of trade receivables resulting from the inability of the customers to make the required payment. The Group bases the estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs might be higher than expected and could significantly affect the results of future periods.

NOTES TO THE FINANCIAL STATEMENTS

5. ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

iv) Write-down for obsolescence of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience on selling goods of similar nature. It could change significantly as a result of changes in market conditions.

v) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

vi) Warranty provision

As explained in note 27, the Group makes provision for the warranty it gives on sales based on the Group's recent claim experience. It is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

6. TURNOVER

Turnover of the Group, which is also its revenue, represents the invoiced value of goods sold and services rendered less discounts and returns.

NOTES TO THE FINANCIAL STATEMENTS

7. OTHER REVENUE AND NET INCOME

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other revenue		
Interest income on bank deposits	66	231
	<hr/>	<hr/>
Total interest income on financial assets not at fair value through profit or loss	66	231
Dividend income from listed securities		
— held for trading	1,314	1,016
Government grants received	295	—
Others	3,172	2,085
	<hr/>	<hr/>
	4,847	3,332
	<hr/>	<hr/>
Other net income		
Gain on fair value changes of listed securities		
— held for trading	—	6,449
Gain on disposal of listed securities		
— held for trading	95	—
Reversal of provision for warranty (<i>Note 27</i>)	843	—
Reversal of impairment loss on trade receivables (<i>Note 22</i>)	481	1,794
	<hr/>	<hr/>
	1,419	8,243
	<hr/>	<hr/>
	6,266	11,575
	<hr/> <hr/>	<hr/> <hr/>

8. FINANCE COSTS

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans wholly repayable within one year and total interest expense on financial liabilities not at fair value through profit or loss	3,015	2,914
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

9. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting) the following:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories (<i>Note 21</i>)	464,121	531,588
Bad debts written off	255	120
Impairment loss on plant and machinery (<i>Note 14</i>)	27,920	12,459
Impairment loss on receivables (<i>Note 22</i>)	424	—
Staff costs (including directors' remuneration)		
— Wages, salaries and other benefits	41,820	40,120
— Equity-settled share-based payment expenses	4,558	—
— Retirement benefit scheme contributions	6,208	10,120
Additional sales tax and VAT (<i>Note 17</i>)	—	8,787
Auditor's remuneration		
Audit services		
— current year	1,156	472
— underprovision in the previous financial year	80	—
Amortisation of prepaid lease payments		
(included in administrative expenses) (<i>Note 15</i>)	924	881
Depreciation of property, plant and equipment (<i>Note 14</i>)	18,889	22,617
Plant and equipment written off	49	5
Loss on disposal of equipment	141	—
Loss/(gain) on foreign exchange, net		
— realised	533	2,072
— unrealised	1,198	(3,147)
Equity-settled share-based payment expenses for advisors	1,138	—
Loss on fair value changes of listed securities	1,230	—
Operating lease payment:		
— land and buildings	3,317	3,217
— machinery	1,686	1,607
— hostel	574	438
Reversal of impairment loss on trade receivables (<i>Note 22</i>)	(481)	(1,794)

NOTES TO THE FINANCIAL STATEMENTS

10. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

i) Emoluments of directors

The emoluments paid or payable to each of the seven (2010 — six) directors who held office during the year were as follows:

	2011						
	Fees	Salaries and other benefits	Retirement scheme contributions	Discretionary bonuses	Sub-total	Share-based payments ⁽¹⁾	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Goh Nan Kioh	110	—	—	—	110	813	923
Goh Nan Yang	75	268	—	—	343	1,355	1,698
Khoo Teng Keat	75	—	—	—	75	434	509
Won Thean Sang (deceased on 28/7/2011)	44	—	—	—	44	222	266
Yeoh Eng Khoon	75	—	—	—	75	—	75
Yeow See Yuen	75	—	—	—	75	434	509
Wong Meng Tak (appointed on 25/10/2011)	13	—	—	—	13	—	13
	<u>467</u>	<u>268</u>	<u>—</u>	<u>—</u>	<u>735</u>	<u>3,258</u>	<u>3,993</u>
	2010						
	Fees	Salaries and other benefits	Retirement scheme contributions	Discretionary bonuses	Sub-total	Share-based payments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Goh Nan Kioh	110	—	—	—	110	—	110
Goh Nan Yang	75	708	—	—	783	—	783
Khoo Teng Keat	75	—	—	—	75	—	75
Won Thean Sang (deceased on 28/7/2011)	75	—	—	—	75	—	75
Yeoh Eng Khoon	75	—	—	—	75	—	75
Yeow See Yuen	75	—	—	—	75	—	75
Wong Meng Tak (appointed on 25/10/2011)	—	—	—	—	—	—	—
	<u>485</u>	<u>708</u>	<u>—</u>	<u>—</u>	<u>1,193</u>	<u>—</u>	<u>1,193</u>

NOTES TO THE FINANCIAL STATEMENTS

10. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

i) Emoluments of directors *(Continued)*

Notes:

- (1) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4(v)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 30.

- (2) During both years, no remuneration was paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during both years.

ii) Five highest paid employees

Of the five individuals with the highest emoluments, one (2010: one) was director of the Company whose emoluments are disclosed in note 10(i). The emoluments of the remaining four (2010: four) individuals were as follows:

	2011 HK\$'000	2010 HK\$'000
Bonuses	—	122
Salaries and allowances	1,468	1,886
Share-based payment expenses	1,247	—
	<u>2,715</u>	<u>2,008</u>

The emoluments of the four (2010: four) individuals with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
Nil–1,000,000	3	4
1,000,001–1,500,000	<u>1</u>	<u>—</u>

None of these non-director, highest paid employees waived any emoluments or received any inducement to join or compensation for loss of office during the years ended 31 December 2011 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

11. INCOME TAX EXPENSE

The Company was incorporated under the laws of The British Virgin Islands and continued under the laws of Bermuda subsequent to the migration of its domicile. At present, no income, profit, capital or capital gain taxes are levied in Bermuda. Accordingly, no provision for such taxes is required for 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 and the previous financial years.

For the year ended 31 December 2011, the statutory corporate income tax rates applicable to the Joint Venture established and operating in the People's Republic of China (the "PRC") was 25% (2010 — 25%).

A reconciliation of the income tax expense applicable to the loss before taxation at the statutory tax rate to income tax expense at the effective tax rate of the Group is as follows:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	<u>(82,328)</u>	<u>(24,608)</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned		
— Mainland China @ 25% (2010 — 25%)	(17,354)	(7,540)
— Hong Kong @ 16.5% (2010 — 16.5%)	<u>(2,111)</u>	<u>915</u>
	(19,465)	(6,625)
Tax effects of:		
Non-deductible expenses	2,438	828
Non-taxable income	(1)	(1,492)
Deferred tax assets not recognised during the year	<u>17,354</u>	<u>7,540</u>
Income tax expense	<u>326</u>	<u>251</u>

NOTES TO THE FINANCIAL STATEMENTS

11. INCOME TAX EXPENSE (Continued)

Tax effects relating to each components of other comprehensive income

	2011			2010		
	Before-tax amount HK\$'000	Tax expense HK\$'000	Net-of-tax amount HK\$'000	Before-tax amount HK\$'000	Tax expense HK\$'000	Net-of-tax amount HK\$'000
Exchange differences on translation of:						
— Joint venture's financial statements	7,876	—	7,876	7,333	—	7,333
— Available-for-sale investments	(36,525)	—	(36,525)	36,563	—	36,563
Available-for-sale investments:						
— Movement in the revaluation reserve	1,016	—	1,016	(79,815)	—	(79,815)
	<u>(27,633)</u>	<u>—</u>	<u>(27,633)</u>	<u>(35,919)</u>	<u>—</u>	<u>(35,919)</u>

12. BASIC AND DILUTED LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of HK\$82,654,000 (2010: HK\$24,859,000) and the number of shares in issue during the year of 105,116,280 (2010: 105,116,280).

The diluted loss per share equal to basic loss per share because the share option had an anti-dilutive effect on the basic loss per share and the Company has no other dilutive potential ordinary shares in issue at the end of the financial year. The basic and diluted loss per share for the previous financial year were the same as there is no dilutive event.

13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to equity owners of the Company includes a loss of HK\$53,539,000 (2010: loss of HK\$5,011,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT

The Group 2011

	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Construction- in-progress <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 January 2011	127,842	319,756	9,545	595	457,738
Additions	—	1,478	6,906	—	8,384
Disposals	—	(4,186)	—	—	(4,186)
Transfer	—	15,035	(15,035)	—	—
Written off	—	(784)	—	—	(784)
Effect of foreign exchange translation	5,988	15,637	260	—	21,885
At 31 December 2011	<u>133,830</u>	<u>346,936</u>	<u>1,676</u>	<u>595</u>	<u>483,037</u>
Accumulated depreciation and impairment:					
At 1 January 2011	67,263	243,928	—	424	311,615
Charge for the year (<i>Note 9</i>)	5,164	13,693	—	32	18,889
Disposals	—	(3,499)	—	—	(3,499)
Written off	—	(735)	—	—	(735)
Impairment (<i>Note 9</i>)	—	27,920	—	—	27,920
Effect of foreign exchange translation	3,269	12,881	—	—	16,150
At 31 December 2011	<u>75,696</u>	<u>294,188</u>	<u>—</u>	<u>456</u>	<u>370,340</u>
Carrying amount					
At 31 December 2011	<u>58,134</u>	<u>52,748</u>	<u>1,676</u>	<u>139</u>	<u>112,697</u>

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company 2011

	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Construction- in-progress <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Carrying amount:					
At 1 January 2011	—	—	—	6	6
Depreciation charge	—	—	—	(2)	(2)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2)</u>	<u>(2)</u>
At 31 December 2011	<u>—</u>	<u>—</u>	<u>—</u>	<u>4</u>	<u>4</u>

Impairment losses recognised in the current year

During the year, the Group carried out a review of the recoverable amount of its manufacturing plant and machinery. These assets are used in the Group's manufacturing reporting segments. The review led to the recognition of an impairment loss of HK\$27,920,000 (2010 — HK\$12,459,000) which has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 12.8% (2010 — 8%) per annum. The impairment losses have been included in other operating expenses line items in the consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group 2010

	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Construction- in-progress <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 January 2010	121,250	301,136	5,130	595	428,111
Additions	—	1,624	12,717	—	14,341
Transfer	2,183	6,405	(8,588)	—	—
Written off	—	(51)	—	—	(51)
Effect of foreign exchange translation	4,409	10,642	286	—	15,337
At 31 December 2010	<u>127,842</u>	<u>319,756</u>	<u>9,545</u>	<u>595</u>	<u>457,738</u>
Accumulated depreciation and impairment:					
At 1 January 2010	60,137	206,004	—	381	266,522
Charge for the year <i>(Note 9)</i>	4,845	17,729	—	43	22,617
Written off	—	(46)	—	—	(46)
Impairment <i>(Note 9)</i>	—	12,459	—	—	12,459
Effect of foreign exchange translation	2,281	7,782	—	—	10,063
At 31 December 2010	<u>67,263</u>	<u>243,928</u>	<u>—</u>	<u>424</u>	<u>311,615</u>
Carrying amount					
At 31 December 2010	<u>60,579</u>	<u>75,828</u>	<u>9,545</u>	<u>171</u>	<u>146,123</u>

The Company 2010

	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Construction- in-progress <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Carrying amount:					
At 1 January 2010	—	—	—	9	9
Depreciation charge	—	—	—	(3)	(3)
At 31 December 2010	<u>—</u>	<u>—</u>	<u>—</u>	<u>6</u>	<u>6</u>

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group has pledged the buildings to secure banking facilities granted to the Group (Note 28).

The buildings are situated on a land that is held under medium-term lease.

The plant and equipment of the Group are held outside Hong Kong.

15. PREPAID LEASE PAYMENTS

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:		
At 1 January	20,768	20,048
Effect of foreign exchange translation	<u>973</u>	<u>720</u>
At 31 December	<u>21,741</u>	<u>20,768</u>
Accumulated amortisation:		
At 1 January	9,105	7,918
Charge for the year <i>(Note 9)</i>	924	881
Effect of foreign exchange translation	<u>448</u>	<u>306</u>
At 31 December	<u>10,477</u>	<u>9,105</u>
Carrying amount	<u><u>11,264</u></u>	<u><u>11,663</u></u>

The Group has pledged the leasehold land to secure banking facilities granted to the Group (Note 28). The leasehold land is held outside Hong Kong under medium-term lease.

NOTES TO THE FINANCIAL STATEMENTS

16. INTERESTS IN SUBSIDIARIES

	The Company	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost ⁽¹⁾		
At 1 January	214,707	214,707
Disposals	(152,207)	—
Impairment ⁽²⁾	(62,500)	—
	<hr/>	<hr/>
At 31 December	*	214,707
Amounts due from subsidiaries	190,451	41,138
	<hr/>	<hr/>
	<u>190,451</u>	<u>255,845</u>

* — Less than HK\$1,000

The amounts due from subsidiaries are unsecured, interest-free and in substance represent the Company's investments in the subsidiaries in the form of quasi-equity loans.

Particulars of the subsidiaries are as follows:

Name	Place/Date of establishment	Authorised/ issued and fully paid-up share capital	Proportion of ownership of interest		Principal activities
			Held by the Company	Held by subsidiaries	
PRT Capital Pte. Ltd.	The British Virgin Islands/ 3 December 1996	US\$50,000/ US\$1	100%	—	Investment holding
Carham Assets Limited	The British Virgin Islands/ 1 September 1997	US\$50,000/ US\$2	—	100%	Investment holding
Rodez Investments Limited	The British Virgin Islands/ 5 July 2011	US\$50,000/ US\$1	100%	—	Investment holding

Note:

1 They represent investments of Australian Dollar ("A\$") 1 and A\$35,992,000 in two wholly-owned subsidiaries, PRT Capital Pte. Ltd. and Carham Assets Limited respectively for the year ended 31 December 2010. During the year, Carham Assets Limited has swap the ordinary share to Rodez Investments Limited at the cost of HK\$152,206,994.

2 The directors of the Company considered that the carrying amount of investment in subsidiary exceeds its recoverable amount, therefore, impairment loss of HK\$62,500,000 was made during the year.

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENT IN A JOINT VENTURE

Particulars of the Joint Venture are as follows:

Name	Place/date of establishment	Authorised/ Fully paid-up registered capital	Indirect attributable equity interest		Principal activities
			2011	2010	
Guangzhou Pearl River Rubber Tyre Limited	PRC/11 December 1993	US\$43,202,166	70%	70%	Manufacturing and marketing of various types of tyres 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 a wholly-owned subsidiary, Carham Assets Limited and 30% owned by Guangzhou Guang Xiang Enterprise Group Company Limited ("GGXEG"), a state-owned enterprise established in Guangzhou, the PRC.

The Group's share of the Joint Venture's assets and liabilities as at 31 December 2011 is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Non-current assets	123,824	157,424
Current assets	194,436	214,802
Current liabilities	<u>(177,651)</u>	<u>(169,961)</u>
Net assets	<u><u>140,609</u></u>	<u><u>202,265</u></u>

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENT IN A JOINT VENTURE *(Continued)*

The Group's share of the Joint Venture's revenues and expenses for the year ended 31 December 2011 is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenues and other income	467,478	567,658
Costs and expenses	<u>(533,996)</u>	<u>(594,902)</u>
	(66,518)	(27,244)
Finance costs	<u>(3,015)</u>	<u>(2,914)</u>
Loss before taxation	(69,533)	(30,158)
Income tax expense	<u>—</u>	<u>—</u>
Loss for the year	<u><u>(69,533)</u></u>	<u><u>(30,158)</u></u>

In the prior financial years, the Joint Venture was subject to a tax audit by the PRC tax department for the years of assessment from 2002 to 2006.

In the previous financial year, the PRC tax department issued notices of final assessment demanding additional sales tax and VAT on the Joint Venture amounting to approximately RMB9,434,000 equivalent to HK\$10,832,000, including approximately RMB2,464,000 equivalent to HK\$2,829,000 of compound penalty, which was duly paid for full and final settlement. The Group's proportionate share of the total amount, being HK\$7,582,000, was included in other operating expenses in 2010.

For the years of assessment from 2007 to 2009, the PRC tax department requested a self assessment for the additional sales tax and VAT on the same basis. The Joint Venture estimated the total additional sales tax and VAT to be approximately RMB1,500,000 equivalent to HK\$1,722,000. The Joint Venture made the provision in 2010 which subsequently paid in 2011. The Group's proportionate share was fully provided for in other operating expenses in 2010. In 2011, the Joint Venture has accrued tax surcharge of approximately RMB365,000 equivalent to approximately HK\$434,000 and the Group's proportionate share of HK\$304,000 was included in accruals.

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT IN AN ASSOCIATE

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment in an associate	<u>4,475</u>	<u>4,475</u>

Particulars of the associate are as follows:

Name	Place/date of establishment	Authorised/ issued and fully paid-up share capital	Indirect attributable equity interest		Principal activities
			2011	2010	
Thames Electronics Sdn. Bhd.	Malaysia/ 30 January 2003	RM100,000	28.4%	28.4%	Investment holding

Summarised financial information of the Group's associates based on management and audited financial statements for the years ended 31 December 2011/2010 is as follows:

	Assets	Liabilities	Equity	Revenues	Loss
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
2011					
100 per cent	18,831	(56)	(18,775)	—	(6)
Group's effective interest	<u>5,348</u>	<u>(16)</u>	<u>(5,332)</u>	<u>—</u>	<u>(2)</u>
2010					
100 per cent	19,419	(50)	(19,369)	—	(7)
Group's effective Interest	<u>5,515</u>	<u>(14)</u>	<u>(5,501)</u>	<u>—</u>	<u>(2)</u>

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENTS IN LISTED SECURITIES

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current		
Available-for-sale		
Securities listed outside Hong Kong:		
— available-for-sale, at fair value ⁽¹⁾	67,154	102,663
	<u>67,154</u>	<u>102,663</u>
Current		
Trading securities		
Securities listed outside Hong Kong:		
— held for trading, at fair value	24,661	27,234
	<u>24,661</u>	<u>27,234</u>

Note:

- It relates to an investment in D&O Green Technologies Berhad (“D&O”), a company incorporated in Malaysia and listed in Bursa Malaysia Securities Bhd. As at 31 December 2011, the Group held 16.6% (2010 — 16.6%) equity interest in D&O. The carrying value represents the fair value of D&O based on the closing price as at the end of the reporting period.

20. INTANGIBLE ASSET

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Licence fee		
Cost:		
At 1 January	6,957	6,716
Effect of foreign exchange translation	326	241
	<u>7,283</u>	<u>6,957</u>
At 31 December	7,283	6,957
Accumulated amortisation:		
At 1 January	6,957	6,716
Effect of foreign exchange translation	326	241
	<u>7,283</u>	<u>6,957</u>
At 31 December	7,283	6,957
Carrying amount	<u>—</u>	<u>—</u>

The licence fee represents fee paid to Guangzhou Rubber Tyre Factory (“GRTF”) for the use of the trademark “Pearl River” for the Joint Venture Agreement period and the transfer of technology and know-how relating to the production of bias tyres.

NOTES TO THE FINANCIAL STATEMENTS

21. INVENTORIES

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost:		
Raw materials	35,633	40,862
Work-in-progress	7,919	830
Finished goods	<u>37,432</u>	<u>54,838</u>
	80,984	96,530
At net realisable value:		
Finished goods	<u>27,218</u>	<u>—</u>
	<u><u>108,202</u></u>	<u><u>96,530</u></u>

The analysis of the amount of inventories recognised as an expense is as follows:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of inventories sold	461,308	531,588
Write down of inventories	<u>2,813</u>	<u>—</u>
	<u><u>464,121</u></u>	<u><u>531,588</u></u>

NOTES TO THE FINANCIAL STATEMENTS

22. TRADE AND OTHER RECEIVABLES

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	67,709	73,374
Less: allowance for impairment loss (<i>Note 22(b)</i>)	(33,435)	(31,995)
	<u>34,274</u>	<u>41,379</u>
Amount owing by a connected/related party ⁽¹⁾	3,211	4,211
Other receivables	<u>836</u>	<u>3,191</u>
Loan and receivables	38,321	48,781
Deposits paid to suppliers	4,986	3,008
Prepayments and deposits	<u>2,133</u>	<u>4,507</u>
	<u><u>45,440</u></u>	<u><u>56,296</u></u>
The Company		
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other receivables and prepayment	<u>196</u>	<u>477</u>

Note:

- The connected/related party refers to Guangzhou Bolex Tyre Limited ("Bolex"), a company established in the PRC, in which certain directors of the Joint Venture are key management personnel. The amount owing is trading in nature, unsecured, interest-free and has no fixed terms of repayment.

a) Ageing analysis

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

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than one year	31,735	39,771
More than one year but less than two years	811	300
More than two years	<u>35,163</u>	<u>33,303</u>
	<u>67,709</u>	<u>73,374</u>
Less: allowance for impairment loss	(33,435)	(31,995)
	<u><u>34,274</u></u>	<u><u>41,379</u></u>

The normal credit terms of trade receivables range from 7 to 30 days.

NOTES TO THE FINANCIAL STATEMENTS

22. TRADE AND OTHER RECEIVABLES *(Continued)*

b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for impairment loss during the year, including both specific and collective loss components, is as follows:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	31,995	32,660
Impairment loss recognised	424	—
Reversal of impairment (<i>Note 7/Note 9</i>)	(481)	(1,794)
Effect of foreign exchange translation	1,497	1,129
At 31 December	33,435	31,995

As at 31 December 2011, trade receivables of the Group amounting to HK\$33,435,000 (2010: HK\$31,995,000) were individually determined to be impaired. These individually impaired receivables were outstanding for over 1 year at the end of the reporting period or were due from customers with financial difficulties. Accordingly, specific allowances for doubtful debts of HK\$424,000 (2010: Nil) were recognised. The Group does not hold any collateral over these balances.

During the year ended 31 December 2011, the Group received settlement from trade receivables which were fully impaired in prior years. Therefore, impairment loss of HK\$481,000 was reversed during the year.

NOTES TO THE FINANCIAL STATEMENTS

22. TRADE AND OTHER RECEIVABLES *(Continued)*

c) Trade receivables that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	7,266	11,076
Less than one year past due	24,469	28,695
More than one year but less than two years past due	2,539	1,608
	34,274	41,379

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. In addition, in respect of receivables of HK\$34,274,000 (2010 — HK\$41,379,000), the Group had received Bank's Acceptance Bills for HK\$28,956,000 (2010 — HK\$38,400,000) during the year. The maturity period of these Bank's Acceptance Bills is 3-6 months. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

22. TRADE AND OTHER RECEIVABLES *(Continued)*

d) The analysis by currency of trade and other receivables is as follows:

	The Group		The Company	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Dollar	147	313	147	314
Renminbi	34,266	43,171	—	—
Ringgit Malaysia	359	201	—	163
United States Dollar	10,668	12,611	49	—
	<u>45,440</u>	<u>56,296</u>	<u>196</u>	<u>477</u>

23. PLEDGED BANK DEPOSITS

The weighted average interest rate of the short-term deposits which were held by the Joint Venture at the end of the reporting period was 2% (2010 — 1%) per annum.

The foreign currency exposure profile of fixed deposits is as follows:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Renminbi	7,265	47,315
United States Dollar	<u>3,956</u>	<u>94</u>
	<u>11,221</u>	<u>47,409</u>

The short-term deposits of the Group were pledged to licensed banks as security for bank loans (Note 28).

NOTES TO THE FINANCIAL STATEMENTS

24. CASH AND CASH EQUIVALENTS

The foreign currency exposure profile of cash and cash equivalents is as follows:

	The Group		The Company	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash at bank and on hand	32,856	25,856	1,549	290
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	<u>32,856</u>	<u>25,856</u>	<u>1,549</u>	<u>290</u>
	The Group		The Company	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Renminbi	14,092	3,131	—	—
Ringgit Malaysia	2,199	384	1,119	186
Singapore Dollar	—	10,084	—	—
United States Dollar	16,565	12,257	430	104
	<u>32,856</u>	<u>25,856</u>	<u>1,549</u>	<u>290</u>

Renminbi is not freely convertible into foreign currencies. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	47,844	39,011	—	—
Other payables	19,731	19,752	581	581
Amount due to a subsidiary	—	—	—	22,168
Amount due to a director	—	6,051	—	436
Amount owing to connected/ related parties ⁽¹⁾	16,995	14,494	13,387	7,595
Accruals	2,432	1,864	1,771	1,534
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financial liabilities measured at amortised cost	87,002	81,172	15,739	32,314
Sales deposits received	28,911	9,154	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>115,913</u>	<u>90,326</u>	<u>15,739</u>	<u>32,314</u>

The amount due to a subsidiary in the previous financial year was unsecured, interest-free and has no fixed term of repayment.

The amount due to a director in the previous financial year was unsecured, interest-free and has no fixed term of repayment. The amount owing is denominated in Ringgit Malaysia.

The amount owing to connected/related parties is non-trade in nature, unsecured, interest-free and has no fixed term of repayment.

NOTES TO THE FINANCIAL STATEMENTS

25. TRADE AND OTHER PAYABLES (Continued)

Note:

1. The connected/related parties refer to:

	The Group		The Company	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) GGXEG, a company established in the PRC, in which certain directors of the Joint Venture are key management personnel of GGXEG	3,608	3,652	-	-
(b) Cambrew Asia Limited, a company incorporated in Cayman Island, in which a director has substantial financial interests	13,387	10,842	13,387	7,595
	<u>16,995</u>	<u>14,494</u>	<u>13,387</u>	<u>7,595</u>

The analysis by currency of trade and other payables is as follows:

	The Group		The Company	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Dollar	1,375	915	1,375	915
Renminbi	90,182	71,317	—	—
Ringgit Malaysia	639	6,913	639	23,466
United States Dollar	23,717	11,181	13,725	7,933
	<u>115,913</u>	<u>90,326</u>	<u>15,739</u>	<u>32,314</u>

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

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than one year	41,660	31,131
More than one year but less than two years	186	291
More than two years	5,998	7,589
	<u>47,844</u>	<u>39,011</u>

NOTES TO THE FINANCIAL STATEMENTS

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Deferred tax assets not recognised:

As at 31 December 2011, subject to the agreement of the local tax authorities, the Joint Venture had tax losses arising in the PRC of HK\$95,142,000 or RMB77,232,000 (2010 — HK\$47,127,000 or RMB40,046,000) that were available for offsetting against future taxable profits. Such losses will be carried forward for five years from the year that the losses were incurred. The expiration years for the losses incurred by the Joint Venture are as follows:

	2011 <i>HK\$'000</i>	2011 <i>RMB'000</i>	2010 <i>HK\$'000</i>	2010 <i>RMB'000</i>
Expiring in year:				
2013	7,597	6,167	15,393	13,080
2015	33,219	26,966	31,734	26,966
2016	54,326	44,099	—	—
	<u>95,142</u>	<u>77,232</u>	<u>47,127</u>	<u>40,046</u>

No deferred tax assets have been recognised on the following temporary differences due to the unpredictability of the future profitability of the Group:

	The Group 2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Impairment loss on doubtful debts	33,435	29,427
Impairment loss on obsolete inventories	4,768	4,444
Provision for product warranty	1,983	2,652
Accrual for sales incentives	9,486	8,841
Impairment loss on plant and machinery	41,929	12,459
Write down of inventories	2,878	—
Unutilised tax losses	66,599	32,989
	<u>161,078</u>	<u>90,812</u>

NOTES TO THE FINANCIAL STATEMENTS

27. PROVISIONS

	The Group		The Company	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	2,718	2,624	—	—
Reversal during the financial year (<i>Note 7</i>)	(843)	—	—	—
Effect of foreign exchange translation	108	94	—	—
	<u>1,983</u>	<u>2,718</u>	<u>—</u>	<u>—</u>
Others	118	118	118	118
	<u>118</u>	<u>118</u>	<u>118</u>	<u>118</u>
At 31 December	<u>2,101</u>	<u>2,836</u>	<u>118</u>	<u>118</u>

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within three years from the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within three years prior to the end of the reporting period. The amount of provision takes into account the Group's recent claims experience and is only made where a warranty claim is probable.

28. BORROWINGS

	The Group	
	2011	2010
	HK\$'000	HK\$'000
Bank loans	<u>75,497</u>	<u>96,037</u>

The loans are wholly repayable within one year. The weighted average interest rate ranged from 2.57% to 6.09% (2010 — 4.43% to 6.11%) per annum. The directors estimated that the fair value of the bank loans is not significantly different from the carrying amount. The loans are secured by way of:

- i) legal charges over the leasehold land and buildings of the Joint Venture (Notes 14 and 15); and
- ii) a lien over all the fixed deposits of the Joint Venture (Note 23).

NOTES TO THE FINANCIAL STATEMENTS

28. BORROWINGS *(Continued)*

The foreign currency exposure profile of borrowings is as follows:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Renminbi	32,545	52,926
United States Dollar	42,952	43,111
	<u>75,497</u>	<u>96,037</u>

29. SHARE CAPITAL

	Number of ordinary shares of A\$0.20 per share '000	Number of ordinary shares of HK\$1.67 per share '000	Number of ordinary shares of HK\$0.01 per share '000	<i>HK\$'000</i>
Authorised:				
At 1 January 2010 and 31 December 2010	<u>150,000</u>	<u>—</u>	<u>—</u>	<u>166,305</u>
At 1 January 2011	150,000	—	—	166,305
Change of currency denomination (<i>Note 29 (a)</i>)	(150,000)	150,000	—	84,195
Capital reduction (<i>Note 29 (b)</i>)	<u>—</u>	<u>(150,000)</u>	<u>150,000</u>	<u>(249,000)</u>
At 31 December 2011	<u>—</u>	<u>—</u>	<u>150,000</u>	<u>1,500</u>
Issued and fully paid:				
At 1 January 2010 and 31 December 2010	<u>105,116</u>	<u>—</u>	<u>—</u>	<u>110,716</u>
At 1 January 2011	105,116	—	—	110,716
Change of currency denomination (<i>Note 29 (a)</i>)	(105,116)	105,116	—	64,828
Capital reduction (<i>Note 29 (c)</i>)	<u>—</u>	<u>(105,116)</u>	<u>105,116</u>	<u>(174,493)</u>
At 31 December 2011	<u>—</u>	<u>—</u>	<u>105,116</u>	<u>1,051</u>

NOTES TO THE FINANCIAL STATEMENTS

29. SHARE CAPITAL *(Continued)*

The Company implemented the Capital Reorganisation effective from 1 August 2011, which involves the following:

- a) the change in the currency denomination of the issued and unissued Shares from A\$0.20 each to HK\$1.67 each at the conversion rate of A\$1.00 to HK\$8.35 resulting in an increase in authorised and issued and fully paid capital of the Company of HK\$84,195,000 and HK\$64,828,000 respectively;
- b) a reduction of the authorised share capital of the Company by reducing the nominal value of each Redenominated Share from HK\$1.67 to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$250,500,000 which is divided into 150,000,000 Redenominated Shares to HK\$1,500,000 which is divided into 150,000,000 New Shares;
- c) a reduction of the issued share capital of the Company whereby the nominal value of each issued Redenominated Share will be reduced from HK\$1.67 to HK\$0.01 by cancelling HK\$1.66 of the paid-up capital on each issued Redenominated Share resulting in the reduction of issued and fully paid capital of HK\$174,493,000; and
- d) the credit arising from the Capital Reduction was transferred to the contributed surplus account of the Company (Note 31 (f)).

30. SHARE OPTION SCHEME

In accordance with the Company's share option scheme ("the Scheme") which was adopted on 21 May 2004, the Board of Directors of the Company may grant options to any director and employee of the Group and suppliers, consultants, advisors, agents, customers, service providers, contractors, any member of or any holder of any securities issued by any member of the Group or any invested entity ("the Participants") to subscribe for shares in the Company at a price determined by the Board of Directors being the highest of:

- a) the closing price of the shares as stated on The Stock Exchange's daily quotations sheets on the date of grant;
- b) the average closing price of the shares as stated on The Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and
- c) the nominal value of a share on the date of grant.

The option may be exercised at any time within a period as specified by the directors, which should not be more than ten years from the date on which an option is granted.

NOTES TO THE FINANCIAL STATEMENTS

30. SHARE OPTION SCHEME *(Continued)*

The total number of securities available for issue under the share option scheme as at 31 December 2011 was 31,534,884 shares (including options for 10,511,628 shares that have been granted but 410,000 shares have been lapsed during the year) which represented 30% of the issued share capital of the Company at 31 December 2011. In respect of the maximum entitlement of each participant under the share option scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant (except for Goh Nan Kioh and Goh Nan Yang, who were given approval by shareholders at the Annual General Meeting held on 21 May 2004 to be granted options which will result in their share options exceeding 1% of the aggregate number of shares) in any 12-month period is limited to 1% of the Company's ordinary shares in issue. During the year, 410,000 shares have been lapsed due to deceased of a director.

Each option gives the holder the right to subscribe for ordinary shares in the Company which will be settled gross in shares.

- a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of shares issuable under options granted	Vesting conditions	Contractual life of options
Number of shares issuable under:			
Options granted to directors: — on 18 March 2011	6,010,000	At the date of grant	3.175 years
Options granted to employees: — on 18 March 2011	2,401,628	At the date of grant	3.175 years
Options granted to advisors: — on 18 March 2011	2,100,000	At the date of grant	3.175 years
Total number of shares issuable under options granted	<u>10,511,628</u>		

NOTES TO THE FINANCIAL STATEMENTS

30. SHARE OPTION SCHEME (Continued)

b) The number and weighted average exercise price of share options are as follows:

	2011		2010	
	Weighted average exercise price	Number of Shares issuable under options	Weighted average exercise price	Number of Shares issuable under options
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	HK\$1.66	<u>10,511,628</u>	—	<u>—</u>
Outstanding during the year	HK\$1.66	10,511,628	—	—
Lapsed during the year	HK\$1.66	<u>(410,000)</u>	—	<u>—</u>
Exercisable at the end of the year	HK\$1.66	<u>10,101,628</u>	—	<u>—</u>

The share options outstanding at 31 December 2011 had an exercise price of HK\$1.66 and a weighted average remaining contractual life of 2.38 years.

c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial lattice model. The contractual life of the share option is used as an input into this model.

	2011
Fair value of share options at measurement date	
Share price	HK\$1.66
Exercise price	HK\$1.66
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	56.97%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	3.175 years
Expected dividends	0%
Risk-free interest rate (based on Exchange Fund Notes)	1.112%
Exercise multiple	2

NOTES TO THE FINANCIAL STATEMENTS

30. SHARE OPTION SCHEME (Continued)

c) Fair value of share options and assumptions (Continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were no service conditions or market conditions associated with the share options granted.

31. RESERVES

	Share premium <i>HK\$'000</i>	Share option reserves <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits/ (Accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Company					
At 1 January 2010	113,157	—	—	5,324	118,481
Loss for the year	—	—	—	(5,011)	(5,011)
At 31 December 2010	<u>113,157</u>	<u>—</u>	<u>—</u>	<u>313</u>	<u>113,470</u>
At 1 January 2011	113,157	—	—	313	113,470
Equity-settled share- based transactions	—	5,696	—	—	5,696
Capital reduction	—	—	109,665	—	109,665
Loss for the year	—	—	—	(53,539)	(53,539)
Share option lapsed during the year	—	(222)	—	222	—
At 31 December 2011	<u>113,157</u>	<u>5,474</u>	<u>109,665</u>	<u>(53,004)</u>	<u>175,292</u>

NOTES TO THE FINANCIAL STATEMENTS

31. RESERVES *(Continued)*

a) Share premium

The application of the share premium account is governed by section 40 of the Bermuda Companies Act 1981.

The Company's share premium account is distributable in the form of fully paid-up bonus shares.

b) Revaluation reserve

The revaluation reserve is the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period. The reserve for available-for-sale investment is dealt with in accordance with the accounting policies set out in note 4(c).

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net gain on fair value change of available-for-sale investment		
At 1 January	45,661	125,476
Loss on fair value change of available-for-sale investment	(31,551)	(62,125)
Effect of foreign exchange translation	32,567	(17,690)
	46,677	45,661
At 31 December	46,677	45,661

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

NOTES TO THE FINANCIAL STATEMENTS

31. RESERVES *(Continued)*

c) Share option reserve

The share option reserve represents the fair value of share options granted to directors, employees and advisors. The reserve represents the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of the share options, and is reduced by the expiry or exercise of the share options.

The movement in the options to subscribe for new ordinary shares of HK\$0.01 each at the respective adjusted exercise price per share is as follows:

	Number of shares issuable under options at Exercise Price of HK\$1.66 Each '000
Granted during the financial year	10,512
Lapsed during the financial year	(410)
	<hr/>
At 31 December 2011	10,102
	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

31. RESERVES (Continued)

c) Share option reserve (Continued)

The fair values of the share options granted were estimated using the binomial lattice model, taking into account the terms and conditions upon which the option were granted. The fair values of the share options measured at grant date and the assumptions are as follows:

	At Exercise Price of HK\$1.66 Each
Fair value of share options at the grant date (HK\$)	0.54
Share price (HK\$)	1.66
Exercise price (HK\$)	1.66
Expected volatility (%)	56.97
Expected life (years)	3.175
Risk free rate (%)	1.112
Dividend yield (%)	0.00

d) Capital reserve

	The Group 2011 HK\$'000	2010 HK\$'000
Capital reserve is represented by:		
Transfer of non-distributable reserve funds		
by the Joint Venture	18,148	18,148
Capitalisation of retained profits for bonus issue		
by the Joint Venture	19,196	19,196
	<u>37,344</u>	<u>37,344</u>

According to the prevailing PRC laws and regulations applicable to Sino-foreign joint ventures in the PRC, discretionary dedicated capital, which includes a general reserve fund and an enterprise expansion fund, should be maintained by the Joint Venture. The Board of Directors of the Joint Venture determines the amount of the annual appropriations to the dedicated capital. Such appropriations are reflected in the Joint Venture's statement of financial position under equity. The appropriations will not be available for distribution to shareholders once appropriated, but may be used to set off losses or be converted into paid-in capital.

NOTES TO THE FINANCIAL STATEMENTS

31. RESERVES (*Continued*)

e) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of non-monetary items in respect of which gains and losses are recognised directly in equity and of the financial statements of the foreign operations. The reserve is not distributable by way of cash dividends and is dealt with in accordance with the accounting policy set out in Note 4(p).

f) Contributed surplus

Pursuant to a resolution passed at the special general meeting of the Company on 29 July 2011, the Company reduced its issued share capital by an amount of approximately HK\$109,665,000 and transferred the same amount to the contributed surplus account of the Company.

g) Accumulated losses

The dividends from the Joint Venture are declared based on profits reported in its statutory financial statements which are prepared in accordance with PRC accounting standards. Such profits will be different from the amounts reported under HKFRSs. No dividends were paid or recommended since the end of the previous financial year. The Joint Venture recorded accumulated losses of RMB98,258,000 or HK\$121,044,000 as at 31 December 2011 (2010 — accumulated losses of RMB53,712,000 or HK\$63,208,000), as prepared in accordance with PRC accounting standards.

h) Distributability of reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to owners of the company was HK\$169,818,000 (2010: HK\$113,470,000).

NOTES TO THE FINANCIAL STATEMENTS

32. OPERATING LEASE COMMITMENTS

As at 31 December 2011, the total future minimum lease payments under non-cancellable operating leases payable by the Joint Venture to GRTF are as follows:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	6,822	6,516
After one year but not more than five years	27,287	26,066
After five years	34,077	39,069
	68,186	71,651

The operating leases are in respect of land and buildings and machinery. None of these leases includes contingent rentals.

The Group's proportionate interest in the above operating lease commitments is 70% (2010 — 70%).

33. FINANCIAL INSTRUMENTS

i) Financial risk management policies

The Group's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, market, credit, liquidity and cash flow risks. The Group operates within defined guidelines that are approved by the Board and the policies in respect of the major areas of treasury activity are as follows:

a) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, borrowings and investments that are denominated in foreign currencies. The Group does not use any derivative financial instruments to manage its exposure to foreign currency risk as the directors are of the opinion that the net exposure is not significant. The majority of the Group's foreign currency transactions and balances are denominated in Renminbi ("RMB") and United States Dollar ("USD").

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

a) Foreign currency risk *(Continued)*

Foreign currency sensitivity analysis

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than HKD. The currency giving rise to this risk is primarily from USD.

The following table details the Group's sensitivity to a 5% increase or decrease in the RMB against the USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A negative number below indicates an increase in loss and a decrease in other equity where the RMB strengthens 5% against the USD. For a 5% weakening of the RMB against the USD, there would be an equal and opposite impact on the loss and other equity, and the balances below would be positive. The analysis is performed on the same basis for 2010.

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
USD		
Effect on loss for the year	(1,496)	(1,331)
Effect on other equity	<u>(1,531)</u>	<u>(1,361)</u>

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

b) *Interest rate risk*

The Group's exposure to interest rate risk arises mainly from interest-bearing bank borrowings. The Group's interest rate profile as monitored by management is set out below:

	The Group			
	Effective	31	Effective	31
	Interest	December	Interest	December
	Rate	2011	Rate	2010
	%	HK\$'000	%	HK\$'000
Variable rate borrowings:				
Bank loans	6.09	75,497	6.11	96,037

Interest rate sensitivity analysis

At 31 December 2011, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would increase or decrease the Group's loss for the year and increase or decrease accumulated losses by HK\$571,000 (2010 — HK\$49,000) respectively. The Joint Venture was required to place fixed deposits in RMB as collateral for certain short-term loans with no interest expense payable during the periods of borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis is performed on the same basis for 2010.

c) *Market risk*

The Group's exposure to market risk arises from equity investments classified as held for trading securities and available-for-sale equity securities.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

c) Market risk *(Continued)*

The Group's listed investments are listed on the Bursa Malaysia Securities Berhad. Decision to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

At 31 December 2011, it is estimated that an increase/(decrease) of 5% (2010: 5%) in the relevant stock market index (for listed investments) with all other variables held constant, would have decreased/increased the Group's loss after tax (and accumulated losses) and other components of consolidated equity as follows:

	2011		2010	
	Effect on loss after tax and accumulated losses HK\$'000	Effect on other components of equity HK\$'000	Effect on loss after tax and accumulated losses HK\$'000	Effect on other components of equity HK\$'000
Change in the relevant equity price risk variable:				
Increase 5%	1,367	3,846	1,362	4,970
Decrease 5%	(1,367)	(3,846)	(1,362)	(4,970)

The sensitivity analysis indicates the instantaneous change in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the changes in the stock market index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2010.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

d) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables and deposits with financial institutions. Management has a credit policy in a place and the exposures to these credit risks are monitored on an ongoing basis.

(i) Trade and other receivables

The maximum exposure to credit risk is represented by the total carrying amounts of these financial assets in the statement of financial position reduced by the effects of any netting arrangements with counterparties.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had no significant concentrations of credit risk which individual trade and other receivables balance exceeds 10% of the total trade and other receivables at the end of the reporting period.

The Group manages its exposure to credit risk by investing its cash assets safely and profitably, and by the application of credit approvals, credit limits and monitoring procedures on an on-going basis.

(ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

As at 31 December 2011, the Group has certain concentration of credit risk as 1% (2010: 1%) of total cash and cash equivalents, pledged bank deposits and financial assets designated at fair value were deposited at one financial institution in Mainland China with high credit ratings.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

e) *Liquidity and cash flow risks*

Liquidity and cash flow risks arise mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash and the availability of funding through certain committed credit facilities.

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay:

	Carrying amount <i>HK\$'000</i>	The Group Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 1 year or on demand <i>HK\$'000</i>
At 31 December 2011			
Trade and other payables	113,481	113,481	113,481
Amount due to a director	—	—	—
Borrowings	75,497	76,068	76,068
	<u>188,978</u>	<u>189,549</u>	<u>189,549</u>
At 31 December 2010			
Trade and other payables	82,411	82,411	82,411
Amount due to a director	6,051	6,051	6,051
Borrowings	96,037	96,086	96,086
	<u>184,499</u>	<u>184,548</u>	<u>184,548</u>

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

i) Financial risk management policies *(Continued)*

e) Liquidity and cash flow risks *(Continued)*

	Carrying amount <i>HK\$'000</i>	The Company Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 1 year or on demand <i>HK\$'000</i>
At 31 December 2011			
Other payables	13,968	13,968	13,968
Amount owing to a subsidiary	—	—	—
Amount owing to a director	—	—	—
	13,968	13,968	13,968
At 31 December 2010			
Other payables	8,176	8,176	8,176
Amount owing to a subsidiary	22,168	22,168	22,168
Amount owing to a director	436	436	436
	30,780	30,780	30,780

ii) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

Consistent with industry practice, the Group monitors its capital structure on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

ii) Capital risk management *(Continued)*

During 2011, the Group's strategy, which was unchanged from 2010, was to maintain a gearing ratio of not more than 100%. The gearing ratios as at 31 December 2011 and 2010 were as follows:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total borrowings <i>(Note 28)</i>	75,497	96,037
Less: Cash and cash equivalents <i>(Note 24)</i>	<u>(32,856)</u>	<u>(25,856)</u>
Net debt	<u>42,641</u>	<u>70,181</u>
Total equity	<u>224,459</u>	<u>329,050</u>
Total capital	<u>267,100</u>	<u>399,231</u>
Gearing ratio	<u>16%</u>	<u>18%</u>

Neither the Company nor any of its Group entities are subject to externally imposed capital requirements.

iii) Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following summarises the major methods and assumptions applied in determining the fair values of the following financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

iii) Fair value estimation *(Continued)*

(i) Securities

Fair value for listed equity investments are based on listed market price at the end of the reporting period.

Fair values for the unlisted equity investments (where applicable) are estimated using the applicable price/earnings ratios for similar listed companies adjusted for the specific circumstances of the issuer.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

iv) Fair values of financial instruments

HKFRS 7 requires disclosure for financial instruments that are carried at fair value by level of the following fair value measurement hierarchy:

- Level 1 — Quoted price (unadjusted) in active markets for identical assets or liabilities.
- Level 2 — Inputs other than quoted price included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3 — Inputs for the asset or liability that are not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

iv) Fair values of financial instruments *(Continued)*

At 31 December 2011 and 2010, the Group's investments in listed securities are measured at fair value. During the year, there were no transfers between instruments in Level 1 and Level 2.

		2011			
		Level 1	Level 2	Level 3	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets					
Available-for-sale securities		67,154	—	—	67,154
Securities held for trading		24,661	—	—	24,661
		<u>91,815</u>	<u>—</u>	<u>—</u>	<u>91,815</u>
		2010			
		Level 1	Level 2	Level 3	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets					
Available-for-sale securities		102,663	—	—	102,663
Securities held for trading		27,234	—	—	27,234
		<u>129,897</u>	<u>—</u>	<u>—</u>	<u>129,897</u>

NOTES TO THE FINANCIAL STATEMENTS

34. CONNECTED/RELATED PARTY TRANSACTIONS

In addition to the amount owing by/to connected/related parties as disclosed in Notes 22 and 25 respectively to the financial statements, the following is a summary of the transactions with connected/related parties, which were carried out in the normal course of business of the Group:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
a) Transactions between the Joint Venture and Bolex		
Contributions received and receivable from Bolex for:		
(i) processing/providing raw materials/ intermediate/consumable products	41	781
(ii) charging of utilities (water, electricity, steam and compressed air consumed)	18,142	21,482
(iii) the right to use the factory lift and the factory space	88	101
	<u>18,271</u>	<u>22,364</u>
b) Transactions between the Joint Venture and GGXEG⁽¹⁾/GIGBM⁽²⁾		
Expenses:		
Lease rental for a piece of land and buildings erected thereon	4,644	4,597
Lease rental for the exclusive right to use certain machinery	2,263	2,270
Lease rental for a hostel	—	31
Royalties for the right to use the trademark “Pearl River” and any technology and know-how necessary for the production of bias tyres	906	791
Lease rental for workers’ hostel*	681	595
Lease rental for the dining hall*	114	109
	<u>8,608</u>	<u>8,393</u>

NOTES TO THE FINANCIAL STATEMENTS

34. CONNECTED/RELATED PARTY TRANSACTIONS *(Continued)*

b) Transactions between the Joint Venture and GGXEG⁽¹⁾/GIGBM⁽²⁾ *(Continued)*

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 was 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 interest in the Joint Venture (in which the Group owns the balance of 70% of equity interest). 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 of the Listing Rules, given GIGBM is connected with GGXEG, the GIGBM Transactions marked* above 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.

c) Compensation of key management personnel:

The remuneration of directors and other members of key management during the years was as follows:

	The Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	2,090	2,470
Equity compensation benefits	3,828	—
	5,918	2,470

The independent non-executive directors of the Company have reviewed the above-mentioned transactions and confirmed that these on-going connected/related party transactions are in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the directors of the Company for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

The Group has presented the following two reportable segments. These segments are managed separately. The manufacturing segments and the investment holding segment offers very different products and services:

1. Manufacturing
2. Investment holding

The manufacturing segment derives its revenue primarily from the manufacture and sale of various types of tyres for commercial vehicles.

The investment holding segment derives its revenue primarily from dividends income from listed securities.

No reportable operating segment has been aggregated.

a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the directors of the Company monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, deferred tax assets and other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT REPORTING *(Continued)*

a) **Segment results, assets and liabilities** *(Continued)*

The measure used for reporting segment profit is “adjusted EBITDA” i.e., “adjusted earnings before interest, taxes, depreciation and amortisation”, where “interest” is regarded as including investment income and “depreciation and amortisation” is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group’s earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors’ emoluments and auditors’ remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, the directors of the Company are provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group’s reportable segments as provided to the directors of the Company for the purpose of resource allocation and assessment of segment performance for the year ended 31 December 2011 and 2010 is set out below:

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT REPORTING (Continued)

a) Segment results, assets and liabilities (Continued)

	Manufacturing		Investment holding		Eliminations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>463,128</u>	<u>563,553</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>463,128</u>	<u>563,553</u>
Reportable segment (loss)/profit (adjusted EBITDA)	<u>(18,879)</u>	<u>8,441</u>	<u>(12,767)</u>	<u>5,591</u>	<u>—</u>	<u>—</u>	<u>(31,646)</u>	<u>14,032</u>
Interest income	60	231	6	—	—	—	66	231
Finance costs	(3,015)	(2,914)	—	—	—	—	(3,015)	(2,914)
Depreciation and amortisation	(19,781)	(23,455)	(32)	(43)	—	—	(19,813)	(23,498)
Material non-cash items:								
Reversal of Impairment loss								
on trade receivables	481	1,794	—	—	—	—	481	1,794
Impairment loss on trade receivables	(424)	—	—	—	—	—	(424)	—
Impairment loss on plant and machinery	(27,920)	(12,459)	—	—	—	—	(27,920)	(12,459)
Income tax expense	—	—	(326)	(251)	—	—	(326)	(251)
Reportable segment assets	<u>318,260</u>	<u>372,338</u>	<u>95,235</u>	<u>141,436</u>	<u>—</u>	<u>—</u>	<u>413,495</u>	<u>513,774</u>
Interests in associates	—	—	4,475	4,475	—	—	4,475	4,475
Additions to non-current segment assets during the year	8,384	14,341	—	—	—	—	8,384	14,341
Reportable segment liabilities	<u>177,653</u>	<u>170,072</u>	<u>15,858</u>	<u>19,127</u>	<u>—</u>	<u>—</u>	<u>193,511</u>	<u>189,199</u>

b) Reconciliations of reportable segment profit or (loss) and assets

	2011	2010
	HK\$'000	HK\$'000
Profit		
Reportable segment (loss)/profit	(31,646)	14,032
Finance costs	(3,015)	(2,914)
Depreciation and amortisation	(19,813)	(23,498)
Impairment loss on plant and machinery	(27,920)	(12,459)
Interest income	<u>66</u>	<u>231</u>
Consolidated loss before tax expense	<u>(82,328)</u>	<u>(24,608)</u>
Assets		
Reportable segment assets	413,495	513,774
Interest in an associate	<u>4,475</u>	<u>4,475</u>
Consolidated assets	<u>417,970</u>	<u>518,249</u>

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT REPORTING (Continued)

c) Revenue from major product and services

The following is an analysis of the Group's revenue from its major products and services:

	2011 HK\$'000	2010 HK\$'000
Manufacturing and sales of tyres	<u>463,128</u>	<u>563,553</u>

d) Geographic information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The Group's non-current assets include property, plant and equipment, prepaid lease payments and interests in an associate. The geographical location of property, plant and equipment and prepaid lease payments are based on the physical location of the asset under consideration. In the case of intangible assets, it is based on the location of operation to which these intangibles are allocated. In the case of interests in an associate, it is the location of operations of the associate.

	Revenue from external customers		Specified non-current assets	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Mainland China (place of domicile)	239,984	258,820	123,824	157,424
Republic of India	6,448	40,126	—	—
Republic of Yemen	21,759	32,400	—	—
The People's Republic of Bangladesh	45,735	41,519	—	—
Singapore	30,706	41,696	—	—
Malaysia	34,100	36,178	4,612	4,837
The United Arab Emirates	9,504	21,681	—	—
Kingdom of Cambodia	17,158	14,528	—	—
Hong Kong	8,552	9,740	—	—
Republic of Indonesia	8,754	6,554	—	—
Taiwan	9,037	8,769	—	—
Others	31,391	51,542	—	—
	<u>463,128</u>	<u>563,553</u>	<u>128,436</u>	<u>162,261</u>

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT REPORTING *(Continued)*

e) Information about major customers

For the year of 2011 and 2010, the revenue from the Group's largest customer was less than 10% of the Group's total revenue.

36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2011.

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets ¹ Disclosures — Offsetting Financial Assets and Financial Liabilities ² Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁵
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets ⁴
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁶
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2014.

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

FIVE-YEAR FINANCIAL SUMMARY

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Turnover	<u>463,128</u>	<u>563,553</u>	<u>549,546</u>	<u>453,190</u>	<u>656,502</u>
(Loss)/profit before taxation	<u>(82,328)</u>	<u>(24,608)</u>	<u>33,514</u>	<u>(66,893)</u>	<u>(1,146)</u>
Non-current assets	195,590	264,924	324,109	291,494	324,009
Current assets	222,380	253,325	324,438	159,372	337,505
Current liabilities	<u>(193,511)</u>	<u>(189,199)</u>	<u>(258,719)</u>	<u>(150,455)</u>	<u>(283,635)</u>
Equity	<u>224,459</u>	<u>329,050</u>	<u>389,828</u>	<u>300,411</u>	<u>377,879</u>

The comparative figures in respect of turnover for the financial years 2007, 2008, 2009 and 2010 have been reclassified to conform with the current financial year's presentation.