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Prinx Chengshan Holdings Limited

浦林成山控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1809)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

The board of directors (the “**Board**”) of Prinx Chengshan Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries for the six months ended June 30, 2021. This announcement, containing the full text of the 2021 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of interim results. Printed version of the Company’s 2021 interim report will be dispatched to shareholders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and of the Company at www.prixchengshan.com on or before September 30, 2021.

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Corporate Information

Board of Directors

Executive Directors

Mr. Che Baozhen (*Chief Executive Officer*)
Mr. Shi Futao
Ms. Cao Xueyu

Non-executive Directors

Mr. Che Hongzhi (*Chairman*)
Mr. Wang Lei
Mr. Shao Quanfeng

Independent Non-executive Directors

Mr. Zhang Xuehuo
Mr. Choi Tze Kit Sammy
Mr. Wang Chuansheng

Audit Committee

Mr. Choi Tze Kit Sammy (*Chairman*)
Mr. Wang Chuansheng
Mr. Zhang Xuehuo

Nomination and Remuneration Committee

Mr. Zhang Xuehuo (*Chairman*)
Mr. Che Baozhen
Mr. Choi Tze Kit Sammy

Development Strategy and Risk Management Committee

Mr. Che Hongzhi (*Chairman*)
Mr. Wang Chuansheng
Mr. Zhang Xuehuo

Registered Office

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Authorized Representatives

Ms. Cao Xueyu
Mr. Shi Futao

Joint Company Secretaries

Ms. Cao Xueyu (*CPA (Aust.), ACMA*)
Ms. Szeto Kar Yee Cynthia (*ACG, ACS*)
(appointed on July 19, 2021)
Ms. Lam Yuk Ling (*ACG, ACS*)
(resigned on July 19, 2021)

Legal Advisor

Morrison & Foerster
33/F, Edinburgh Tower
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Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Principal Banks

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Agricultural Bank of China
Industrial and Commercial Bank of China
China Construction Bank
Bank of China (Hong Kong) Limited
The Hong Kong and Shanghai Banking
Corporation Limited

Principal Registrar and Transfer Office

Ocorian Trust (Cayman) Limited
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Hong Kong Share Registrar

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Company's Website

www.prinxchengshan.com

Stock Code

1809

Listing Date

October 9, 2018

Financial Summary

Summary of the Interim Condensed Consolidated Statement of Profit or Loss

	Six months ended 30 June		Year ended 31 December
	2021 RMB'000	2020 RMB'000	2020 RMB'000
Revenue	3,752,306	2,844,044	6,283,130
Profit before income tax	262,548	312,096	698,216
Income tax expense	(17,199)	(46,832)	(93,468)
Profit for the period/year	245,349	265,264	604,748
Profit attributable to:			
— Shareholders of the Company	245,353	265,196	604,820
— Non-controlling interests	(4)	68	(72)
	245,349	265,264	604,748

Consolidated Assets, Liabilities and Non-controlling Interests

	As at 30 June		As at 31 December
	2021 RMB'000	2020 RMB'000	2020 RMB'000
Total assets	8,909,011	6,428,332	7,489,878
Total liabilities	(4,999,695)	(2,841,855)	(3,709,675)
Non-controlling interests	(613)	(757)	(617)
	3,908,703	3,585,720	3,779,586

BUSINESS REVIEW AND OUTLOOK

Operation review

As impacted by the pandemic worldwide in 2020, the production capacity of the tire industry in China expanded rapidly, resulting in an oversupply structure. During the first half of 2021, the loose monetary policies in Europe and the US as well as the economic recovery in overseas markets drove the substantial increase in the price of raw materials. Meanwhile, factors as the imbalanced flow of global freight and soaring export volume from China led to significant rise of the shipping price. On the consumer side, as the change in CPI (consumer price index) was far lower than PPI (producer price index), the maximum scissors differentials in history were formed, such that the price hike of raw materials and increase in the shipping cost could not be passed onto the consumers, hence the margin of the whole tire industry declined. Due to the falling demand, the overall capacity utilization of the tire industry decreased dramatically, the elimination of outdated production capacity was accelerated, and the industry concentration was further improved.

Due to escalation of the international trade barrier, exports of Chinese tire enterprises continued to be hindered. In early 2021, the review result on the anti-dumping and countervailing duty imposed by the US for passenger vehicle tires imported from China for five years was published, pursuant to which the anti-dumping and countervailing duty will continue to be imposed for Chinese passenger vehicle tires. In the meantime, Eurasian Economic Commission announced the decision of extending the anti-dumping measures on truck tires originated from China until August 2026. Excellent tire enterprises in China persevere in going overseas for decentralized production capacity distribution. Overseas factories of domestic tire enterprises mount up continuously, driving coordinated development of upstream and downstream enterprises and forming joint efforts to resist risks. In May 2020, the U.S. Department of Commerce and the U.S. International Trade Commission initiated anti-dumping investigations against the tires for passenger vehicles and light trucks from South Korea, Thailand, Vietnam and Taiwan of the PRC, and initiated an anti-subsidy investigation against the tires for passenger vehicles and light trucks from Vietnam. In May 2021, the U.S. Department of Commerce made final rulings on the anti-dumping duty. Industry insiders believed the result was better than expected and domestic tire enterprises were expected to continuously improve their shares in the international market.

For the six months ended June 30, 2021 (the “**Reporting Period**”), Prinx Chengshan Holdings Limited (formerly known as “**Prinx Chengshan (Cayman) Holding Limited**”, hereinafter referred to as the “**Company**”) and its subsidiaries (the “**Group**” or “**Prinx Chengshan**”) sold 9.1 million sets of tires benefiting from the Group’s tire production base built in Thailand (the “**Tire Production Base in Thailand**”) reaching capacity as scheduled, representing a year-on-year increase of 45.4%. The sales volume of all steel radial tires was 3.5 million sets, representing a year-on-year increase of 17.7%; the sales volume of semi-steel radial tires was 5.3 million sets, representing a year-on-year increase of 71.6%; and the sales volume of bias tires was 0.3 million sets, representing a year-on-year increase of 44.5%. During the Reporting Period, the sales revenue was RMB3,752.3 million, representing an increase of 31.9% over the same period in 2020; and net profit amounted to RMB245.3 million, representing a decrease of 7.5% over the same period in 2020.

As a leading domestic tire manufacturer in the PRC's commercial all steel radial tire replacement market, the Company has been engaged in tire R&D, design, manufacturing and sales for 45 years, adhering to the core strategy of "cost leadership, efficiency driven, competitive differentiation and global operation". With "leading tire innovation, contributing to smart travel and sustainable development and achieving a better life" as its vision and mission, and "customer first, being responsible, devotion and professionalism, innovation and opening up" as its core value, the Company organized and carried out various tasks with a pragmatic, open and enterprising mind.

1. Driving development with technological innovation, and improving efficiency with lean production

The Group always insists on driving development by technological innovation. During the Reporting Period, the Group continued to strengthen its technical research, innovate the R&D means, and enhance the R&D capabilities for product development and process improvement in an effort to improve the performance of existing products. It also developed technologies applied to future products, giving impetus to continuous growth of the Company.

The Group implements comprehensive and strict quality control and production management system. It continued to promote lean production, and elevate internal operation efficiency by full participation and continuous improvement. The Group's tire production base in Shandong (the "**Tire Production Base in Shandong**") achieved economic benefits beyond expectations by implementing 67 cost improvement projects, such as product lightweighting, energy saving and operation optimization; continuously increased the degree of automation to reduce manual labor and improve production efficiency; improved the level of on-site management of the workshops. With such efforts, the working-hour efficiency of all steel radial tires/semi-steel radial tires increased by 5.6% and 6.6% respectively year on year, laying a solid foundation for the Company's core competitive edges.

During the Reporting Period, the phase I project of the Tire Production Base in Thailand was under stable operation, and the expansion project of phase II was implemented orderly. Relying on the technology, process and management experience of the Tire Production Base in Shandong, the Tire Production Base in Thailand implemented safe production and strengthened on-site management steadfastly. Both the output and quality reached the targets. The capacity utilization rate of all steel radial tires ("**TBR**")/semi-steel radial tires ("**PCR**") were 91.5%/92.3%. Despite receiving plenty of orders, the shipment was hindered due to shortage of sea transport resources, and the delivery of orders was impacted. The shipped TBR/PCR were 82.1%/78.4% of the production capacity. The quality of our products were recognized by our clients. Relevant products were certified by ECE and R117 of the European Union, the factory was granted the ISO 9001 (quality system certification), ISO 14001 (environmental management system) and ISO 45001 (occupational health and safety management system) certificates and is working on for the certification of green factory in Thailand.

In May 2021, Prinx Chengshan launched “quality culture development” activity, and made a quality improvement plan in the aspects of management and technology. The activity was highly recognized throughout the Company, and all staff made a commitment to the Company’s quality improvement in 2021. On June 24, 2021, the 2021 International Quality Festival and Global Consumption Leadership Summit themed by “Quality Drives Growth” was held in Beijing. Prinx Chengshan won “2021 Outstanding Quality Brand Award” and “2021 Industry Quality Model Award” in the appraisal.



On June 24, 2021, Prinx Chengshan won “2021 Outstanding Quality Brand Award” and “2021 Industry Quality Model Award” in the “2021 International Quality Festival and Global Consumption Leadership Summit”.

2. Continuously optimizing the supply chain system to improve operational efficiency

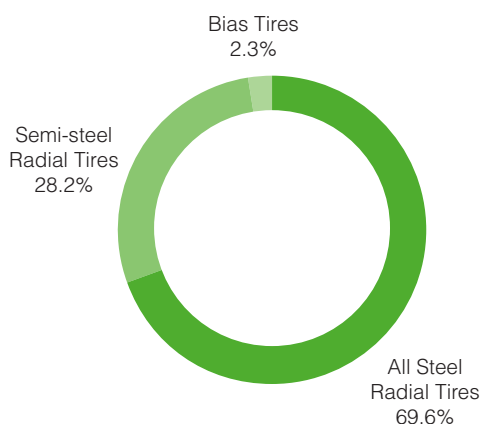
The Group continuously optimized its supply chain system, developed a win-win relationship with suppliers by the supplier management department, and realized supplier management throughout the life cycle from acceptance to evaluation; closely connected all parts through information exchange, and managed demand, production and inventory plans in a scientific manner; carried out project procurement and managed procurement costs by 5R procurement principles; and strengthened the ability of services and sales through the improvement of SRM (supplier strategic management) and CRM (customer relationship management) platform functions to improve the operational efficiency.

In May 2021, the European central warehouse of Prinx Chengshan located in southern Germany was put into service formally for direct supply to various distributors in Europe, to cope with the continuously rising international freight and increasing bottlenecks with supply chains from Asia in recent years. The operation of European central warehouse signifies a substantial step of the growth strategy of Prinx Chengshan, and will strengthen the long-term strategic cooperation with distributors in Europe, further optimize the supply chain service and provide strong support to further business expansion and growth in Europe.

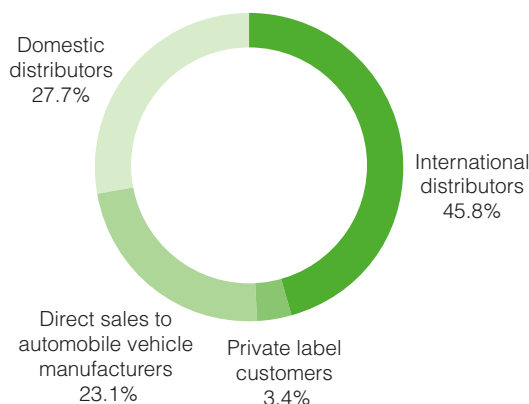
3. Proactively tapping the market and deepening the channel distribution to achieve the growth in sales volume and revenue

During the Reporting Period, the sales volume and revenue of the Group rose significantly year on year, domestic and international distribution kept pace with the domestic supporting, and the diversification of sales channels achieved remarkable results. Relying on the early presence in the North American market, the sales center in North America accommodated the new production capacity of the Production Base in Thailand in time, realizing a sales revenue of RMB550 million. The market share of the Group for all steel radial tires kept expanding, and the revenue increased by 16.7% year on year. Overseas orders of semi-steel radial tires boomed, and the revenue went up by 94.8% year on year.

Sales classified by product categories



Sales classified by channel



Distributors

Domestic

Commercial vehicle tire replacement center

The Group’s all steel radial tires with the brands “Chengshan”, “Austone” and “Fortune” featured with wear resistance, puncture resistance, good performance, stability and superior safety performance, are deeply trusted by professional truck drivers, enjoy a relatively high penetration rate in the replacement market for all steel radial tires in the PRC, and rank the third in the domestic market. During the Reporting Period, the sales team made plans and arrangements in advance based on accurate predictions of the sales trend in the first and second quarter, and guided the sales to shift forward through replenishment in virtue of policies, to guarantee distributors’ profits and motivate distributors for sales.

The Group proactively seeks closer cooperation with distributors. In April and May 2021, the “Experience Exchange, Communication and Training Sessions for Commercial Vehicle Distributors of Prinx Chengshan”, with the theme of “working together with one heart for a win-win situation”, was held in Wuhan, Yangzhou, Chengdu and Xi’an. Distributors’ potential for operating capacity was mobilized by exchange and sharing and a benign cooperation ecosystem of building “one team toward a common goal” was established.

Passenger vehicle tire replacement center

In accordance with the strategic plans, the Group optimized the organization, management and personnel structure of the semi-steel radial tire replacement business, strengthened the sales team, established a new passenger vehicle tire replacement sales center, and increased brand investment to better serve and explore the domestic tire replacement market for passenger vehicles.

For the purpose of strengthening the exchange with and collaboration between distributors, Prinx Chengshan set up a passenger vehicle distributor committee, and held the first meeting in Rongcheng on April 23, 2021. The Company shared and communicated with distributor representatives on environmental policies, industry market situation and sales plans, and jointly discussed how to achieve ground-breaking development, innovation and a win-win situation under the new market conditions.

The Group actively empowered the sales business through digitization. In April 2021, “Xiaopu”, the omni-channel digital sales system of Prinx Chengshan, was launched officially. “Xiaopu” integrates data in segments such as manufacturer transactions, store transactions and consumer services by real-time linking among consumers, stores, distributors and factories. By building an information carrier of one code for one thing, the real-time update of tire sales data is realized on APPs. Consumers place orders and make payments via “Xiaopu Cloud Store”, while distributors and salespersons check the inventory and obtain the real-time sales data and analysis report via “Xiaopu Manager”. The whole process is visible to help users adjust their business strategies in time and guarantee that policies target users accurately. There have been more than 10,000 registered stores within three months of the launch, and the flash sales volume in stores reached more than 300,000 sets.

During the Reporting Period, the operating revenue of the Group from domestic distributors was RMB1,039.5 million, representing an increase of 5.9% from RMB981.4 million in the same period of 2020.

International marketing

Despite the resurgence of pandemic overseas in the first half of 2021, benefiting from the normal production and business in the PRC, orders from overseas continued to increase, and the Group’s overseas sales teams managed to achieve outstanding results. International sales in various regions made remarkable achievements, where the sales region in Latin America had outstanding performance, realizing double-digit growth in both sales volume and revenue; the Asia Pacific region also performed well, realizing a growth in both sales volume and revenue by nearing double digits. Relying on the location advantage of the Tire Production Base in Thailand, the performance in the Asia Pacific region further strengthened the Company’s position in the market of Southeast Asia, and enhanced the Company’s delivery capacity for orders in the market of Southeast Asia. The continuous expansion of the Tire Production Base in Thailand provided enough momentum for continuous growth of sales in the North American market. Remarkable progress was made in channel layout and the brand influence was expanded further in the North American market, laying a foundation for the sustained growth of future performance.

During the Reporting Period, the Group started cooperation with 14 new overseas distributors, and the operating revenue from international marketing was RMB1,717.6 million, representing an increase of 100.7% from RMB855.7 million in the same period of 2020, where about 70% of the growth was attributable to the added production capacity of the Tire Production Base in Thailand, and about 30% of the growth was attributable to the Tire Production Base in Shandong.

The Group believes that the international marketing channels are already capable of serving the Group's sales strategies.

Direct sales to automobile manufacturers

Under the guidance of the government's policy to implement the National VI emission standards for commercial vehicles, the production and sales volumes of commercial vehicles increased significantly in the first quarter of 2021, effectively driving the growth of the tire original equipment ("OE") business for commercial vehicles, but the tire OE business for commercial vehicles dropped in the second quarter. During the Reporting Period, the Group cooperated with 16 automobile manufacturers including Sinotruck, Jiangling Motors Corporation, SAIC Iveco Hongyan Automobile in 30 new OE projects and achieved progress as expected. Cooperation with a number of mature automobile companies is conducive to promoting the improvement of the Group's research and development level, enables its products to meet the needs of customers with better performance. The Company was selected as one of "China's Top 100 Auto Parts Enterprises in 2021" on July 12, 2021 and ranked 48th.

During the Reporting Period, the Group's operating revenue from the direct sales to automobile manufacturers was RMB866.9 million, representing a decrease of 1.7% from RMB881.6 million in the same period of 2020, which was mainly attributable to the weight decrease of single tire due to change in the customers' product mix.

Private label customers

During the Reporting Period, the Group's sales to private label customers was RMB128.4 million, which increased by approximately 2.4% when compared with RMB125.3 million in the same period of 2020.

With the mutual agreement with Cooper expired on June 30, 2021, the Group has planned ahead to continuously develop the business under its own brands for replenishment, thus ensuring the steady growth of the Group's export revenue.

4. Investing more in our brand and reshaping our brand structure

The Group invested resources to achieve the rebuilding of its brand strategy, brand framework and vision for passenger vehicle tires in the first half of 2021. Adhering to the consumer-centered branding philosophy, the Group subdivided market demands from the perspective of consumers, thoroughly understood consumer demands and preferences, and committed itself to combining its brand strategy with business strategy in depth.

The Group keeps strengthening the marketing penetration into large-scale fleets, groups and other customers to enhance the brand awareness of its customers in connection with tires for commercial vehicles. In March 2021, the Group won the “2020 Award for Express Suppliers” from China Post and Express News. In April 2021, the Group and Chengshan Tire won the honours of “Pioneer for Public Benefit” and “Truck Brother’s Reliable Product” jointly awarded by China Automotive Brothers and JDL, respectively.

The Group mines deeply user demands, opens “Huochebao (貨車寶)” and other new communication channels for consumers and keeps optimising the development of brand contents to further strengthen the access to consumers of our brand. As a result of continuous brand development and building, “Chengshan Tire” was selected for “China’s 500 Most Valuable Brands” again at the (Eighteenth) “World Brand Summit” hosted by World Brand Lab on June 22, 2021, valued RMB34.158 billion, representing a year-on-year growth of approximately 17%, ranking fourth among Chinese tire brands, relying upon its brand value of tires for commercial vehicles. In May 2021, the Group was selected for “2020 List of China Brand Evaluation — Information, Energy, and Chemical Group” for the fourth consecutive year at the “China Brand Value Assessment Information Release and China Brand Building Summit Forum”, with Prinx Chengshan brand value increasing by approximately 29% compared to that of last year, far above the average level.



In June 2021, Chengshan Tires was selected as one of “500 most valuable brands in China” at the eighteenth “World Brand Summit”

5. Innovating in sales model

During the Reporting Period, the Group continued to devote efforts to the intelligent tire rental business under the service brand of “Zhianda”. “Zhianda Model” is based on the rental of truck and bus tires, and, through the effective application of intelligent technologies, builds an open management platform that integrates fleet management, RFID (radio frequency identification technology), and TPMS (tire pressure monitor system) management to improve fleet operation efficiency and reduce customers’ comprehensive tire usage costs, thus eventually realizing the full-life-cycle management of the tires. Meanwhile, it also makes big data analysis through data collection to improve product quality.

Through the Zhianda Model, the Group has, on the basis of the subsidiaries in Jinan, Shanghai and Shenzhen, started operations in the most developed regions of the domestic logistics industry. During the Reporting Period, the Group focused on the transportation of hazardous chemicals, express delivery, public transportation and port transportation, and established cooperative relationships with a number of fleets to provide customers with tire service solutions for all scenarios.

6. Forging ahead and expanding production capacity

In 2021, the production in the Tire Production Base in Thailand commenced as scheduled, and met the respective expected targets for capacity, quality and production cost. The production base in Thailand adopts first-class manufacturing equipment, leading design concepts, intelligent manufacturing and management models, and conducts R&D and design based on the standards for green intelligent manufacturing, marking a solid step of Prinx Chengshan towards the target of global development.

In 2020, based on the forecast of sales demand, the Board approved to commence the phase II projects of 1.2 million sets of all steel radial tires per year and 4.0 million sets of semi-steel radial tires per year in the Tire Production Base in Thailand, which are expected to be completed and put into production in the fourth quarter of 2021 and first quarter of 2022, respectively, thus contributing to the development of overseas markets such as North America and Europe.

Meanwhile, the Board unanimously approved the initiation of the capacity expansion project of Prinx Chengshan (Shandong) Tire Co., Ltd. (“**Prinx Shandong**”) in 2020, which is expected to increase the production capacity of the Tire Production Base in Shandong by 2.80 million sets of semi steel tires per year and 1.05 million sets of all steel tires per year in 2021. The expansion project is expected to reach the target output in the fourth quarter of 2021. In April 2021, the “Quality Improvement Project for 1.05 Million Sets of All Steel Radial Tires of Prinx Chengshan” was successfully included in the “2021 List of Selected Projects for the Library of Major Projects for Replacing Old Growth Drivers with New Ones in Shandong Province”. The list aims at highlighting key projects that “make breakthroughs in five years” in replacing old growth drivers with new ones in Shandong Province and enabling selected projects to better play a leading role model in the project constructions across the province.

The expansion projects in both the Tire Production Base in Thailand and the Tire Production Base in Shandong are currently progressing in an orderly manner, in which the equipment arrival, installation and commissioning keep up with the overall progress schedule.

The Group's expansion of production capacity during the Reporting Period

Project type	Actual capacity at the end of 2020 (10,000 sets)	Capacity under construction in 2021 (10,000 sets)	Estimated capacity in the Q1 of 2022 (10,000 sets)	Estimated increase (%)
All Steel Radial Tires	715	225	940	31%
Semi Steel Radial Tires	1,240	680	1,920	55%
Bias Tires	120	0	120	—
Total	2,075	905	2,980	44%

7. Investing more in R&D and devoting efforts to innovation

The Group attaches great importance to R&D and innovation. The Group's Rongcheng R&D Center (a nationally recognized enterprise technology center) and Qingdao R&D Center form an open R&D and innovation system of "two wings on one body". The "Shandong Full-Life Cycle Manufacturing and Innovation Center for Tires in Various Dimensions (山東省多尺度輪胎全生命週期製造創新中心)" led by the Group in construction is the only manufacturing innovation center in the tire industry in Shandong Province. During the Reporting Period, the Group was granted 2 invention patents, 6 utility model patents, and 9 design patents. As at the end of the Reporting Period, the Group was granted 225 intellectual properties rights.

In August 2021, the Group's "low rolling resistance green truck radial tire" was included in the "2021 Catalogue of Innovative Industrial Products in Shandong Province" of Department of Industry and Information Technology of Shandong Province, which captured 179 selected products, including 10 products from the rubber industry.

Prinx Chengshan actively expands the market of tires for new energy vehicles ("NEVs"). Prinx Chengshan has developed a separate tire production line specially for NEVs, with product performance separately developed based on the characteristics of NEVs. A test for tires adapted to HAVAL H6 with specifications 225/60R18 100V AQUILA REV was conducted at IDIADA's testing house in China, and the overall performance reached that of first-class products in the industry. Prinx Chengshan has successfully developed OE business with "Black Cat (R1)" and "White Cat (R2)" of GWM ORA Series, S50ev of Dongfeng Liuzhou Motor Forthing, Bestune and Huaihai, and Golden Dragon bus, etc.

Since the Group regarded the industry-university-institute cooperation as its development strategy, it established the industry-university-institute cooperation committee in 2021. The Group will actively partner with Jilin University, Shanghai Jiaotong University, Tongji University, Qingdao University of Technology, Harbin Institute of Technology, Shandong University of Science and Technology, Shandong University of Technology and other domestic top universities in joint projects, for an extension to the management innovation from the industry-university-institute cooperation led by technological research and development, in order to accelerate its digitalisation, the internationalization and develop new drivers to its high-quality and sustainable development.

8. Management upgrade and talent pool

During the Reporting Period, the Group endeavored to improve organisation efficiency and made adjustments to the organisational structure in a bid to adapt to the model transformation to the management over multiple manufacturing bases from a single manufacturing base; meanwhile, it established the “promotion of able men, removal of mediocrities and exclusion of non-performers” guidance to talent selection, and initiated another company-wide staffing arrangement according to the work demand to mix older, middle-aged and young employees together, with a view to giving play to employees’ advantageous, making up for their shortfalls, and stimulate internal vitality. Besides, the Group will initiate the process improvement program to enhance the management efficiency and reduce the management cost through the organisation and process optimisation, in order to match the organisation’s management ability with the corporate business development.

The Group takes active and practical measures for talent pooling and development. On March 13, 2021, Prinx Chengshan held a debate presentation to close the reserve talents training, at which 21 management trainees and 22 reserve supervisors were included in the Company’s talent pool. The Company has furnished various management and skill trainings to improve trainees’ comprehensive abilities and literacy in management, decision-making, communication, collaboration, presentation, etc., aimed at the talent pooling for the Company’s long-term development.

9. Intelligent manufacturing

During the Reporting Period, the Group continued to promote the construction of smart factories. The Tire Production Base in Shandong realized the automation, digitization, visualization and traceability of tires from design to production through the application of integrated systems; the factory in Shandong had a new RFID (Radio Frequency Identification) project in mixing to achieve the information circulation and automatic identification of sizing material. The Tire Production Base in Thailand put into operation the product life-cycle management system in full and the intelligent production execution system in part. The Group made use of intelligent manufacturing technology and equipment to create an industrial Internet and the manufacturing Internet of Things system, which comprehensively improved the Company’s intelligent level in resource allocation, process optimization, process control, quality control and traceability, and safe production etc., and contributed to the stable improvement of product quality.

New products

During the Reporting Period, Prinx Chengshan actively developed new products, optimized its product mix, and completed the R&D and launched a total of 173 products, including 47 products of all steel radial tires and 126 products of semi-steel radial tires, further improving its market competitiveness and market share. The Group also made preparations for the development of 8 products of all steel radial tires and 6 new patterns and products of semi steel radial tires in line with the demand of the OE market, the development trend of the replacement market and the expansion of overseas markets.

During the Reporting Period, the Group carried out the trial-manufacturing and certification of 4 patterns of semi steel radial tires of “Prinx” brand and all steel radial tires of “Chengshan” series in good order, according to the product planning for the European market. The Group also developed 4 all steel products and 2 different patterns of semi steel products in good order in line with the domestic market demands and the relevant cooperation needs.

Total sales volume of products of the Group and sales volume of new products developed during the Reporting Period

Product type	Sales volume of new products (10,000 sets)	Total sales volume (10,000 sets)	Proportion of total sales volume
All Steel Radial Tires	149.9	346.0	43.3%
Semi-steel Radial Tires	268.2	532.9	50.3%
Bias Tires	0.7	30.4	2.3%
Total	418.8	909.3	46.1%

CHANGE OF COMPANY NAMES

On June 9, 2021, the change of the Company’s dual foreign (Chinese) name to “浦林成山控股有限公司” from “浦林成山(開曼)控股有限公司”, and the change of the Company’s English name to “Prinx Chengshan Holdings Limited” from “Prinx Chengshan (Cayman) Holding Limited” (the “**Change of Company Names**”) became effective.

Reason for the Change of Company Names

Since its initial public offering, the Group’s customer base has been extended from China to overseas markets. In order to reflect the Company’s business development, the Group exerts efforts to be an international enterprise to adapt to the changes of the external market environment and the needs of sustainable development. The Board believes that the Change of the Company Name may better reflect the Company’s current business network and to present more appropriate logo and image of the Company.

The new name will establish the Company’s international image and contribute to the Company’s business development and communication with the Company’s relevant shareholders, in the interests of the Company and its shareholders as a whole.

Effect of the Change of Company Names

The Change of Company Names affects neither any of the rights of the shareholders of the Company (the “**Shareholders**”) nor the Company’s day-to-day business operation and financial position. All existing share certificates in issue bearing the Company’s former name shall continue to be evidence of title to the shares of the Company and continue to be valid for trading, settlement, registration and delivery purposes.

Accordingly, there will not be any arrangement for free exchange of the existing share certificates for new share certificates bearing the new name of the Company. The new shares bearing the Company’s new English name and new Chinese name have been issued and effective since June 10, 2021.

In addition, the English and Chinese stock short names of the Company for trading in the securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) remain unchanged.

The details of the Change of Company Names are set out in the Company’s announcement published on April 15, 2021, the circular published on April 15, 2021 and the announcement published on June 9, 2021.

RESPONSE TO THE COVID-19 PANDEMIC

During the Reporting Period, the global economic recovery continued, as countries took measures for a balance between their infection control and economic activities. By strengthening the control over the COVID-19 pandemic during production, sales, transportation, etc., the Group achieved the double growth in sales volume and revenue through domestic and foreign channels.

During the Reporting Period, the COVID-19 pandemic spread in Thailand. The Thailand government added the COE entry review procedures (3 to 5 days) for foreign entrants, restricted the flights to specific cities and extended the quarantine period to 14 days from 7 to 10 days. This affected the timely arrival at Thailand to a certain extent of the factory equipment commissioning staff for phase II of the Tire Production Base in Thailand. Meanwhile, the COVID-19 pandemic in the areas around the Tire Production Base in Thailand affected the employee stability and the recruitment and selection of candidates to a certain extent. Therefore, Prinx Chengshan Tire (Thailand) Co., Ltd. (“**Prinx Thailand**”) took measures for active response: on the one hand, Prinx Thailand made remote communication with the equipment manufacturers, while conducting commissioning of some urgently needed equipment on the site; on the other hand, Prinx Thailand established the classified management rules on the COVID-19 pandemic prevention, strengthened the material security, supervised rectifications on a daily basis, and strove for the support provided by the local government, such as testing and medical treatment. The current management over COVID-19 pandemic on the site is under control, the employees are not demoralised, and neither the production nor the operation was affected significantly. As for the supply, Prinx Thailand actively communicated with the suppliers in China to secure the timely supply of goods. The shipping was affected by many adverse factors such as insufficient shipping space in sea transportation, difficulty in booking space, rising ocean freight, customs officers’ homeworking, etc. Coordination was made in advance for the queuing in the container yard, and active communication with the freight forwarder at the customs was made for quick arrangements. As a result, the plan for shipping to Thailand was executed as scheduled during the Reporting Period.

During the Reporting Period, the distribution channels were affected by the COVID-19 pandemic, and the variations in regions and time became more distinct. Thus, the Group took advantage of the complementary effects of the sales channels to maximize production capacity, while adopting flexible sales strategies to respond to the COVID-19 pandemic spread trend and change of demand in different markets. Due to the impact of the COVID-19 pandemic, the receivables due from international customers were slow in their collection or became overdue, leading to the cash flow risks to which enterprises were exposed. For this reason, the Group reinforced the interdepartmental linkage and enhanced the awareness of the credit risk prevention to avoid bad debt loss. Benefiting from a wide range of the Group's market layout, the marketing through the international marketing channels was not materially affected in the first half of 2021.

The Group pays close attention to its capital condition in real time through the rolling budget, strategically adopts different means of settlement of exchange, monitors the size of assets and liabilities in foreign currencies in real time and makes adjustment to the same in due time to avoid risks. As at the date of this Report, based on the business operation and capital investment, the Board believes that the Group's working capital is sufficient and in good condition, and is not materially affected by the COVID-19 pandemic, therefore the plan for expected capital investment can be fulfilled.

The COVID-19 did not lead to the financial burden on or the loss to the Group in substance, except for the materials purchased by Prinx Thailand required for the prevention of the COVID-19 pandemic.

The Group watches closely the spread trends of the COVID-19 pandemic all over the world and keeps close monitoring of the potential impact of repeated outbreak or even resurgence of the COVID-19 pandemic on its business and results.

PROMOTING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) AND SUSTAINABLE DEVELOPMENT

Business and environmental sustainability is a continuing concern of the Group. As one of the first batch of “green factories” selected by the Ministry of Industry and Information Technology of the People's Republic of China and as the leading enterprise for unit energy consumption in the industry, the Group adopts environmental protection measures and continuously upgrades its production process. During the Reporting Period, the Group invested approximately RMB19.82 million in emission reduction, resource protection and waste management, continuous energy conservation and consumption reduction, improvement of the plant flue gas treatment system, and plant sewage treatment works, in order to reduce the adverse impact of its business operation on the environment. The Group aims to adopt advanced technologies and tools to carry out various green and environmental protection works, to meet domestic and foreign policy requirements and green consumption demands and boost its sustainable development.

During the Reporting Period, the Group organised materiality assessment with board members of key stakeholders, senior management, managers, directors, front-line staff, clients and suppliers, and identified ESG areas which are important to the Group. Meanwhile, the Group carried out internal activity of “prize-giving collection of ESG vision/slogan for sustainable development of Prinx Chengshan”, with 4,296 participants from the Tire Production Base in Shandong, the Tire Production Base in Thailand and the office in Hong Kong. The Group advocates the working and living concept of “green office, low-carbon life”. During the Reporting Period, the Group organised Prinx Chengshan's 2021 “Green Office” competition, aiming to enhance employees' awareness of responsibility and environmental protection, make all employees participate and start from little things, achieve the purpose of energy saving and emission reduction by improving employees' working and living habits.

In response to the Stock Exchange's guidance on the new ESG rules, the Group's EHS (environment, health and safety) department, strategic planning department, purchasing department and other related departments actively considered and developed medium-term and long-term goals and schedules for environment KPIs and methods of continuously strengthening ESG elements in supply chain management. In May 2021, the Group held the kick-off meeting of sustainable supply chain with Shanghai Jiao Tong University. This is a forward-looking project conducted under the policy background that China "strives to peak carbon emissions and achieve carbon neutrality and makes action plans for peaking carbon emissions by 2030", with industrial characteristics of tire companies and their upstream suppliers being major carbon emitters. The project aims to analyse the possible environmental and social responsibility risks of tire enterprises and their suppliers from a forward-looking perspective, explore possible opportunities of carbon emission reduction in the cooperation with suppliers and how to realize the efficient coordination of energy conservation and emission reduction with quality management and lean production, and jointly explore the value and opportunities of supply chain development in the future.

In the face of the challenges posed by COVID-19, the Group put the staff health and safety first, timely adopted various measures to protect the employees, and arranged for the employees in different countries and regions to work remotely as needed, in order to provide a safe operating environment for employees, provide customers with a safe, continuous and stable supply, and assume the responsibility to fight the pandemic.

As COVID-19 worsened in the first half of 2021, Thailand entered a critical period of COVID-19 prevention and control. While performing internal prevention and control of COVID-19 and COVID-19 management and control of external partners, Prinx Thailand was also actively helping the Thai people to fight COVID-19. The management personnel of Prinx Thailand launched a mask donation charity campaign in "Tajam" Village, Thailand to help the villagers overcome the short-time shortage of COVID-19 prevention and control supplies; 36,000 masks were donated by the end of the campaign. On April 10, 2021, the management personnel of Prinx Thailand participated in the activity organised by the Rubber Industry Association, General Chamber of Commerce of Chinese Enterprises in Thailand to practically help the Thai people fight COVID-19 by donating 1,000 bags of rice and 2,000 bags of instant noodles to Thai citizens who had difficulty living due to COVID-19.

In the first half of 2021, the Group organised internal knowledge learning and training related to environmental protection and safety and other activities in and out of the factory for employees, in order to popularise the awareness of environmental protection and conservation. Besides, in the Spring Festival, Dragon Boat Festival, Thai New Year and other important festivals, the Group transported supplies from the hometowns to expatriates 2 times, and the Company provided holiday meal boxes for all employees and rewards for employees who made outstanding contributions to COVID-19 prevention.

In terms of environment, the Tire Production Base in Thailand hired a third-party environmental monitoring agency to detect exhaust emission, noise, heat and dust of the factory in Thailand, and all the detection results met the requirements for environmental indicators of the Thailand government.



On June 21, 2021, Prinx Chengshan Tire (Thailand) Co., Ltd. launched a mask donation charity campaign in Tajam Village

OPERATION STRATEGIES AND OUTLOOK

Looking forward to the second half of 2021, the external environment will be complex and volatile. There are great uncertainties in the development of COVID-19 around the world. The global vaccination process has accelerated, but the uneven vaccination progress in different countries, together with the emergence and spread of new variants of the virus, and the adoption of quarantine or lockdown and other measures for fighting COVID-19 by various countries, have brought uncertainties to market demand and order delivery. However, there are both challenges and opportunities.

As at the date of this report, orders received by the Group show overall steady growth. Given the effect of falling demand, COVID-19 and higher raw material costs on domestic commercial vehicle replacement market, the number of orders in the second half of 2021 is expected to be lower than the same period last year. Heavy truck enterprises in China have overdrawn their demands in the first half of the year due to the shift from “National V” to “National VI” standard, and it is estimated that their related OE market of all steel radial tires and the number of orders may show a short-term decline trend. Some overseas markets of all-steel radial tires recover more quickly, displaying opportunities for business expansion. In the second half of the year, orders for the passenger vehicle replacement and OE markets will be generally stable and positive, and the demand for international marketing orders will be high, but the markets may be affected by shipping spaces and ocean freight, and order execution progress may be under short-term pressure.

In the uncertain and unpredictable environment, the Group will keep abreast of the development trend of the industry, unite as one, respond actively and adopt the following strategies:

- (1) Drive continuous growth of the Company’s business with the continuous increase of production capacity; promote the Company’s sustainable and high-quality development with strategies, organisation and talents.
- (2) Reduce expenses and costs; cut down non-productive expenditure; lower raw material purchase cost; carry out more technology improvement projects to control expenses.

- (3) Adopt active sales strategies to increase the market share, achieve sales growth and ensure scale effect.

The domestic commercial vehicle tire replacement center has achieved a steady increase in market share in the commercial vehicle tire replacement market by empowering channel distributors and business personnel and developing and implementing plans in multiple dimensions. All personnel develop the “customer-centric concept”, establish information interconnection, and make full use of product resources to meet the sales demands of distributors to the utmost extent.

The domestic passenger vehicle tire replacement sales centre will take advantage of “Prinx Chengshan’s omni-channel digital sales system” to promote the new sales model, unify the management of stores through online business and assign business roles to achieve breakthrough sales.

The sales team for the domestic OE market will consolidate and increase the share in existing automobile manufacturers and strengthen the cooperation with automobile manufacturers for higher sales volume, and promote the influence of the Company’s brand in the OE market by accelerating achievement transformation, actively expanding new specifications and developing new vehicle models. The Group will enhance the exchanges with automobile manufacturers, and carry out company-level strategic cooperation with key customers and achieve sales growth with shared resources.

The international marketing team will focus on the opportunities brought by the gradual resumption of work and production in different markets around the world, assess market changes timely, adopt corresponding measures at the right time, and seek more orders from the existing sales network, while exploring new markets. The team will prepare plans for launching the “Prinx” brand products for the European market, and deploy the sales network of the “Prinx” brand worldwide. Under the support of the Tire Production Base in Thailand, the Group will continue to increase sales in the North American market while consolidating its market share in Southeast Asia. The Group will take several measures simultaneously to cope with the rising ocean freight and the shortage of marine resources, and establish close relations with major shipping companies to capture more shipping spaces, increase the FOB transaction proportion of overseas customers, and reduce the impact of shipping factors on delivery and cost.

- (4) Step up the exploration of new businesses and new models to drive continuous growth: The Group plans to further promote the “Zhianda Model”, explore advantageous fields of tire leasing in depth, use a digital management system to improve customer stickiness, and enhance internal skills to establish a standardized management system and build a service network, while exploring tire recycling, tire testing and other new business models to seek for new profit growth points.

- (5) Advance production capacity expansion, and continuously promote lean manufacturing: The Group has been advancing the production capacity expansion project of the Tire Production Base in Shandong, the construction of phase II project of the Tire Production Base in Thailand, and the preparation for the second factory in the PRC in an orderly manner. At present, the arrival of equipment, installation and commissioning of the two factories are in line with the overall schedule. The Tire Production Base in Shandong will continue to strengthen quality management, improve production efficiency, strengthen technological innovation, promote the construction of a smart factory, continue to promote the scope of environmental management in the factory area, and continue to improve the efficiency of environmental protection facilities. The Tire Production Base in Thailand will draw on domestic successful experience while taking into consideration the local regulations and cultural characteristics in Thailand and making innovations based on local conditions to formulate standards that suit the Tire Production Base in Thailand. It will also implement talent training plans, improve management system and operating mechanism, strengthen the integration of Chinese and Thai cultures, and enhance team execution.
- (6) Research and develop and innovate: The Group always attaches supreme importance to the building of R&D capacity, adheres to the strategy of innovation-driven development, keeps abreast of the development trend of product technology, and continues to promote the improvement of technologies in parameter-based product design, performance simulation prediction, green low rolling resistance and high wear resistance. In 2021, the Company will vigorously promote industry-university-institute cooperation and the construction of post-doctoral workstation, make full use of the Group's internal and external resources, and strengthen the cooperation with universities and colleges in the areas of basic technology research, new material application and development, product digitization and talent training, to continuously improve research and development level, and strengthen the research and development of reserve technologies. The Company will further promote the service concept of full-life cycle of tires by exploring recycling of tires and serving mobile travel.

FINANCIAL REVIEW

Revenue

For the six months ended June 30, 2021, revenue of the Group amounted to approximately RMB3,752.3 million, representing an increase of approximately RMB908.3 million (or 31.9%) compared to approximately RMB2,844.0 million for the six months ended June 30, 2020.

Sales by product type	For the six months ended June 30, 2021 RMB'000	For the six months ended June 30, 2020 RMB'000
All Steel Radial Tires	2,610,054	2,237,258
Semi-Steel Radial Tires	1,057,368	542,659
Bias Tires	84,884	64,127
Total	3,752,306	2,844,044

Management Discussion and Analysis

For the six months ended June 30, 2021, revenue from sales of all steel radial tires increased by approximately 16.7% from approximately RMB2,237.3 million for the six months ended June 30, 2020 to approximately RMB2,610.1 million, which was primarily attributable to the year-on-year increase of 17.7% in sales volume; and revenue from sales of semi-steel radial tires increased by approximately 94.8% from approximately RMB542.7 million for the six months ended June 30, 2020 to approximately RMB1,057.4 million for the six months ended June 30, 2021, which was primarily attributable to the year-on-year increase of 71.6% in sales volume. Revenue from sales of bias tires increased by approximately 32.4% from approximately RMB64.1 million for the six months ended June 30, 2020 to approximately RMB84.9 million for the six months ended June 30, 2021, which was primarily attributable to the year-on-year increase of 44.5% in sales volume.

Sales by channel	For the six months ended June 30, 2021 RMB'000	For the six months ended June 30, 2020 RMB'000
Distributors		
Domestic	1,039,470	981,391
International	1,717,553	855,710
	2,757,023	1,837,101
Direct Sales to Automobile Manufacturers	866,928	881,596
Private Label Customers	128,355	125,347
Total	3,752,306	2,844,044

For the six months ended June 30, 2021, revenue from sales to distributors increased from approximately RMB1,837.1 million for the six months ended June 30, 2020 to approximately RMB2,757.0 million, representing an increase of 50.1% compared to the same period last year, which was primarily attributable to the increase in market share benefiting from the production of the factory in Thailand and the further exploration in domestic and international markets.

For the six months ended June 30, 2021, revenue from sales to automobile manufacturers decreased from approximately RMB881.6 million for the six months ended June 30, 2020 to approximately RMB866.9 million, representing a decrease of 1.7% compared to the same period last year. Although the sales volume increased, the price per tire decreased due to the change of product structure.

For the six months ended June 30, 2021, revenue from sales to private label customers increased from approximately RMB125.3 million for the six months ended June 30, 2020 to approximately RMB128.4 million, which was primarily attributable to the increase in the sales volume from new customers.

Cost of Sales

The Group's cost of sales increased from approximately RMB2,237.8 million for the six months ended June 30, 2020 to approximately RMB3,133.6 million for the six months ended June 30, 2021, representing an increase of approximately 40.0%. Such increase was mainly attributable to the year-on-year increase of 47.4% in sales volume, and the increase in the unit cost resulting from the increase in the prices of raw materials and the increase in ocean freight.

Gross Profit and Gross Profit Margin

The Group's gross profit for the six months ended June 30, 2021 amounted to RMB618.7 million, representing a year-on-year increase of 2.1%, lower than the increase in revenue, compared to RMB606.3 million for the six months ended June 30, 2020. The gross profit margin for the six months ended June 30, 2021 was 16.5%, representing a year-on-year decrease of 4.8 percentage points compared to 21.3% for the six months ended June 30, 2020, which was primarily attributable to the decrease in the gross profit margin resulting from the increase in the prices of raw materials and the increase in ocean freight.

Other Income

The Group's other income for the six months ended June 30, 2021 amounted to approximately RMB30.0 million, representing an increase of RMB6.0 million from approximately RMB24.0 million for the six months ended June 30, 2020. The increase was mainly due to the increase in the income from sales of scraps and year-on-year increase in government grants of RMB1.8 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by RMB31.5 million from approximately RMB181.8 million for the six months ended June 30, 2020 to RMB213.3 million for the six months ended June 30, 2021, representing a year-on-year increase of 17.3%. The increase was primarily due to the corresponding increase in the variable selling expense due to the increase in sales volume.

Research and Development Expenses

The Group's R&D expenses increased from approximately RMB68.5 million for the six months ended June 30, 2020 to approximately RMB119.1 million for the six months ended June 30, 2021, representing an increase of approximately 73.7% year on year. The increase was mainly attributable to the increase in the R&D investment in the Tire Production Base in Shandong and the Tire Production Base in Thailand.

Administrative Expenses

The Group's administrative expenses amounted to approximately RMB93.3 million and RMB78.1 million for the six months ended June 30, 2021 and 2020 respectively, representing an increase of approximately 19.5% year on year. Such increase was primarily due to the production commencement of the Tire Production Base in Thailand and expenses incurred in preparing for the second factory in the PRC.

Other Gains

For the six months ended June 30, 2021, the Group's other gains increased by RMB26.1 million from RMB8.4 million for the six months ended June 30, 2020 to RMB34.5 million, mainly due to the compensation of successful lawsuit received by Prinx Shandong.

Finance Income

For the six months ended June 30, 2021 and 2020, the Group's finance income amounted to RMB5.5 million and RMB3.9 million respectively. The increase in finance income was due to the exchange gains arising from foreign currency business.

Finance Costs

For the six months ended June 30, 2021 and 2020, the Group's finance costs amounted to RMB0.5 million and RMB2.0 million respectively.

Operating profit

For the six months ended June 30, 2021, the Group's operating profit amounted to approximately RMB257.6 million, representing a decrease of approximately RMB52.6 million from the same period last year. The decrease in the operating profit was primarily due to the decline in gross profit margin. The gross profit increased approximately RMB12.4 million (or 2.1%) year on year. The amount increased of selling and distribution expenses, administrative expenses, research and development expenses, etc. was higher than that of gross profit, primarily attributable to the increased sales and the expansion of business scale.

Income Tax Expense

For the six months ended June 30, 2021 and June 30, 2020, the Group's income tax expense amounted to RMB17.2 million and RMB46.8 million, representing a decrease of approximately RMB29.6 million, which was due to the year-on-year decrease in the profit of Prinx Shandong during the Reporting Period.

Profit for the Period

Profit during the Reporting Period decreased by RMB20.0 million from RMB265.3 million for the six months ended June 30, 2020 to RMB245.3 million. Such decrease was mainly due to the decrease in gross profit margin resulting from the increase in the prices of raw materials and soaring ocean freight which could not be timely passed through to the selling prices.

Profit Attributable to Shareholders of the Company

Due to the above factors, for the six months ended June 30, 2021 and 2020, the profit attributable to shareholders of the Company amounted to approximately RMB245.4 million and RMB265.2 million respectively.

Total Comprehensive Income for the Period

Total comprehensive income for the Reporting Period decreased by RMB54.3 million from RMB283.3 million for the six months ended June 30, 2020 to RMB229.0 million. Such decrease was mainly due to the decrease in the profit for the period resulting from the increase in the prices of raw materials and the changes in translation differences of foreign currency statements.

Liquidity and Financial Resources

Generally, the cash flows generated within the Group and bank loans are the source of its working capital. By far, the Group maintained a sound financial position. The Group's borrowing demand was not seasonal. As at June 30, 2021, the Group had approximately RMB660.0 million in cash and cash equivalents (including restricted cash), representing an increase of approximately RMB41.1 million as compared to that as at December 31, 2020 (approximately RMB618.9 million), which was mainly due to the increase in security deposits for bank acceptance bills. As at June 30, 2021, the Group had bank borrowings of RMB1,538.1 million (December 31, 2020: approximately RMB665.2 million), of which, RMB834.0 million was denominated in RMB and the rest was denominated in USD. Borrowings at floating interest rates accounted for 21.6%, and borrowings at fixed interest rates accounted for 78.4%. Such bank borrowings will be due within one year, one to two years, two to five years and over five years. During the Reporting Period, the borrowings were mainly used to meet the demand of export seller credit loan and capital expenditure. For details of the Group's bank loans, please refer to Note 22 to the consolidated financial statements.

The current ratio as at June 30, 2021 was approximately 1.1 (December 31, 2020: approximately 1.1). During the Reporting Period, the Company purchased banks' low-and medium-risk wealth management products totaling RMB755.2 million to hedge risk while increasing financial returns. As at the end of the Reporting Period, the net balance of such wealth management products was RMB48.6 million.

Inventories

As at June 30, 2021, the inventories of the Group amounted to RMB1,450.7 million, representing an increase of RMB477.2 million from RMB973.5 million as at December 31, 2020, which was due to the increase in the inventories of raw materials, work in progress and finished products at the Tire Production Base in Shandong and Tire Production Base in Thailand.

Accounts Receivables

As of June 30, 2021, accounts receivables of the Group were RMB1,587.0 million, representing an increase of RMB256.0 million from RMB1,331.0 million as at December 31, 2020. The increase was attributable to the year-on-year increase in sales revenue of 31.9%.

Prepayments, Other Receivables and Other Current Assets

As at June 30, 2021, prepayments, other receivables and other current assets of the Group were approximately RMB262.0 million, representing an increase of approximately RMB108.4 million as compared to RMB153.6 million as at December 31, 2020. This increase was mainly due to the increase in the prepayments and tariff deposits.

Financial assets at fair value through profit or loss

As at June 30, 2021, the Group's financial assets at fair value through profit or loss were approximately RMB48.6 million, representing a decrease of approximately RMB104.9 million from approximately RMB153.5 million as at December 31, 2020. The decrease is primarily attributable to the decrease in the funds for purchase of wealth management products.

Amounts Due from Related Parties

The Group's amounts due from related parties decreased from approximately RMB215.4 million as at December 31, 2020 to approximately RMB185.8 million as at June 30, 2021, representing a decrease of 13.7%. The decrease was mainly attributable to the decrease in the corresponding receivables resulting from recovering part of amounts due from Sinotruk, the Company's related party.

Prepayments and Other Receivables of Non-Current Assets

As of June 30, 2021 and December 31, 2020, the prepayments and other receivables of non-current assets of the Group were approximately RMB53.4 million and RMB8.5 million respectively, representing an increase of approximately RMB44.9 million. This increase was mainly due to the increase in the prepayments incurred for the construction of property, plant and equipment.

Gearing Ratio

As at June 30, 2021, the gearing ratio was 18.81% (December 31, 2020: 2.0%). This ratio was calculated as net surplus/debt divided by total capital. Net surplus/debt was calculated as total borrowings less cash and cash equivalents and restricted cash. Total capital was calculated as total equity plus net surplus/debt.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus has maintained a healthy liquidity position throughout the six months ended June 30, 2021. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. The Group will take serious consideration of purchasing wealth management products and option contracts to hedge risks while increasing financial returns.

Pledge of Assets

As at June 30, 2021, the Group's property, plant and equipment with a net book value amounting to approximately RMB2,446.1 million (December 31, 2020: approximately RMB2,380.4 million) and restricted cash balances amounting to approximately RMB116.8 million (December 31, 2020: approximately RMB55.8 million) were pledged as security for the Group's bank borrowings and notes payable it issued. Save for the above, the Group did not have any charges on its assets.

Investment

On December 25, 2018, Prinx Thailand, an indirect wholly-owned subsidiary of the Company, entered into a land purchase agreement with an independent third party to acquire a land plot located at Chonburi province, Thailand at a consideration of THB 806,060,888.60 (equivalent to approximately RMB170.6 million). The Company intended to build the Tire Production Base in Thailand on the land plot. The details of the transaction could be found in the announcement published by the Company dated December 27, 2018. As the maximum applicable percentage ratio with respect to the acquisition (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”)) is above 5% but under 25%, the acquisition constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules subject to the requirements of announcement and reporting.

The construction of the Tire Production Base in Thailand has begun in 2019, of which the construction of the plants in phase I of the project was completed in 2020, and such plants are currently under stable operation. In the second half of 2020, the Company initiated the construction of phase II project of the Tire Production Base in Thailand with an annual production capacity of 1.2 million sets of all steel tires, and the total investment of the project is expected to be approximately RMB541.0 million. In the first half of 2021, the Company initiated the construction of phase II project of the Tire Production Base in Thailand with an annual production capacity of 4 million sets of semi-steel tires, and the total investment of the project is expected to be approximately RMB896.0 million. As at the date of this report, each process has entered the stage of equipment arrival, installation and commissioning. The production capacity of all steel radial tires is expected to be achieved in the fourth quarter of 2021 and the production capacity of semi-steel radial tires is expected to be achieved in the first quarter of 2022.

In the second half of 2020, the Group initiated the production expansion plan for Prinx Shandong, a wholly-owned subsidiary of the Company, and the total investment of the project is estimated to be approximately RMB666.0 million, which will increase the annual production capacity of all steel radial tires by 1.05 million sets and the annual production capacity of semi-steel radial tires by 2.8 million sets. As at the date of this report, each process has entered the on-site installation stage, and the production capacity is expected to be achieved in the fourth quarter of 2021.

Currently, the expansion projects in the Tire Production Base in Thailand and the Tire Production Base in Shandong are progressing orderly and the arrival, installation and commissioning of equipment are all on schedule in general.

After the Board considered and approved the plan for constructing the second factory in the PRC in 2020, the Group initiated site selection and demonstration. Considering comprehensive factors such as sales market demand, convenient logistics transportation and operating costs, the Group has selected Feidong County in Anhui Province as the location of the second factory in the PRC, which has been reviewed and approved by the Board. In April 2021, “Anhui Prinx Chengshan Tire Co., Ltd. (安徽浦林成山輪胎有限公司)”, a wholly-owned subsidiary of the Group, was registered in Anhui with registered capital of RMB378 million.

Save as disclosed above, the Group did not have any other significant investments for the six months ended 30 June, 2021.

EXPOSURE TO RISKS

(I) Risks regarding macro economy

In 2021, affected by the pandemic, the macro economy will still be full of uncertainties. According to the World Economic Outlook issued by the International Monetary Fund in July 2021, the prediction of global economic growth of 6% in 2021 was maintained, but the economy prediction of rich economies like the United States was raised and that of some developing countries was lowered. The world's major economies continued to launch economic support policies, which contributed to the recovery of economic activities and market confidence. However, due to the emergence of new variants of COVID-19 and the differences in vaccine supply and policy support, economic recovery is uneven across countries. Meanwhile, international trade frictions also bring uncertainties to the international competitive environment.

In the first half of 2021, under the context of increasing uncertainties in global economic recovery and obvious imbalances, China continued to recover its economy steadily while consolidating and developing it stably. Since the Executive Meeting of the State Council attached great importance to commodities in May 2021, China has adopted policies and measures such as designated delivery in state-owned grain reserve depots, encouraging diversified import channels and fighting against property hoarding. Therefore, the price of commodities, especially non-ferrous metals, generally fell back, creating conditions for launching infrastructure and starting production in small and medium-sized enterprises in the second half of 2021, as well as contributing to boosting demand of the replacement market.

(II) Exposure to foreign exchange risks

Given the fluctuations in the global economy and the tightening and easing of monetary policies by different countries, the Group may be exposed to risks of fluctuations in exchange rates arising from those factors. The revenue denominated in USD from overseas operations accounts for approximately 50.1% of the total revenue of the Group for the six months ended June 30, 2021, mainly used in overseas purchase of raw material. The operation expenses of Prinx Thailand are mainly denominated in THB. Therefore, the Group is exposed to foreign exchange risks with respect to US dollars and Thai Baht. The occurrence of significant fluctuations in exchange rates will affect the results of the Group. Exchange rate fluctuations and market trends have always been a concern of the Group. In this regard, the Company will strengthen the supervision on foreign currency transactions as well as the scale of foreign currency assets and liabilities, and may manage the potential fluctuations in exchange rates by optimizing the settlement currency of export trades and utilizing exchange rate financial instruments and other proactive preventive measures. The Company utilised financial instruments such as forward exchange settlement and options to mitigate the impact of exchange rate fluctuations on the Company's overseas business. During the Reporting Period, the Group entered into an option contract with bank partners to offset some risks of exchange rate fluctuations.

(III) Impacts caused by tariff and anti-dumping and countervailing security duty imposed by the United States government on products imported from the PRC and Thailand

On March 22, 2018, the President of the United States, Donald Trump signed a Presidential Memorandum declaring that pursuant to the alleged results of the “Section 301 Investigation”, tariffs would be imposed on imports from the PRC on a large scale, and Chinese enterprises would be restricted to invest in and merge with companies in the United States. On September 24, 2018, the United States imposed a 10% tariff on USD200 billion of Chinese imports into the United States. On May 10, 2019, the United States decided to raise the tariff on USD200 billion of Chinese imports into the United States from 10% to 25%.

In addition, on February 15, 2019, the US Department of Commerce issued the “Anti-dumping and Countervailing Security Duty” orders on Chinese truck and bus tires, pursuant to which levying anti-dumping and countervailing security duty became effective immediately on products related to truck and bus. Prinix Chengshan was ordered to pay a combined security rate of 42.16% of the anti-dumping and countervailing duty. On February 3, 2020, the US Department of Commerce issued a notice to launch the first administrative review process for anti-dumping and countervailing duty on imported truck and bus tires from the PRC. The investigation period of the anti-dumping review started from February 15, 2019 to January 31, 2020, and the investigation period of the countervailing review started from February 15, 2019 to December 31, 2019. As the U.S. prosecutor did not list any Chinese tire companies as the respondent, and the Group did not apply to participate in the anti-dumping review, the original anti-dumping tax rate still applies. The Group believes that the current countervailing tax rate is too high and has applied for a compulsory countervailing response, and was listed as a compulsory respondent by the US Department of Commerce in June 2020. The US Department of Commerce announced the preliminary-determination duty rate of the first administrative review on the countervailing duty against truck and bus tires from China on June 21, 2021. Shandong Company of the Group applied a separate rate of 17.04%, which was 25% lower than the countervailing tax rate in the original trial. The Group is actively responding and further reducing the preliminary-determination duty rate of the first countervailing review. It is expected that the US Department of Commerce will announce the final-determination duty rate by the end of 2021. In addition, the Group also actively participated in the second administrative review on the countervailing duty against imports of truck and bus tires from China, which was initiated by a notice issued by the US Department of Commerce on April 1, 2021. The investigation period of the countervailing review was from January 1, 2020 to December 31, 2020. It is expected to be preliminarily determined in June 2022.

On May 13, 2020 (U.S. time), the United Steelworkers of America filed an application with the U.S. Department of Commerce and the U.S. International Trade Commission to initiate anti-dumping investigations against the tires for passenger vehicles and light trucks from Thailand, Vietnam, South Korea and Taiwan of the PRC, and to initiate an anti-subsidy investigation against the tires for passenger vehicles and light trucks from Vietnam. The US Department of Commerce issued an anti-dumping duty order against the tires for passenger vehicles and light trucks from Thailand on July 19, 2021. Since the Tire Production Base in Thailand had not exported the concerned tires to the United States during the investigation period, the Group’s tire production base applied an average anti-dumping duty rate of 17.06%. This move will have a negative impact on the sales of the Group’s Tire Production Base in Thailand.

Therefore, the Company will make deployment ahead of time and actively respond to this issue, and take the following measures: first, expand the sales of tires from the Tire Production Base in Thailand in non-US market to reduce the negative impact caused by the decline in US sales; second, develop products for non-US market, and improve the competitiveness of the Tire Production Base in Thailand through product adjustment and enrichment, relying on the R&D strength of the Company.

(IV) Risks in relation to overseas investments

During the Reporting Period, the Company advanced the construction of its overseas production base steadily. The phase I project of the Tire Production Base in Thailand started to operate in the second half of 2020, the phase II project entered the construction and equipment installation period, and the proportion of the Group's overseas business will be increased. The changes in local economy, politics, policies and laws in Thailand may affect changes in the investment environment and the construction period of the project. Whether the COVID-19 pandemic can be effectively controlled in Thailand will affect the production and transportation in the Tire Production Base in Thailand. Due to the travel restrictions caused by pandemic control, some of the dispatched Chinese staff did not arrive in Thailand in time to carry out their work or return home to visit relatives on schedule. To address this situation, the Group adopted various methods to reduce the impact on daily operation, including adopting remote working and training post replacements in advance, arranging personnel exchange in batches, strengthening local recruitment and providing remote video training at the headquarters. In order to cope with the difficulty of tire storage in Thailand caused by the shortage of containers, the Thai company, Thai container yard and the international sales center jointly looked for a breakthrough, and found new methods and channels of transportation to reduce the risks of delivery and transportation.

In light of this, the Group will take knowledge of the changes in the investment environment of the authorities in Thailand timely, and make arrangements in advance for construction progress, product certification, personnel, etc. At the same time, the Group will deploy the sales strategy plan in Thailand and steadily advance the financing plan for projects. Every aspect of work is progressing steadily in accordance with the goals.

(V) Risks in relation to climate change

Many factors will pose different levels of policy and legal risks to the Group and affect changes in demand from consumers and downstream automobile manufacturers, including the increasing threat of climate change worldwide and the physical risks that extreme climate changes may pose to the Group (including production stoppage due to power outages caused by typhoons and thunderstorms and the failure of outdoor logistics to operate normally affecting order delivery timeliness), price fluctuations due to unstable supply of raw materials, as well as transition risks (including the introduction of relevant laws and policies and the adoption of a series of actions such as carbon tariffs and carbon trade barriers in countries or regions where the Group produces or markets). The Group has incorporated climate risk management into the Group's risk management system. The Group continuously evaluates the physical risks and transition risks brought about by climate changes and formulates relevant risk prevention plans, such as formulating emergency plans for natural disasters and emergencies, properly stockpiling raw materials for production, implementing safety inventory plans, and formulating corresponding workflow and safety measures for sudden abnormal weather changes.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company strictly complied with the following laws and regulations which may have a significant impact on its production and operation: (a) the laws and regulations relating to compulsory product certification for tire products; (b) the laws, regulations and policies relating to the access to and supervision of the tire industry; (c) the laws and regulations relating to environmental protection and safety responsibility; (d) the laws and regulations relating to foreign investment; (e) the laws and regulations relating to foreign exchange control and taxation; (f) the laws and regulations relating to labour and employment; (g) the laws and regulations governing the organization and behavior of the Company; (h) the laws and regulations relating to securities trading and regulation; (i) the laws and regulations relating to intellectual property; (j) the laws and regulations relating to data processing and data security; (k) other relevant laws, regulations, policies and regulatory requirements, etc. Meanwhile, a list of applicable laws and regulations was established within the Company and updated from time to time for compliance. In addition, the Company made enquiries from time to time about the restrictions under the regulations of, and the requirements of the relevant regulatory authorities in the jurisdictions in which it conducts business and investment activities, such as the import tariffs and quota regulations, anti-dumping and sanctions regulations in the United States and the European Union trade regulations, Thailand laws and regulations regarding foreign investment, etc. The Company was able to comply with the relevant laws and regulations within and outside the PRC which have a significant impact on it, through the full cooperation between its legal department and the external legal advisors, and the Company's continuous and effective supervision.

Capital structure

There had been no change in capital structure of the Company for the six months ended June 30, 2021. The capital of the Company comprises ordinary shares and other reserves.

Capital commitment and contingent liabilities

As at June 30, 2021, the Group's capital commitment was approximately RMB1,247.7 million (December 31, 2020: approximately RMB774.8 million). For the six months ended June 30, 2021, the Group had no contingent liability that would result in a significant impact (December 31, 2020: nil).

Significant investments, material acquisitions and disposals of subsidiaries, associated companies and joint ventures

For the six months ended June 30, 2021, the Group had established "Prinx Chengshan (Shanghai) Investment Co., Ltd.", which is mainly responsible for holding and managing different business segments in the PRC, "Prinx Chengshan (Shanghai) Tire Sales Co., Ltd.", which is mainly responsible for the sales of semi-steel products in the PRC market, and "Zhianda (Shanghai) Tire Service Co., Ltd." (智安達(上海)輪胎服務有限公司), which is mainly developing tire rental service business. The three companies are currently conducting business normally. The establishment of the Shanghai subsidiaries will further realise the strategic expansion of the Group's sales and marketing headquarters and open a new chapter in the international development of Prinx Chengshan.

As previously stated, in April 2021, Anhui Prinx Chengshan Tire Co., Ltd. (安徽浦林成山輪胎有限公司) (“**Anhui Company**”), a wholly-owned subsidiary of the Group, was registered in Anhui with registered capital of RMB378 million. As at August 31, 2021, the Board considered and approved the proposal to adjust the shareholding structure of Anhui Company, and agreed to introduce Hefei Dongcheng Industrial Investment Co., Ltd. as a shareholder to increase the capital of Anhui Company. The registered capital of Anhui Company will be increased from RMB378 million to RMB1.00 billion, of which, Prinx Shandong will contribute RMB510 million, accounting for 51% of the registered capital; the new shareholder, Hefei Dongcheng Industrial Investment Co., Ltd. will contribute RMB490 million, accounting for 49% of the registered capital. The details of the cooperation agreement between the two parties are still under negotiation and the Group will make further announcement upon the execution of the agreement.

Save as disclosed above, the Group did not have any other significant investments, material acquisitions and disposals of subsidiaries, associated companies and joint ventures.

Future plans for substantial investments or capital assets

On December 18, 2020, the Board approved the Company’s annual financial budget for 2021 which covers the phase II production expansion project of the Tire Production Base in Thailand for semi-steel radial tires and the investment plan for constructing the second factory in the PRC.

From the second half of 2021 to the first quarter of 2022, the Group will continue to advance the phase II project in the Tire Production Base in Thailand (1.2 million sets of all steel radial tires/year and 4 million sets of semi-steel radial tires/year) and the expansion project in the Tire Production Base in Shandong (1.05 million sets of all steel radial tires/year and 2.8 million sets of semi-steel radial tires/year) in an orderly manner.

As mentioned above, it is the Group’s future investment plan to construct the second factory project in Anhui. On August 31, 2021, the Board approved the investment proposal for the phase I project of the tire production base in Anhui. The estimated total project investment is approximately RMB3,000.0 million and 800,000 sets of all steel radial tires and 5 million sets of semi-steel radial tires will be added to the annual production capacity. The project is expected to be financed with shareholders’ fund and syndicated loan. The production capacity is expected to be realized in the fourth quarter of 2022 (PCR)/the first quarter of 2023 (TBR).

Human resources management

As at June 30, 2021, the Group had a total of 6,176 employees (as at December 31, 2020: 6,124). The employee benefit expenses of the Group were RMB299.3 million for the six months ended June 30, 2021 (for the six months ended June 30, 2020: RMB246.8 million).

The emoluments paid by the Group to employees were determined in accordance with market terms and employee qualifications and experience. The discretionary bonus paid to employees was determined in accordance with the Company's sales revenue and profit and employees' post value and contribution. To attract, retain, motivate and encourage the employees to contribute to creating values for the Company and shareholders, the Group provided training courses for the employees to develop their skills, because the relevant skills are required by the Group to meet the business target, customer demand, custodial and regulatory requirements, and provisions on obligations in contracts. The full-time employees (except for independent contractors) also enjoy various employee benefit plans.

The Company adopted a share option scheme (the **"2019 Share Option Scheme"**) on July 5, 2019 (the **"2019 Adoption Date"**), and conditionally granted 14,400,000 options and 835,500 options (the **"Options"** and each an **"Option"**) to certain eligible participants (the **"Grantees"** and each a **"Grantee"**) of the Group on July 9, 2019 (the **"2019 Grant Date"**) and July 9, 2020 (the **"2020 Grant Date"**).

The Company adopted its new share option scheme (the **"2021 Share Option Scheme"**) on May 17, 2021 (the **"2021 Adoption Date"**), and terminated the 2019 Share Option Scheme. The Company conditionally granted 35,050,000 Options to certain Grantees on June 28, 2021 (the **"2021 Grant Date"**).

For the six months ended June 30, 2021, details of movements in the options are set out in the sections headed "2021 Share Option Scheme" and "2019 Share Option Scheme" in this report.

2021 Share Option Scheme

The Company adopted the 2021 Share Option Scheme on the 2021 Adoption Date. The 2021 Share Option Scheme is effective within a period of eight years commencing from the 2021 Adoption Date.

The purpose of the 2021 Share Option Scheme is to replace the 2019 Share Option Scheme and to enable the Board to grant Options to selected Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to the Group and to recruit and retain high caliber eligible participants and attract human resources that are valuable to the Group. Proposed employees are included as Eligible Participants to enable the Company to offer a competitive remuneration package to recruit high caliber candidates. As at the date of this report, the number of Shares that may be issued under the 2021 Share Option Scheme is 14,950,000, representing approximately 2.3% of the total number of Shares in issue on the date.

Eligible Participants mean: any employee or proposed employee (whether full time or part time) of any member of the Group or any invested entity, excluding any independent non-executive directors of the Company (the **"Directors"**) and provided that the proposed employee is actually employed by the Group and is subject to pass the stipulated probation period.

Options Granted in 2021

On the 2021 Grant Date, the Company conditionally granted 35,050,000 Options to certain Grantees, subject to acceptance of the Grantees, to subscribe for a total of 35,050,000 ordinary shares (the “Shares”) of USD0.00005 each in the share capital of the Company. The exercise price of the Shares on the 2021 Grant Date was HK\$8.568 per Share, which is the highest among (i) the closing price of HK\$8.510 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the Grant Date; (ii) the average closing price of HK\$8.568 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the Grant Date; and (iii) the nominal value of each Share. The closing price for the business day immediately preceding the 2021 Grant Date was HK\$8.500 per Share.

Among the Options granted, 5,500,000 Options were granted to the Directors, chief executives or substantial Shareholders of the Company, or an associate (as defined in the Listing Rules) of any of them and 29,550,000 Options were granted to other senior management and employees of the Group, details of which are as follows:

Name of Grantees	Position(s) held	Number of Options granted as at the 2021 Grant Date	Outstanding as at the beginning of the period	Exercised during the period	Lapsed during the period	Outstanding as at the end of the period
Shi Futao	Executive Director	5,000,000	—	—	—	5,000,000
Cao Xueyu	Executive Director and joint company secretary	500,000	—	—	—	500,000
		5,500,000	—	—	—	5,500,000
Other senior management and employees		29,550,000	—	—	—	29,550,000
Total:		35,050,000	—	—	—	35,050,000

The Options granted will vest upon achievement of the performance targets in the respective proportions and on the respective dates as specified in the offer letter.

Subject to the terms of the 2021 Share Option Scheme, 35% and the remaining 65% of the Options can be vested and exercised at any time after 36 months and 60 months from the Grant Date, respectively. Subject to the vesting schedule, the Options are exercisable within a period of eight years commencing from the 2021 Grant Date.

If the vesting conditions are not met by the Grantee, the unvested Options granted to such Grantee would lapse in accordance with the terms of the 2021 Share Option Scheme.

During the Reporting Period, no Option under the 2021 Share Option Scheme was lapsed, exercised or canceled.

Details of the 2021 Share Option Scheme and the granted Options are set out in the circular issued by the Company on April 15, 2021, the announcement issued on May 17, 2021 and the announcement issued on June 28, 2021, respectively.

For the six months ended June 30, 2021, the valuation of Options granted is contained in Note 20 to the consolidated financial statements. The valuation of Options is quite subjective and subject to uncertainties, depending on the assumptions used in and limitations of calculation model.

2019 Share Option Scheme

The Company had adopted the Share Option Scheme on the 2019 Adoption Date, and terminated the 2019 Share Option Scheme on 2021 Adoption Date. Details of the termination of the 2019 Share Option Scheme are set out in the circular issued by the Company on April 15, 2021.

According to the terms of the 2019 Share Option Scheme, the Company may by resolution in general meeting at any time terminate the 2019 Share Option Scheme, and in such event, no further offer to grant an option nor further option shall be made, but in all other respects the provisions of the 2019 Share Option Scheme shall remain in force and effect. All options granted and accepted and remained unexpired immediately prior to such termination shall continue to be valid and exercisable in accordance with their terms and the terms of the 2019 Share Option Scheme.

The 2019 Share Option Scheme aims to attract, retain and provide incentives to senior and mid-level management and key employees of the Company, to provide them with the opportunity to obtain shares of the Company and to link their interests closely to the operating results and share performance of the Company with a view to increasing the value of the Company and to attracting human resources that are valuable to the Group. As at the date of this report, since the Company has terminated the 2019 Share Option Scheme, no Share may be issued under the 2019 Share Option Scheme (as at the date of the annual report for the year ended December 31, 2020: 764,500 shares, representing approximately 0.12% of the total number of Shares in issue on the date).

Eligible participants mean: any employee or proposed employee (whether full time or part time) of any member of the Group or any invested entity, excluding any independent non-executive Directors and provided that the proposed employee is actually employed by the Group and is subject to pass the stipulated probation period.

Options Granted in 2019

On the 2019 Grant Date, the Company conditionally granted 14,400,000 Options to certain Grantees, subject to acceptance of the Grantees, to subscribe for a total of 14,400,000 Shares pursuant to the 2019 Share Option Scheme. The exercise price of the Shares on the 2019 Grant Date was HK\$7.244 per Share, which is the highest among (i) the closing price of HK\$7.130 per Share on the 2019 Grant Date; (ii) the average closing price of HK\$7.244 per Share for the five business days immediately preceding the 2019 Grant Date; and (iii) the nominal value of each Share. The closing price for the business day immediately preceding the 2019 Grant Date was HK\$7.220 per Share. Grantees may accept the offer for the grant of Options within 28 days after the date of such offer.

Management Discussion and Analysis

Among the Options granted, 1,317,500 Options were granted to the Directors, chief executives or substantial Shareholders of the Company, or an associate (as defined in the Listing Rules) of any of them and 13,082,500 Options were granted to other senior management and employees of the Group, details of which are as follows:

Name of Grantees	Position(s) held	Number of Options granted as at the 2019 Grant Date	Outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	Outstanding at the end of the period
Che Baozhen	Executive Director	580,000	580,000	—	—	580,000
Shi Futao	Executive Director	512,000	512,000	—	—	512,000
Cao Xueyu	Executive Director and joint company secretary	225,500	225,500	—	—	225,500
		1,317,500	1,317,500	—	—	1,317,500
Other senior management and employees		13,082,500	11,386,800	566,500	498,000	10,322,300
Total:		14,400,000	12,704,300	566,500	498,000	11,639,800

The Options granted will vest upon achievement of the performance targets in the respective proportions and on the respective dates as specified in the offer letter.

One third of the total number of Options granted can be vested and exercised at any time after the expiration of 12 months, 24 months and 36 months from the Grant Date, respectively. If the Options are not vested as the performance of the scheme participants in the first three vesting periods fails to meet the standards, in the event that the performance meets the standard upon the fourth annual assessment and the deferred vesting conditions are satisfied, the Options granted may be exercised at any time after the fourth exercise period (i.e., after 48 months from the 2019 Grant Date), and the vesting proportion is the remaining unvested Options after excluding the expired Options.

If the vesting conditions are not met by the Grantee, the unvested Options granted to such Grantee would lapse. Subject to the vesting schedule, the Options are exercisable within a period of six years commencing from the 2019 Grant Date.

During the Reporting Period, a total of 566,500 Options were exercised, no Options were cancelled, and a total of 498,000 Options lapsed because of Grantees' resignation or retirement. 11,639,800 Options were outstanding as at the end of the period.

Options Granted in 2020

On the 2020 Grant Date, the Company conditionally granted 835,500 Options to certain Grantees, subject to acceptance of the Grantees, to subscribe for a total of 835,500 Shares pursuant to the 2019 Share Option Scheme. The exercise price of the Shares on the 2020 Grant Date was HK\$7.960 per Share, which is the highest among (i) the closing price of HK\$7.960 per Share on the 2020 Grant Date; (ii) the average closing price of HK\$7.894 per Share for the five business days immediately preceding the 2020 Grant Date; and (iii) the nominal value of each Share. The closing price for the business day immediately preceding the 2020 Grant Date was HK\$7.820 per Share.

The Grantees of the Options granted in 2020 are the employees of the Group, and none of them are Directors, chief executives or substantial Shareholders of the Company, or their associates (as defined in the Listing Rules), details of which during the Reporting Period are as follows:

Position(s) held	Number of Options granted as at the 2020 Grant Date	Outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	Outstanding at the end of the period
Directors, chief executives or substantial Shareholders of the Company, or their associates who did not exercise the Options during the period	—	—	—	—	—
Other senior management and employees	835,500	835,500	—	—	835,500
Total:	835,500	835,500	—	—	835,500

The Options granted will vest upon achievement of the performance targets in the respective proportions and on the respective dates as specified in the offer letter.

Half of the total number of Options granted can be vested and exercised after the expiration of 12 months and 24 months from the 2020 Grant Date, respectively. If the Options are not vested as the performance of the scheme participants in the first two vesting periods fails to meet the standards, in the event that the performance meets the standard upon the third annual assessment and the deferred vesting conditions are satisfied, the Options granted may be exercised at any time after the third exercise period (i.e., after 36 months from the Grant Date), and the vesting proportion is the remaining unvested Options after excluding the expired Options.

If the vesting conditions are not met by the Grantee, the unvested Options granted to such Grantee would lapse. Subject to the vesting schedule, the Options are exercisable within a period of five years commencing from the 2020 Grant Date.

For the six months ended June 30, 2021, among the Options granted in 2020, no Options were exercised, cancelled or lapsed. 835,500 Options were outstanding as at the end of the period.

Details of the 2019 Share Option Scheme and the granted Options are set out in the circular issued by the Company on June 13, 2019, the announcements issued on July 15, 2019, July 9, 2019 and July 9, 2020, and the circular issued on April 15, 2021.

Options Exercised and Issued Shares

As mentioned in the section headed “Options Granted in 2019”, for the six months ended June 30, 2021, a total of 566,500 Options granted in 2019 were exercised, and a total of 566,500 ordinary Shares were issued accordingly. The par value of each issued Share was US\$0.00005, and the total share capital was US\$28.325. The issue price was HK\$7.244 per Share and the weighted average closing price immediately preceding the Option exercise date was HK\$8.530. The closing price for the business day immediately preceding the 2019 Grant Date was HK\$7.22 per Share.

A total of 18 grantees exercised their Options and were issued the Shares, and such grantees were employees of the Company.

The total proceeds from the issued Shares amounted to HK\$4,103,726, which was intended to be used as daily working capital. As of June 30, 2021, the Group had fully utilized the proceeds.

PROFIT SHARING SCHEME

The profit sharing scheme, which was adopted on July 5, 2019 (the “**Profit Sharing Scheme**”) by the Company, and the Share Option Scheme together form the Company’s long-term incentive scheme (which cannot be participated in at the same time).

The Profit Sharing Scheme aims to attract, retain and provide incentives to key employees of the Company, including equipment supervisors, engineers, IT, business and grassroots managers or special contributors. It is planned to start from 2019, if the annual actual profit reaches the profit target, the base bonus will be paid, and the portion exceeding the annual profit target will be allocated in a certain proportion. When the external business environment changes significantly, the Board will determine and adjust the implementation conditions of the Profit Sharing Scheme according to the actual situation. The sharing amount depends on the comprehensive coefficient of personal performance and company performance and is distributed proportionally in three years. The Company hopes to provide employees with the opportunity to share the Company’s development dividends through the above scheme, link personal interests closely to the Company’s performance and enhance the value of the Company.

EVENTS AFTER THE REPORTING PERIOD

Change of Joint Company Secretary

On July 19, 2021, Ms. Lam Yuk Ling (“**Ms. Lam**”) resigned as a joint company secretary of the Company (the “**Joint Company Secretary**”), with effect from July 19, 2021 due to other work arrangement. Ms. Lam confirms that there is no disagreement between herself and the Board and there is no other matter in relation to her resignation that needs to be brought to the attention to the shareholders of the Company.

Ms. Szeto Kar Yee Cynthia (“**Ms. Szeto**”) has been appointed as the Joint Company Secretary to replace Ms. Lam with effect from July 19, 2021. Ms. Szeto is an assistant manager of the Listing Services Department of TMF Hong Kong Limited and is responsible for provision of corporate secretarial and compliance services to listed company clients. She has over 10 years of professional and internal experience in the company secretarial field. She is a Chartered Secretary, a Chartered Corporate Governance Professional and an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

The Company was granted a waiver (the “**Revised Waiver**”) by the Stock Exchange from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules and in relation to the qualifications of Ms. Cao Xueyu (“**Ms. Cao**”) to act as the Joint Company Secretary for a period from July 19, 2021 to March 28, 2022 (the “**Remaining Waiver Period**”) on the conditions that (i) Ms. Cao will be assisted by Ms. Szeto during the Remaining Waiver Period; (ii) the Revised Waiver could be revoked if there are material breaches of the Listing Rules by the Company; and (iii) the Company should announce the reasons, details and conditions of the Revised Waiver, the qualifications and experience of Ms. Szeto. The Stock Exchange may withdraw or change the Revised Waiver if the Company’s situation changes. Before the end of the Remaining Waiver Period, the Company must demonstrate and seek the confirmation from the Stock Exchange that Ms. Cao, having had the benefit of Ms. Szeto’s assistance during the Remaining Waiver Period, has attained the relevant experience and is capable of discharging the functions of company secretary under Rule 3.28 of the Listing Rules such that a further waiver will not be necessary.

Details of change of joint company secretary are set out in the announcement issued by the Company on July 19, 2021.

Controlling Shareholder’s Specific Performance Obligations under the Financing Agreement

On March 17, 2020, Prinx Thailand (as the borrower) and Bank of China (Hong Kong) Limited, Bank of China (Thai) Public Company Limited and The Hong Kong and Shanghai Banking Corporation Limited, Bangkok Branch (the “**Lenders**”, as mandated lead arrangers and original lenders) entered into a facility agreement (the “**Agreement**”) relating to US\$90 million facility with a term of four years after the date of the Agreement.

Under the Agreement, Prinx Thailand shall procure that:

- (a) Mr. Che Baozhen, Mr. Che Hongzhi and Ms. Li Xiuxiang (the “**Controlling Shareholders**”) shall remain as the single largest shareholder of the Company; and
- (b) the Controlling Shareholders shall maintain management control over the Company.

Upon breach of the specific performance obligations, the Lenders will, among other things, have the power to cancel the commitments under the Agreement and declare all outstanding loan together with accrued interest, all other amounts accrued under the Agreement, and other finance documents immediately due and payable.

The details of the loan agreement with specific performance covenants are set out in the announcement issued by the Company on March 17, 2020.

Management Discussion and Analysis

The relevant parties entered into an amendment and restatement agreement to amend and restate the Agreement (the “**Amended Agreement**”) on July 3, 2021, pursuant to which the aggregate amount of the facility will increase from US\$90 million to US\$170 million. The term of the facility under the Agreement as amended by the Amended Agreement remains unchanged (i.e. four years after the date of the Agreement).

Save as disclosed above, there are no other material changes to the terms and conditions of the Agreement. As at the date of this report, the Controlling Shareholders directly and indirectly beneficially own 69.43% of the total issued share capital of the Company.

The details of the Amended Agreement are set out in the announcement issued by the Company on July 7, 2021.

The Board is pleased to present the corporate governance report of the Company for the six months ended June 30, 2021.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining a high standard of corporate governance to safeguard the interests of its Shareholders and enhance its enterprise value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the “**Corporate Governance Code**”) contained in Appendix 14 to the Listing Rules as its own corporate governance code. The Company has been in compliance with all applicable code provisions under the Corporate Governance Code for the six months ended June 30, 2021. The Company will continue to review and monitor its corporate governance practices in order to ensure compliance with the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Specific enquiries have been made to all the Directors and each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the six months ended June 30, 2021.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2021.

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) which comprises three members, all being independent non-executive Directors, namely Mr. Choi Tze Kit Sammy (Chairman), Mr. Wang Chuansheng and Mr. Zhang Xuehuo. The primary responsibility of the Audit Committee is to review and supervise the Company’s financial reporting procedures and internal controls.

The Audit Committee has reviewed the unaudited condensed consolidated interim results and interim report of the Group for the six months ended June 30, 2021, and hereby recognised that the interim results have been prepared in accordance with the relevant accounting standards and that the Company has made appropriate disclosures therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended June 30, 2021, none of the Company or any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

2021 ANNUAL GENERAL MEETING

The Board views the annual general meeting as an important opportunity for direct communication with shareholders. The 2021 annual general meeting was held on May 17, 2021 at No. 98, North Nanshan Road, Rongcheng City, Shandong Province and successfully concluded. Board members and external auditors attended the meeting where they communicated with shareholders. Details of the voting matters are set out in the Company’s announcement dated May 17, 2021.

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

As at June 30, 2021, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules, are set out as follows:

Name of directors	Capacity/ Nature of interest	Number of shares	Long/ Short position	Approximate percentage of shareholding in the Company
Mr. Che Hongzhi	Spouse interest	441,859,500 (Note 1)	Long position	69.43%
Mr. Che Baozhen	Interest in a controlled corporation	441,859,500 (Note 2)	Long position	69.43%
	Beneficial owner	580,000 (Note 3)	Long position	0.09%
Mr. Shi Futao	Beneficial owner	5,542,000 (Note 4)	Long position	0.87%
Ms. Cao Xueyu	Beneficial owner	725,000 (Note 5)	Long position	0.11%

Notes:

- Mr. Che Hongzhi is the spouse of Ms. Li Xiuxiang. As such, he is deemed to be interested in all the Shares in which Ms. Li Xiuxiang is interested.
- As at June 30, 2021, Mr. Che Baozhen directly owned 50% of the equity interest in Shanghai Chengzhan Information and Technology Center* (上海成展信息科技有限公司) ("Shanghai Chengzhan"), which in turns owned 95% of the equity interest in Beijing Zhongmingxin Investment Company Limited* (北京中銘信投資有限公司) ("Beijing Zhongmingxin"), which in turns controlled 42.50% of the equity interest in Chengshan Group Company Limited*(成山集團有限公司) ("Chengshan Group"). As such, Mr. Che Baozhen, Shanghai Chengzhan and Beijing Zhongmingxin are deemed to be interested in the interests in Chengshan Group.
- As at June 30, 2021, Mr. Che Baozhen held interests in those Shares through the options granted according to the Share Option Scheme under physically settled equity derivatives.
- As at June 30, 2021, Mr. Shi Futao held interests in 5,512,000 Shares through the options granted according to the Share Option Scheme under physically settled equity derivatives.
- As at June 30, 2021, Ms. Cao Xueyu held interests in those Shares through the options granted according to the Share Option Scheme under physically settled equity derivatives.

Save as disclosed above, as at June 30, 2021, none of the Directors or chief executive of the Company had interests or short positions 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 were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at June 30, 2021, to the knowledge of the Directors, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained pursuant to section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of shares	Long/ Short position	Approximate percentage of shareholding in the Company
Sinotruk (Hong Kong) Capital Holding Limited	Beneficial owner	62,584,000 (Note 1)	Long position	9.83%
Sinotruk (Hong Kong) International Investment Limited	Interest in a controlled corporation	62,584,000 (Note 1)	Long position	9.83%
Sinotruk (Hong Kong) Limited	Interest in a controlled corporation	62,584,000 (Note 1)	Long position	9.83%
Sinotruk (BVI) Limited	Interest in a controlled corporation	62,584,000 (Note 1)	Long position	9.83%
China National Heavy Duty Truck Group Co., Ltd.* (中 國重型汽車集團有限公司)	Interest in a controlled corporation	62,584,000 (Note 1)	Long position	9.83%
Chengshan Group	Beneficial owner	441,859,500 (Note 2)	Long position	69.43%
Beijing Zhongmingxin* (北京中銘信)	Interest in a controlled corporation	441,859,500 (Note 2)	Long position	69.43%

Name	Capacity/ Nature of interest	Number of shares	Long/ Short position	Approximate percentage of shareholding in the Company
Shanghai Chengzhan* (上海成展)	Interest in a controlled corporation	441,859,500 (Note 2)	Long position	69.43%
Ms. Li Xiuxiang	Interest in a controlled corporation	441,859,500 (Note 2)	Long position	69.43%
Ms. Bi Wenjing	Spouse interest	442,439,500 (Note 3)	Long position	69.52%

* For identification purpose only

Notes:

- (1) As at June 30, 2021, China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司) owned 100% of the interests of Sinotruk (BVI) Limited, which in turns owned 51% of the issued share capital of Sinotruk (Hong Kong) Limited. Sinotruk (Hong Kong) Limited owned 100% of the issued share capital of Sinotruk (Hong Kong) International Investment Limited, which in turns owned 100% of the issued share capital of Sinotruk (Hong Kong) Capital Holding Limited, which in turns owned 62,584,000 Shares of the Company. As such, China National Heavy Duty Truck Group Co., Ltd.* (中國重型汽車集團有限公司), Sinotruk (BVI) Limited, Sinotruk (Hong Kong) Limited and Sinotruk (Hong Kong) International Investment Limited are deemed to be interested in 62,584,000 Shares held by Sinotruk (Hong Kong) Capital Holding Limited.
- (2) As at June 30, 2021, Ms. Li Xiuxiang directly owned 50% of the equity interest in Shanghai Chengzhan, which owned 95% of the equity interest in Beijing Zhongmingxin, which in turns owned 42.50% of the equity interest in Chengshan Group. As such, Ms. Li Xiuxiang, Shanghai Chengzhan and Beijing Zhongmingxin are deemed to be interested in the interests in Chengshan Group.
- (3) Ms. Bi Wenjing is the spouse of Mr. Che Baozhen. As such, she is deemed to be interested in all the Shares in which Mr. Che Baozhen is interested.

Save as disclosed above, as at June 30, 2021, to the knowledge of the Directors, none of any other person (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register referred to in section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this interim report, at any time for the six months ended June 30, 2021, the Company or any of its subsidiaries did not enter into any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18 were granted any right to subscribe for the share capital or debt securities of the Company or any other body corporate, or had exercised any such right.

CHANGE OF DIRECTOR INFORMATION

The Directors confirm that no information is required to be disclosed in accordance with 13.51B(1) of the Listing Rules.

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

	Note	Unaudited Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Revenue	7	3,752,306	2,844,044
Cost of sales		(3,133,590)	(2,237,757)
Gross profit		618,716	606,287
Selling and distribution expenses		(213,293)	(181,798)
Administrative expenses		(93,289)	(78,059)
Research and development costs		(119,055)	(68,545)
Other income		29,995	23,951
Other gains — net		34,535	8,399
Operating profit	8	257,609	310,235
Finance income	9	5,484	3,850
Finance costs	9	(545)	(1,989)
Finance income — net	9	4,939	1,861
Share of result of associates		—	—
Profit before income tax		262,548	312,096
Income tax expense	10	(17,199)	(46,832)
Profit for the period		245,349	265,264
Profit attributable to:			
— Shareholders of the Company		245,353	265,196
— Non-controlling interests		(4)	68
		245,349	265,264
Earnings per share for profit attributable to shareholders of the Company for the period			
— Basic (RMB)	11	0.39	0.42
— Diluted (RMB)	11	0.39	0.42

The accompanying notes form an integral part of these condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit for the period	245,349	265,264
Other comprehensive (loss)/income:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	(16,356)	18,027
Other comprehensive (loss)/income for the period, net of tax	(16,356)	18,027
Total comprehensive income for the period	228,993	283,291
Attributable to:		
— Shareholders of the Company	228,997	283,223
— Non-controlling interests	(4)	68
Total comprehensive income for the period	228,993	283,291

The accompanying notes form an integral part of these condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2021

	Note	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	4,475,251	3,852,024
Right-of-use assets	14	120,862	125,009
Intangible assets	13	58,441	52,080
Investment in associates		6,800	6,308
Prepayments and other receivables	18	53,449	8,467
		<u>4,714,803</u>	<u>4,043,888</u>
Current assets			
Inventories	15	1,450,740	973,517
Trade receivables	17	1,587,043	1,331,037
Prepayments, other receivables and other current assets	18	262,041	153,642
Financial assets at fair value through profit or loss	16	48,614	153,479
Amounts due from related parties	27(b)	185,759	215,370
Cash and cash equivalents		512,290	563,165
Restricted cash		147,721	55,780
		<u>4,194,208</u>	<u>3,445,990</u>
Total assets		<u>8,909,011</u>	<u>7,489,878</u>
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	19	201	200
Share premium	19	2,184,287	2,180,207
Reserves	21	1,724,215	1,599,179
		<u>3,908,703</u>	<u>3,779,586</u>
Non-controlling interests		<u>613</u>	<u>617</u>
Total equity		<u>3,909,316</u>	<u>3,780,203</u>

Interim Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2021

	Note	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Liabilities			
Non-current liabilities			
Bank borrowings	22	1,067,229	570,970
Lease liabilities	14	18,015	21,805
Deferred income		54,041	55,220
Deferred tax liabilities	25	65,883	57,766
		<u>1,205,168</u>	<u>705,761</u>
Current liabilities			
Trade payables	23	1,980,664	1,434,152
Other payables and accruals	24	1,174,578	1,232,937
Contract liabilities		41,760	81,676
Lease liabilities	14	9,753	9,208
Provision for warranties		74,237	69,482
Amounts due to related parties	27(b)	16,771	6,231
Current income tax liabilities		25,874	76,041
Bank borrowings	22	470,890	94,187
		<u>3,794,527</u>	<u>3,003,914</u>
Total liabilities		<u>4,999,695</u>	<u>3,709,675</u>
Total equity and liabilities		<u>8,909,011</u>	<u>7,489,878</u>

The accompanying notes form an integral part of these condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	Note	Unaudited Equity attributable to shareholders of the Company			Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000 (Note 19)	Share premium RMB'000 (Note 19)	Reserves RMB'000 (Note 21)			
Balance at 1 January 2021		200	2,180,207	1,599,179	3,779,586	617	3,780,203
Comprehensive income							
Profit for the period		—	—	245,353	245,353	(4)	245,349
Other comprehensive loss							
Currency translation difference		—	—	(16,356)	(16,356)	—	(16,356)
Total other comprehensive loss, net of tax		—	—	(16,356)	(16,356)	—	(16,356)
Total comprehensive income		—	—	228,997	228,997	(4)	228,993
Transactions with shareholders							
Employee share option schemes							
— issue of shares		1	4,080	(655)	3,426	—	3,426
— value of employee services	20, 21	—	—	3,402	3,402	—	3,402
Cash dividends	12	—	—	(106,708)	(106,708)	—	(106,708)
Total transactions with shareholders		1	4,080	(103,961)	(99,880)	—	(99,880)
Balance at 30 June 2021		201	2,184,287	1,724,215	3,908,703	613	3,909,316

Interim Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2021

	Note	Unaudited Equity attributable to shareholders of the Company			Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000 (Note 19)	Share premium RMB'000 (Note 19)	Reserves RMB'000 (Note 21)			
Balance at 1 January 2020		199	2,171,942	1,241,788	3,413,929	389	3,414,318
Comprehensive income							
Profit for the period		—	—	265,196	265,196	68	265,264
Other comprehensive income							
Currency translation difference		—	—	18,027	18,027	—	18,027
Total other comprehensive income, net of tax		—	—	18,027	18,027	—	18,027
Total comprehensive income		—	—	283,223	283,223	68	283,291
Transactions with shareholders							
Capital contributions by non-controlling interests of subsidiaries		—	—	—	—	300	300
Employee share option schemes — value of employee services	20, 21	—	—	7,434	7,434	—	7,434
Transaction with non-controlling interests		—	—	(2,679)	(2,679)	—	(2,679)
Cash dividends	12	—	—	(116,187)	(116,187)	—	(116,187)
Total transactions with shareholders		—	—	(111,432)	(111,432)	300	(111,132)
Balance at 30 June 2020		199	2,171,942	1,413,579	3,585,720	757	3,586,477

The accompanying notes form an integral part of these condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Cash flows from operating activities		
Cash (used in)/generated from operations	(60,390)	20,797
Interest paid	(16,954)	(6,679)
Income tax paid	(59,249)	(11,200)
Net cash (used in)/generated from operating activities	<u>(136,593)</u>	<u>2,918</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(793,290)	(625,986)
Proceeds from government grants	1,566	—
Proceeds from disposal of property, plant and equipment	1,473	609
Purchases of land use rights	(1,209)	—
Purchase of intangible assets	(738)	(1,755)
Repayment of loans granted to a third party	—	2,000
Purchase of financial assets at fair value through profit or loss	(755,200)	(2,461,242)
Proceeds from disposal of financial assets at fair value through profit or loss	862,046	2,543,257
Interest received	1,734	4,134
Net cash used in investing activities	<u>(683,618)</u>	<u>(538,983)</u>
Cash flows from financing activities		
Proceeds from borrowings	943,126	334,444
Repayment of borrowings	(63,617)	—
Transaction with non-controlling interests	—	(2,679)
Principal elements of lease payments	(5,260)	(4,619)
Cash dividends paid	(104,900)	(107,553)
Employee share option scheme — issuance of share	3,426	—
Capital injection by non-controlling interests	—	300
Net cash generated from financing activities	<u>772,775</u>	<u>219,893</u>
Net decrease in cash and cash equivalents	(47,436)	(316,172)
Cash and cash equivalents at the beginning of period	563,165	914,495
Exchange (loss)/gain on cash and cash equivalents	(3,439)	8,191
Cash and cash equivalents at the end of period	<u>512,290</u>	<u>606,514</u>

The accompany notes form an integral part of these condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

1 General information, reorganisation and basis presentation

1.1 General information

Prinx Chengshan Holdings Limited (the “Company”) (Formerly known as “Prinx Chengshan (Cayman) Holding Limited) was incorporated in Cayman Islands on 22 May 2015 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is PO Box 472, Harbour Place, 2nd Floor, 103 South Church Street, George Town, Grand Cayman KY1–1106, Cayman Islands. The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited (“HKSE”) since 9 October 2018.

The Company is an investment holding company and its subsidiaries (together “the Group”) are principally engaged in the manufacturing and sales of tire products in the People’s Republic of China (the “PRC”), America, Asia and other global markets.

The immediate holding company of the Group is Chengshan Group Co., Ltd. (“Chengshan Group”), which is ultimately held as to 76.76% by Mr. Che Baozhen and his spouse, Ms Bi Wenjing, Mr. Che Hongzhi and his spouse, Ms Li Xiuxiang (collectively the “Controlling Shareholders”) and other individual shareholders.

These condensed consolidated interim financial information are presented in thousands of Renminbi (“RMB’000”) and were approved for issue by the board of directors on 31 August 2021.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) except for the adoption of new and amended standards as disclosed in note 3.

3 Significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 Significant accounting policies (Continued)

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

		Effective for annual periods beginning on or after
HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform — Phase 2	1 January 2021

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2021 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

For the six months ended 30 June 2021

4 Estimates

The preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2020.

There have been no material changes in the risk management department in any risk management policies since the year end.

5 Financial risk management (Continued)

5.2 Liquidity risk

Compared to the previous year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total Amount RMB'000
At 30 June 2021					
Bank borrowings	470,890	131,997	790,551	144,681	1,538,119
Interest payables for bank borrowings	8,156	5,166	64,951	26,608	104,881
Amounts due to related parties	16,771	—	—	—	16,771
Trade payables	1,980,664	—	—	—	1,980,664
Other payables	1,010,539	—	—	—	1,010,539
Lease liabilities	9,753	18,015	—	—	27,768
	<u>3,496,773</u>	<u>155,178</u>	<u>855,502</u>	<u>171,289</u>	<u>4,678,742</u>
At 31 December 2020					
Bank borrowings	94,187	87,500	362,735	120,735	665,157
Interest payables for bank borrowings	15,176	13,275	20,652	4,413	53,516
Amounts due to related parties	6,231	—	—	—	6,231
Trade payables	1,434,152	—	—	—	1,434,152
Other payables	1,030,330	—	—	—	1,030,330
Lease liabilities	9,208	21,805	—	—	31,013
	<u>2,589,284</u>	<u>122,580</u>	<u>383,387</u>	<u>125,148</u>	<u>3,220,399</u>

For the six months ended 30 June 2021

5 Financial risk management (Continued)

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value as at the balance sheet dates:

	Level 1	Level 2	Level 3	Total
As at 30 June 2021				
Assets				
Financial assets at fair value through profit or loss				
— Wealth management products (a)	—	—	22,000	22,000
— Listed equity securities	26,614	—	—	26,614
	<u>26,614</u>	<u>—</u>	<u>22,000</u>	<u>48,614</u>
As at 31 December 2020				
Assets				
Financial assets at fair value through profit or loss				
— Wealth management products (a)	—	—	128,000	128,000
— Listed equity securities	25,479	—	—	25,479
	<u>25,479</u>	<u>—</u>	<u>128,000</u>	<u>153,479</u>

There were no transfers between level 1, 2 and 3 during the periods.

5 Financial risk management (Continued)

5.3 Fair value estimation (Continued)

(a) Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

	Fair value at 30 June 2021 RMB'000	Valuation Technique	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Wealth management products	22,000	Discounted cash flow	Expected yield rate	2.1%–2.95% (2.5%)	A change in the yield rate by 100 basis points would increase/ decrease the fair value by approximately RMB214,000.
	Fair value at 31 December 2020 RMB'000	Valuation Technique	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Wealth management products	128,000	Discounted cash flow	Expected yield rate	1.15%–2.95% (2%)	A change in the yield rate by 100 basis points would increase/ decrease the fair value approximately RMB1,254,000.

6 Segment information

The executive directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in manufacturing and selling tire products. The chief operating decision-makers assess the performance of the Group's business based on the measure of operating results and consider the Group's business as a single operating segment. Information reported to the chief operating decision-makers for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment-manufacturing and selling of tire products.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

6 Segment information (Continued)

The Group's revenue by geographical location, which is determined by the continent where the goods were delivered, is as follows:

	Unaudited Six months ended 30 June	
	2021 Revenue RMB'000	2020 Revenue RMB'000
Mainland China	1,872,036	1,863,253
Americas	901,832	223,691
Africa	327,819	292,132
Asia (excluding Mainland China)	293,387	164,619
Middle East	276,986	177,515
Other countries	80,246	122,834
	3,752,306	2,844,044

7 Revenue

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Revenue from customers and recognised at point in time		
Sales of tire products:		
— All steel radial tires	2,610,054	2,237,258
— Semi-steel radial tires	1,057,368	542,659
— Bias tires	84,884	64,127
	3,752,306	2,844,044

8 Operating profit

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Depreciation of property, plant and equipment (Note 13)	(124,998)	(91,946)
Depreciation of right-of-use assets (Note 14)	(6,924)	(6,314)
Provisions for warranty claims	(22,783)	(19,482)
Amortisation of intangible assets (Note 13)	(1,642)	(1,372)
Provision for impairment of trade receivables (Note 17)	(564)	(1,128)
Provision for write-down of inventories (Note 15)	(2,586)	(2,802)
Other income		
— Sales of scraps	13,875	9,619
— Government grants	16,120	14,332
Other gains — net		
— Gains on disposal of financial assets at fair value through profit or loss	846	3,615
— Gains from fair value change of financial assets at fair value through profit or loss	1,135	231
— Gains on disposal of property, plant and equipment	293	159
— Net other foreign exchange (losses)/gains	(4,403)	9,325
— Donations	—	(7,042)
— Compensation for lawsuit (a)	35,982	—

- (a) On 23 December 2016, Prinx Chengshan (Shandong) Tire Co., Ltd., a subsidiary of the Group, sued Qingdao Xinhonglun Industry and Trade Co., Ltd. for failing to transfer ROAD SHINE and GOLD PARTNER trademarks to Prinx Chengshan (Shandong) Tire Co., Ltd. as stipulated in the contract. Qingdao Xinhonglun Industry and Trade Co., Ltd. was required to compensate for the economic losses suffered by Prinx Chengshan (Shandong) Tire Co., Ltd. due to the breach of the contract. Prinx Chengshan (Shandong) Tire Co., Ltd. won the second instance at the end of year 2020 and received the compensation of RMB35,982,000 during the first six months period of 2021. On 12 July 2021, Qingdao Xinhonglun Industry and Trade Co., Ltd. filed an application to the Supreme People's Court of the PRC ("SPC") for retrial. As at the date of this information disclosed, Prinx Chengshan (Shandong) Tire Co., Ltd.'s response to the application for retrial has been submitted to SPC, and the case is pending for a hearing.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

9 Finance income — net

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Finance costs:		
— Interest expense on bank borrowings	(18,328)	(7,337)
— Lease liabilities (Note 14)	(448)	(214)
	(18,776)	(7,551)
Less: amounts capitalised on qualifying assets	18,231	5,562
	(545)	(1,989)
Finance income:		
— Net Foreign exchange gains on borrowings	3,201	—
— Interest income derived from bank deposits	2,283	3,850
	5,484	3,850
Finance income — net	4,939	1,861

10 Income tax expense

The amounts of tax expense charged to the consolidated statements of profit or loss represent:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax	4,569	41,085
— Hong Kong and overseas profits tax	4,513	3,429
Deferred income tax (<i>Note 25</i>)	8,117	2,318
Income tax expense	17,199	46,832
	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit before income tax	262,548	312,096
Tax calculated at applicable tax rates	62,814	85,694
Expenses not deductible for tax purpose	3,420	2,840
Tax exemption of a subsidiary established in specific area	(19,891)	—
Tax benefit from High and New-Technology Enterprise qualification	(17,144)	(34,284)
Additional deduction of research and development cost and other expense	(12,000)	(7,418)
Tax charge	17,199	46,832

Income tax expense is recognised based on the management's estimate of the annual income tax rate expected for the full financial year.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

11 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Profit attributable to the shareholders of the Company	245,353	265,196
Weighted average number of ordinary shares in issue (thousands)	635,520	635,000
Basic earnings per share (RMB)	0.39	0.42

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company's potentially dilutive ordinary shares comprised of share options.

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Profit attributable to the shareholders of the Company	245,353	265,196
Weighted average number of ordinary shares in issue (thousands)	635,520	635,000
Adjustments for share options	953	388
Weighted average number of ordinary shares for diluted earnings per share	636,473	635,388
Diluted earnings per share (RMB)	0.39	0.42

12 Dividends

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Cash dividend paid by the Company (a)	106,708	116,187

(a) Dividend during the six months ended 30 June 2021 and 2020 represented cash dividend declared and paid by the Company to its equity holders.

13 Capital expenditure

	Unaudited	
	Property, plant and equipment	Intangible assets
	RMB'000	RMB'000
Six months ended 30 June 2021		
Opening net book amount as at 1 January 2021	3,852,024	52,080
Additions	766,136	8,012
Disposals	(913)	—
Depreciation and amortisation	(124,998)	(1,642)
Exchange difference	(16,998)	(9)
Closing net book amount as at 30 June 2021	4,475,251	58,441
Six months ended 30 June 2020		
Opening net book amount as at 1 January 2020	2,464,015	48,950
Additions	682,766	4,747
Disposals	(3,876)	—
Depreciation and amortisation	(91,946)	(1,372)
Exchange difference	22,583	23
Closing net book amount as at 30 June 2020	3,073,542	52,348

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

14 Leases

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Right-of-use assets		
— Land use rights	95,545	96,261
— Buildings	25,317	28,748
	120,862	125,009
Lease liabilities		
Current		
— lease liabilities	9,753	9,208
Non-Current		
— lease liabilities	18,015	21,805
	27,768	31,013

The Group's land use rights are all located in the PRC and own land certificates.

The current and non-current portion of lease liabilities amounting to RMB7,324,000 and RMB11,452,000 (2020: RMB7,212,000 and RMB15,113,000) respectively represent amounts due to related parties.

The statement of profit or loss shows the following amounts relating to leases:

	Unaudited Six months ended 30 June 2021 RMB'000	2020 RMB'000
Depreciation of right-of-use assets (Note 8)		
— Land use rights	1,926	1,918
— Buildings	4,998	4,396
	6,924	6,314
Interest expense (Note 9)	448	214
Expense relating to short term leases	9,446	7,573

The total cash payment for leases during the period was RMB14,706,000.

For the six months ended 30 June 2021

15 Inventories

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Raw materials	581,079	229,544
Work-in-progress	85,154	72,385
Finished goods	799,135	684,974
	1,465,368	986,903
Write-downs of inventories	(14,628)	(13,386)
	1,450,740	973,517

Movements on the Group's provisions for write-down of inventory are as follows:

	Unaudited 30 June 2021 RMB'000
At beginning of the period	13,386
Provision for write-down of inventories (Note 8)	2,586
Write-off as recorded in cost of sales	(1,227)
Exchange difference	(117)
At the end of the period	14,628

16 Financial assets at fair value through profit or loss

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Financial assets at fair value through profit or loss		
— Wealth management products (a)	22,000	128,000
— Listed equity securities (b)	26,614	25,479
	48,614	153,479

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

16 Financial assets at fair value through profit or loss (Continued)

	Unaudited 30 June 2021 RMB'000
At beginning of the period	153,479
Additions	755,200
Disposals	(862,046)
Gains on disposal of financial assets at fair value through profit or loss	846
Fair value gains on financial assets at fair value through profit or loss	<u>1,135</u>
At the end of the period	<u>48,614</u>

(a) The wealth management products are fair valued using a discounted cash flow approach. The main input used by the Group is estimated yield rate written in contract with the counterparty. The fair value is within level 3 of the fair value hierarchy (Note 5.3).

(b) The listed equity securities are fair valued based on the quoted market price.

17 Trade receivables

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Accounts receivable	1,420,756	991,406
Less: provision for impairment of accounts receivable	<u>(16,410)</u>	<u>(15,874)</u>
Accounts receivable — net	1,404,346	975,532
Notes receivable	<u>182,697</u>	<u>355,505</u>
Trade receivables — net	<u>1,587,043</u>	<u>1,331,037</u>

The carrying amounts of trade receivables approximated their fair values as at the balance sheet date.

17 Trade receivables (Continued)

As at 30 June 2021 and 31 December 2020, the aging analysis of the trade receivables based on invoice date were as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Up to 3 months	1,570,826	1,205,817
4 to 6 months	13,487	126,191
7 to 12 months	8,735	4,251
1 to 2 years	6,769	6,308
2 to 3 years	218	1,839
Over 3 years	3,418	2,505
	1,603,453	1,346,911

Movements on the Group's provision for impairment of trade receivables are as follows:

	Unaudited 30 June 2021 RMB'000
At beginning of the period	15,874
Provision for impairment of trade receivables (Note 8)	564
Trade receivables written off during the year as uncollectible	(28)
At the end of the period	16,410

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

18 Prepayments, other receivables and other current assets

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Non-current		
Prepayments for purchase of property, plant and equipment	53,449	8,467
Current		
Prepayments	90,891	54,679
Other receivables	59,375	20,928
Other current assets — value added tax to be deducted	111,775	78,035
	<u>262,041</u>	<u>153,642</u>
	<u>315,490</u>	<u>162,109</u>

19 Share capital and Share premium

	Number of authorised shares			
Authorised share capital: As at 1 January 2020, 31 December 2020 and 30 June 2021	<u>1,000,000,000</u>			
	Number of issued shares	Nominal value of Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid:				
As at 31 December 2020	<u>635,861,500</u>	<u>200</u>	<u>2,180,207</u>	<u>2,180,407</u>
Employee share option schemes — Exercise of options	<u>566,500</u>	<u>1</u>	<u>4,080</u>	<u>4,081</u>
As at 30 June 2021	<u>636,428,000</u>	<u>201</u>	<u>2,184,287</u>	<u>2,184,488</u>

20 Share options

Pursuant to an ordinary resolution passed at annual general meeting of the Company held on 17 May 2021 (the "Adoption Date"), the share option scheme (the "2021 Share Option Scheme") was adopted by the Company and replaced the share option scheme adopted by the Company on 5 July 2019 (the "2019 Share Option Scheme"). The number of shares issuable pursuant to the 2021 Share Option Scheme was 50,000,000 shares, being approximately 7.9% of the total number of shares in issue on the Adoption Date.

On 28 June 2021, the board of directors resolved to granted 35,050,000 shares of options to certain eligible employees under the 2021 Share Option Scheme, the exercise price is HK\$8.57 per share. The exercise of share options shall be conditional upon fulfilment of the Company's annual performance objectives and personal performance objectives. Assuming all the conditions for exercise of the share options are fulfilled in accordance with the Share Option Scheme, the proportion of 35% and 65% of the share options may be exercised after the 36 months and 60 months from the date of grant. Subject to the vesting schedule, the Share Option Scheme are exercisable within a period of eight years commencing from the grant date.

Set out below are summaries of options granted under the plan:

	Unaudited			
	30 June 2021		30 June 2020	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at 1 January	HK\$7.28	13,539,800	HK\$7.24	14,400,000
Granted during the year	HK\$8.57	35,050,000	—	—
Exercised during the year	HK\$7.24	(566,500)	—	—
Lapsed during the year	HK\$7.24	(498,000)	HK\$7.24	(647,000)
As at 30 June	HK\$8.23	47,525,300	HK\$7.24	13,753,000

Total fair value of options as at the Grant date granted during the six months ended 30 June 2021 were determined to be HKD94,555,000, assuming the Company's annual performance objectives and personal performance objectives can be fulfilled. The fair value of options were accessed by adopting the Binomial Option-Pricing Model that takes into account the exercise price, option life, the spot price, the expected volatility, the expected dividend yield, the risk free interest rate and the expected post-vesting forfeiture rate, etc. As at the Grant Date. Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such shares are reversed effective the date of the forfeiture.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

20 Share options (Continued)

The key valuation inputs for options granted during the six months ended 30 June 2021 included:

	Six months ended 30 June 2021
Exercise price	HKD8.568
Spot price on Grant Date	HKD8.510
Expected volatility	36.88%
Expected dividend yield	2.35%
Risk-free interest rate	1.073%
Expiry date	28 June 2029
Expected post-vesting Forfeiture Rate	3%

As at 30 June 2021, an employee benefit expense of amounting to RMB3,402,000 (2020: RMB7,434,000) with a corresponding increase in equity is recognized in profit or loss.

21 Reserves

	Capital reserve RMB'000	Statutory Reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Share option reserves RMB'000	Total RMB'000
Balance at 1 January 2021	(70,715)	262,768	(202,239)	1,595,273	14,092	1,599,179
Profit for the period	—	—	—	245,353	—	245,353
Cash dividends (Note 12)	—	—	—	(106,708)	—	(106,708)
Employee share option schemes						
— value of employee services	—	—	—	—	3,402	3,402
— Issue of shares	—	—	—	—	(655)	(655)
Currency translation differences	—	—	(16,356)	—	—	(16,356)
Balance at 30 June 2021	(70,715)	262,768	(218,595)	1,733,918	16,839	1,724,215
Balance at 1 January 2020	(70,715)	200,918	(66,352)	1,170,971	6,966	1,241,788
Profit for the period	—	—	—	265,196	—	265,196
Cash dividends (Note 12)	—	—	—	(116,187)	—	(116,187)
Employee share option schemes						
— value of employee services	—	—	—	—	7,434	7,434
Transaction with non- controlling interests	—	—	—	(2,679)	—	(2,679)
Currency translation differences	—	—	18,027	—	—	18,027
Balance at 30 June 2020	(70,715)	200,918	(48,325)	1,317,301	14,400	1,413,579

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

22 Bank borrowings

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Current		
Short-term bank borrowings		
— Secured	29,070	—
— Unsecured	441,820	94,187
	<u>470,890</u>	<u>94,187</u>
Non-current		
Bank borrowings		
— Secured	885,080	570,970
— Unsecured	182,149	—
	<u>1,067,229</u>	<u>570,970</u>
Total borrowings	<u>1,538,119</u>	<u>665,157</u>

As at 30 June 2021, the secured bank borrowings of RMB914,150,000 were secured by property, plant and equipment amounting to RMB2,446,149,000 (31 December 2020: the secured bank borrowings of RMB570,970,000 and undrawn borrowing facilities of RMB352,345,000 were secured by certain property, plant, and equipment amounting RMB2,380,424,000).

As at 30 June 2021, the weighted average effective interest rates on borrowings from banks were 3.25% (31 December 2020: 3.15%).

The carrying amounts of the Group's bank borrowings were denominated in the following currencies:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
RMB	833,968	240,000
USD	704,151	425,157
	<u>1,538,119</u>	<u>665,157</u>

For the six months ended 30 June 2021

23 Trade payables

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Accounts payable	1,277,924	923,572
Notes payable (a)	702,740	510,580
	1,980,664	1,434,152

- (a) As at 30 June 2021, notes payable of RMB702,740,000 represented bank acceptance notes were secured by all restricted bank balance of RMB116,753,000. As at 31 December 2020, RMB417,560,000 notes payable represented bank acceptance notes and were secured by certain restricted bank balances and RMB93,020,000 notes payable were unsecured.

As at 30 June 2021 and 31 December 2020, the aging analysis of the trade payables based on invoice date were as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Within 3 months	1,686,531	885,687
4 to 6 months	178,705	366,646
7 to 12 months	46,923	118,309
Above 1 year	68,505	63,510
	1,980,664	1,434,152

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

24 Other payables and accruals

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Payables for purchase of property, plant and equipment	589,989	583,118
Payroll and employee benefit payables	160,133	192,182
Accrued expense	149,785	125,849
Accrued sales rebates and commission	140,814	145,365
Deposit from customers	46,291	46,291
Freight payables	45,215	70,074
Other tax payables	3,906	10,425
Interest payables	3,677	2,301
Other payables	34,768	57,332
	<u>1,174,578</u>	<u>1,232,937</u>

25 Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Deferred tax assets	28,562	34,404
Deferred tax liabilities	(94,445)	(92,170)
Deferred tax liabilities, net	<u>(65,883)</u>	<u>(57,766)</u>

The gross movement of the deferred income tax account is as follows:

	Unaudited 30 June 2021 RMB'000
At beginning of period	(57,766)
Charge to the consolidated income statements (<i>Note 10</i>)	<u>(8,117)</u>
At end of period	<u>(65,883)</u>

26 Capital commitments

The capital commitments of the Group as at the respective balance sheet dates were as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Purchase of property, plant and equipment — Contracted but not provided for	1,247,713	774,816

27 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

Save as disclosed elsewhere in the interim condensed consolidated financial information, the following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business for the six months ended 30 June 2021 and 2020, and balances arising from related party transactions as at 30 June 2021 and 31 December 2020.

Name and relationship with related parties are set out below:

Related party	Relationship
Chengshan Group	Immediate holding company
China National Heavy Duty Truck Group Co., Ltd. and its subsidiaries (referred as "Sinotruk")	Controlled by same ultimate parent company of Sinotruk Capital
Rongcheng Chengshan Properties Co., Ltd.	Entity controlled by immediate holding company
Rongcheng Chengshan Energy-Saving Services Co., Ltd.	Entity controlled by immediate holding company
Yunnan Prinx Chengshan Tire Co., Ltd.	The associated company of the Group, established on 12 July 2018, 22% equity interest attributable to the Group
Hebei Prinx Chengshan Tire Co., Ltd.	The associated company of the Group, established on 30 August 2019, 39% equity interest attributable to the Group

The English name of certain companies referred to in these condensed consolidated interim financial information represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

27 Related party transactions (Continued)

(a) Transactions with related parties

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Continuing transactions		
(i) Purchase of utilities		
— Chengshan Group	90,590	71,383
(ii) Sale of goods		
— Sinotruk	248,918	246,055
— Yunnan Prinx Chengshan Tire Co., Ltd.	16,513	19,815
— Hebei Prinx Chengshan Tire Co., Ltd.	18,403	23,576
	283,834	289,446
(iii) Rental and estate management expenses paid and payable		
— Rongcheng Chengshan Properties Co., Ltd.	2,902	2,505
— Chengshan Group	3,856	3,891
	6,758	6,396
(iv) Service received		
— Rongcheng Chengshan Energy-Saving Services Co., Ltd.	1,247	1,572

The related party transactions above were carried out on terms mutually agreed between the parties. In the opinion of the directors of the Company, these transactions are in the ordinary courses of business of the Group and in accordance with the terms of the underlying agreements.

27 Related party transactions (Continued)**(b) Balances with related parties****(i) Amounts due to related parties**

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Current		
Contract liabilities		
— Yunnan Prinx Chengshan Tire Co., Ltd.	—	3,319
— Hebei Prinx Chengshan Tire Co., Ltd.	—	1,314
	<u>—</u>	<u>4,633</u>
Trade payables		
— Chengshan Group	16,306	716
— Rongcheng Chengshan Energy-Saving Services Co., Ltd.	465	882
	<u>16,771</u>	<u>1,598</u>
	<u>16,771</u>	<u>6,231</u>

The ageing analysis of trade payables to related parties at respective dates of statement of financial position were as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Less than 3 months	<u>16,771</u>	<u>1,598</u>

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2021

27 Related party transactions (Continued)

(b) Balances with related parties (Continued)

(ii) Amounts due from related parties

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Current		
Trade balances		
— Sinotruk	178,640	211,507
— Hebei Prinx Chengshan Tire Co., Ltd.	7,119	3,863
	<u>185,759</u>	<u>215,370</u>

The ageing analysis of trade receivables from related parties based on invoice date at respective dates of statement of financial position were as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Less than 3 months	<u>185,759</u>	<u>215,370</u>

(iii) Lease liabilities

Non-current		
— Chengshan Group	<u>11,452</u>	<u>15,113</u>
Current		
— Chengshan Group	<u>7,324</u>	<u>7,212</u>
	<u>18,776</u>	<u>22,325</u>

28 Events occurring after the reporting period

There are no events to cause material impact on the Group from the balance sheet date to the date of this report that should be disclosed.

By Order of the Board
PRINX CHENGSHAN HOLDINGS LIMITED
Che Hongzhi
Chairman and Non-executive Director

Shandong, China, August 31, 2021

As at the date of this announcement, the Board comprises Mr. Che Baozhen, Mr. Shi Futao and Ms. Cao Xueyu as executive Directors; Mr. Che Hongzhi, Mr. Wang Lei and Mr. Shao Quanfeng as non-executive Directors; Mr. Zhang Xuehuo, Mr. Choi Tze Kit Sammy and Mr. Wang Chuansheng as independent non-executive Directors.