



**浦林成山**  
PRINX CHENGSHAN

**Prinx Chengshan Holdings Limited**

**浦林成山控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1809

**PURSUE  
EXCELLENCE**



**成山轮胎**  
中国司机的选择

**2021  
ANNUAL  
REPORT**

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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

P.O. Box 472  
Harbour Place, 2nd Floor  
103 South Church Street  
George Town  
Grand Cayman KY1-1106  
Cayman Islands

## Principal Place of Business in the PRC

No. 98 Nanshan North Road  
Rongcheng City  
Shandong Province  
the PRC

## Principal Place of Business in Hong Kong

Unit A-1, 19/F  
Tower A, Billion Centre  
1 Wang Kwong Road, Kowloon Bay  
Kowloon, Hong Kong

## Authorised Representatives

Ms. Cao Xueyu  
Mr. Shi Futao

## Joint Company Secretaries

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

### **Legal Advisers**

Morrison & Foerster  
33/F, Edinburgh Tower  
The Landmark  
15 Queen's Road Central, Hong Kong

### **Auditor**

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

### **Principal Bankers**

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

### **Principal Share Registrar and Transfer Office**

Ocorian Trust (Cayman) Limited  
Windward 3, Regatta Office Park  
P.O. Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

### **Hong Kong Share Registrar**

Computershare Hong Kong Investor Services  
Limited  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

### **Company Website**

[www.prinxchengshan.com](http://www.prinxchengshan.com)

### **Stock Code**

1809

### **Date of Listing**

October 9, 2018

## Financial Highlights

### Summarised Consolidated Statement of Profit or Loss

|   | Year ended December 31, |                 |                 |                 |                 |
|---|-------------------------|-----------------|-----------------|-----------------|-----------------|
|   | 2021<br>RMB'000         | 2020<br>RMB'000 | 2019<br>RMB'000 | 2018<br>RMB'000 | 2017<br>RMB'000 |
| <b>REVENUE</b>  | <b>7,537,161</b>        | 6,283,130       | 5,588,988       | 5,206,087       | 4,840,396       |
| Gross profit  | <b>1,039,148</b>        | 1,401,363       | 1,075,274       | 1,003,053       | 768,597         |
| Financial (costs)/income  | <b>(4,836)</b>          | 9,129           | 10,429          | (4,595)         | (9,587)         |
| <b>Profit before income tax</b>   | <b>265,902</b>          | 698,216         | 550,004         | 561,780         | 210,018         |
| Income tax expense  | <b>10,400</b>           | (93,468)        | (70,287)        | (83,180)        | (36,446)        |
| <b>Profit for the year</b>  | <b>276,302</b>          | 604,748         | 479,717         | 478,600         | 173,572         |
| <b>Profit attributable to</b>   |                         |                 |                 |                 |                 |
| — Shareholders of the Company   | <b>276,304</b>          | 604,820         | 479,717         | 478,600         | 173,698         |
| — Non-controlling interests   | <b>(2)</b>              | (72)            | —               | —               | (126)           |
|   | <b>276,302</b>          | 604,748         | 479,717         | 478,600         | 173,572         |
| <b>Earnings per share attributable to shareholders of the Company during the year</b> |                         |                 |                 |                 |                 |
| — Basic (RMB)   | <b>0.43</b>             | 0.95            | 0.76            | 0.90            | 0.40            |
| — Diluted (RMB)   | <b>0.43</b>             | 0.95            | 0.76            | 0.90            | 0.40            |

## Consolidated Assets, Liabilities and Non-controlling Interests

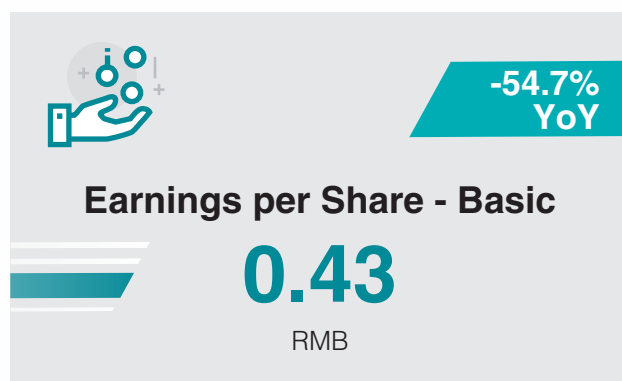
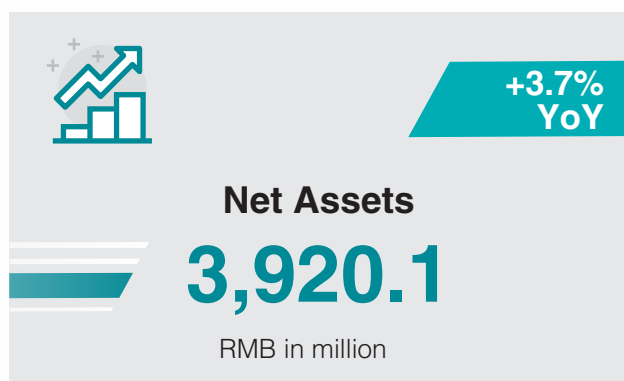
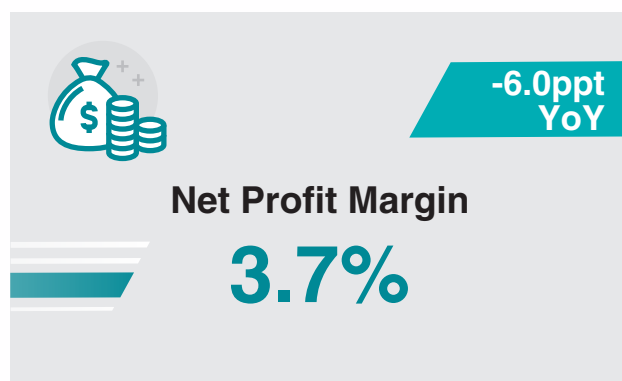
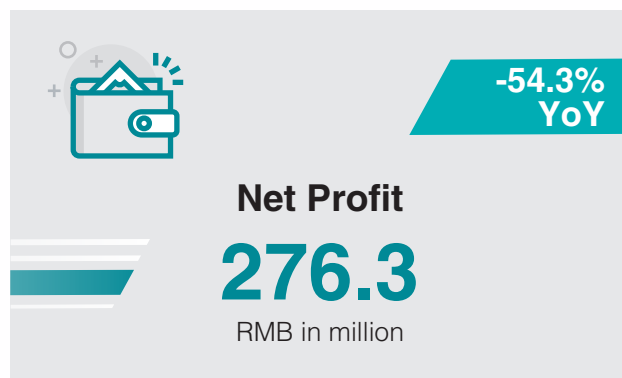
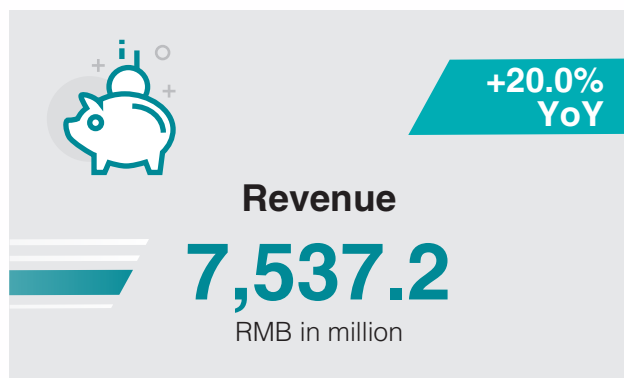
|   | As at December 31, |                  |                  |                  |                  |
|---|--------------------|------------------|------------------|------------------|------------------|
|   | 2021<br>RMB'000    | 2020<br>RMB'000  | 2019<br>RMB'000  | 2018<br>RMB'000  | 2017<br>RMB'000  |
| <b>Assets and liabilities</b>                         |                    |                  |                  |                  |                  |
| Non-current assets                                    | 4,931,751          | 4,043,888        | 2,673,996        | 1,549,843        | 1,326,898        |
| Current assets  | 4,168,659          | 3,445,990        | 3,154,252        | 3,706,577        | 2,649,089        |
| <b>Total assets</b>                                   | <b>9,100,410</b>   | <b>7,489,878</b> | <b>5,828,248</b> | <b>5,256,420</b> | <b>3,975,987</b> |
| Non-current liabilities                               | 1,710,889          | 705,761          | 91,916           | 52,363           | 400,957          |
| Current liabilities                                   | 3,469,389          | 3,003,914        | 2,322,014        | 2,158,100        | 1,973,781        |
| <b>Total liabilities</b>                              | <b>5,180,278</b>   | <b>3,709,675</b> | <b>2,413,930</b> | <b>2,210,463</b> | <b>2,374,738</b> |
| Net assets  | 3,920,132          | 3,780,203        | 3,414,318        | 3,045,957        | 1,601,249        |
| Equity attributable to shareholders<br>of the Company | 3,920,332          | 3,779,586        | 3,413,929        | 3,046,083        | 1,601,375        |
| <b>Non-controlling interests</b>                      | <b>(200)</b>       | <b>617</b>       | <b>389</b>       | <b>(126)</b>     | <b>(126)</b>     |

## Key Financial Indicators

|                        | 2021  | 2020  | 2019  | 2018  | 2017  |
|------------------------|-------|-------|-------|-------|-------|
| Gross profit margin    | 13.8% | 22.3% | 19.2% | 19.3% | 15.9% |
| Net profit margin      | 3.7%  | 9.6%  | 8.6%  | 9.2%  | 3.6%  |
| Return on total assets | 3.3%  | 9.1%  | 8.7%  | 10.4% | 4.5%  |
| Return on equity       | 7.2%  | 16.8% | 14.9% | 20.6% | 11.2% |
| Gearing ratio          | 56.9% | 49.5% | 41.4% | 42.1% | 59.7% |



Key Financial Indicators for the Year Ended December 31, 2021



## Overview of the Group

The business of Prinx Chengshan Holdings Limited (the “**Company**” or “**Prinx Chengshan**”) originated in 1976. Headquartered in Rongcheng City, Shandong Province, the PRC, Prinx Chengshan is a modern enterprise focusing on tire research and development, manufacturing, sales and provision of tire full life-cycle services. It is a leading domestic manufacturer in the commercial all steel radial tire replacement market in the PRC and one of the most influential tire enterprises in the PRC. Over the years, Prinx Chengshan has adhered to the core strategies of “cost leadership, efficiency driven, competitive differentiation and global operation” to strive for global development, and has built two major production bases in China and Thailand, and established three major sales centers in China, North America and Europe to develop a global business operation.

The three major products of the Company and its subsidiaries (the “**Group**”) are all steel radial tires (the “**All Steel Radial Tires**”), semi-steel radial tires (the “**Semi-Steel Radial Tires**”), and bias tires (“**Bias Tires**”). All Steel Radial Tires are the main source of the Group’s performance, and are mainly used in medium/long-distance transportation, buses, mixed road or off-road vehicles, light trucks, etc.; Semi-Steel Radial Tires are mainly used in passenger vehicles, pick-up trucks, sport utility vehicles (SUVs) and other types; Bias Tires are mainly installed in vehicles in agricultural and industrial off-road conditions. The Group’s products have obtained certifications from relevant authorities in major tire markets around the world, including DOT in the United States, ECE in the European Union and R117, etc.

The Group has four well-known tire brands, namely Prinx (浦林), Chengshan (成山), Austone (澳通) and Fortune (富神).

The Group has a well-established and comprehensive global sales network covering major tire markets, and currently sells its products through three main channels:

- (i) sales to the replacement market through domestic and international distributors;
- (ii) direct sales to automobile manufacturers; and
- (iii) sales to private label customers.





## Chairman's Statement



### Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Prinx Chengshan, I am pleased to present the operating results for the year ended December 31, 2021 and the prospect of the Company for your review.

Looking back at 2021, the development of the COVID-19 pandemic (the “**Pandemic**”) and the imbalance of the global supply chain put pressure on the tire industry. The Group faced multiple pressures. First of all, cost pressure came from rising prices of raw materials; the price of upstream raw materials increased significantly due to the mismatch of global supply and demand recovery caused by the difference in response to the Pandemic at home and abroad; coupled with the influence of domestic policies such as “dual control of energy consumption” (dual control of energy consumption intensity and total volume) and “dual limitations” (limitations on the use of electricity and production), the energy and labor costs increased, and the production cost pressure of the manufacturing industry increased. Secondly, the operational pressure brought by the imbalance of global supply chain; due to the surge in sea freight rates and the decrease in global shipping efficiency, the delivery cost of products has increased and the delivery time has been extended, the unpredictable nature of which has brought challenges to the inventory and operation of enterprises. In addition, as the weak domestic market demand has intensified the price competition in the tire industry, the industry as a whole has entered the stage of capacity clearance and profit reduction.

Despite the severe operating environment, we actively responded to the challenges and adjusted our strategies in a timely manner to build up our own strength against the adversity. During the Reporting Period, on the basis of consolidating the market share of commercial vehicle tires, the Group focused on the field of passenger vehicle tires, and the sales structure of the Company was further optimized. Meanwhile, the factory in Thailand was successfully put into operation and operated with high quality. During the year ended December 31, 2021 (the “**Reporting Period**”), the Group recorded a total revenue of RMB7.54 billion, representing a year-on-year increase of 20.0%, and a net profit of RMB276 million, representing a year-on-year decrease of approximately 54.3%.

In 2021, the internal and external situation was complex and severe. All Directors have performed their duties diligently and conscientiously. The Board paid close attention to the changes in the Pandemic at home and abroad and the development trend of the tire industry, gained insight into the changes in the industry landscape, and established a new vision and mission of “leading tire innovation, contributing to smart travel and sustainable development, and achieving a better life”. It formulated a medium-and long-term plan for stable and long-term development, and set a stage goal of achieving a revenue of RMB16.0 billion in 2025. It strived to drive sales growth with sales channels and brand building, continuously improved manufacturing capabilities and levels to meet market demand, strengthened tire manufacturing and sales model innovation, and achieved sustainable and high-quality development.

During the Reporting Period, the Group actively promoted the transformation and upgrading of “intelligent” manufacturing and the expansion of advantageous production capacity. The Phase I project of the tire production base in Thailand (the “**Tire Production Base in Thailand**”), the Group's first overseas production base, fully utilized its production capacity in 2021 and achieved excellent operating results. In 2022, Prinx Chengshan will usher in a batch of new production capacity. The expansion project of the tire production base in Shandong (the “**Tire Production Base in Shandong**”) (1.05 million sets of All Steel Radial Tires per year and 2.8 million sets of Semi-Steel Radial Tires per year) has successfully achieved the designed production capacity by the end of the first quarter of 2022. The phase II project in Thailand (1.2 million sets of All Steel Radial Tires per year and 4.0 million sets of Semi-Steel Radial Tires per year) has achieved the designed production capacity by the end of the first quarter of 2022. At the same time, the Group is preparing for the establishment of a tire production base in Anhui (the “**Tire Production Base in Anhui**”), the second production base in the PRC, to upgrade intelligent manufacturing, focus on the needs of new energy users and enhance manufacturing competitiveness.

Looking forward to 2022, the volatility caused by the Pandemic and geopolitical crisis will continue, and the operating environment will be severe and complicated. At the same time, the efficiency of global supply chain is expected to improve, the price of upstream raw materials will stabilize, the market demand will gradually improve, and the new energy field will grow strongly. The Group will seize the opportunity to launch the passenger vehicle brand plan, carry out channel upgrading, further optimize the structure and increase the market share in the passenger vehicle tire market; promote the construction and operation of the phase II project of the Thailand factory, improve the supply capacity of overseas production bases, and expand the market share in the European and American markets; continue to increase investment in fleet services and tire recycling to strengthen sustainable development capabilities.

## Chairman's Statement

In the face of challenges and opportunities, the Board will perform its duties to strike a balance between sustainable development and risk prevention, strengthen the core competitiveness of the Company in terms of products, brands and channels, and further optimize the product structure and channel structure, so as to continuously create value for customers, make contributions to the society and bring returns to shareholders!

Finally, I would like to thank all the staff for their hard work for the development of the Group. Thanks to all shareholders and friends from all walks of life for their support and help!

**Che Hongzhi**  
*Chairman*

Shandong, China, May 10, 2022



## BUSINESS REVIEW AND OUTLOOK

### Industry dynamics

In 2021, the ongoing Pandemic and the emergence of new variants of the virus posed great challenges to the tire industry in which the Group operates. Due to the significant increase in raw material prices, coupled with the rising energy prices brought about by China's policies of dual control of energy consumption and limitations on the use of electricity and production in the second half of the year, tire manufacturers in China were under severe cost pressure.

All Steel and Semi-Steel Radial Tires of the Company were under tremendous pressure in the domestic market. In the domestic market, the sales volume of heavy-duty trucks in the PRC increased rapidly in the first half of 2021 driven by the shift from "China V" to "China VI" standard, which effectively drove the sales of commercial vehicle tire original equipment ("OE") business. However, from the third quarter of 2021, the sales of heavy trucks dropped significantly, resulting in a decrease in the demand for commercial vehicle tires OE. Due to the simultaneous launch of a large number of new vehicles, coupled with the weak demand for domestic highway freight volume, the replacement demand for commercial vehicle tires was suppressed. Affected by factors such as the slowdown of China's economic growth and the "lack of chips" of vehicles, the market demand for passenger vehicle tires OE and replacement was weak. Although tire manufacturers have started several rounds of "price increase tide", due to the weak domestic market demand and fierce competition, the increase in raw material prices has not been fully transmitted to the selling price, resulting in a decline in the profit margin of the tire industry from the domestic market.

The demand in the overseas tire market rebounded under the relaxation of pandemic prevention and control and positive fiscal stimulus policies in overseas countries and regions. However, due to the poor international maritime transportation and the significant increase in shipping prices, the export transportation of domestic and Southeast Asian production capacity to Europe and the United States was limited, and the profit of overseas business was under pressure. At the same time, due to the continuous impact of the Pandemic in overseas markets, the efficiency of international freight customs clearance was low in 2021, which aggravated the waiting costs of overseas customers in the transportation process, and in turn extended the recovery cycle of corporate funds.

The rising international trade barriers have hindered the export of tire enterprises in China. In early 2021, the review result on the anti-dumping and countervailing duty imposed by the U.S. 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. At the same time, the Eurasian Economic Commission decided to extend the anti-dumping measures on heavy duty tires originating from China to August 2026. In May 2021, the U.S. Department of Commerce announced the final decision on anti-dumping of tires for passenger vehicles and light trucks from Korea, Thailand, Vietnam and Taiwan, the PRC. The Group is subject to a tax rate of 17.06% with reference to other tire enterprises in Thailand. High-quality tire enterprises in China persevere in going overseas for decentralized production capacity distribution to avoid national trade barriers.



### Operation Review

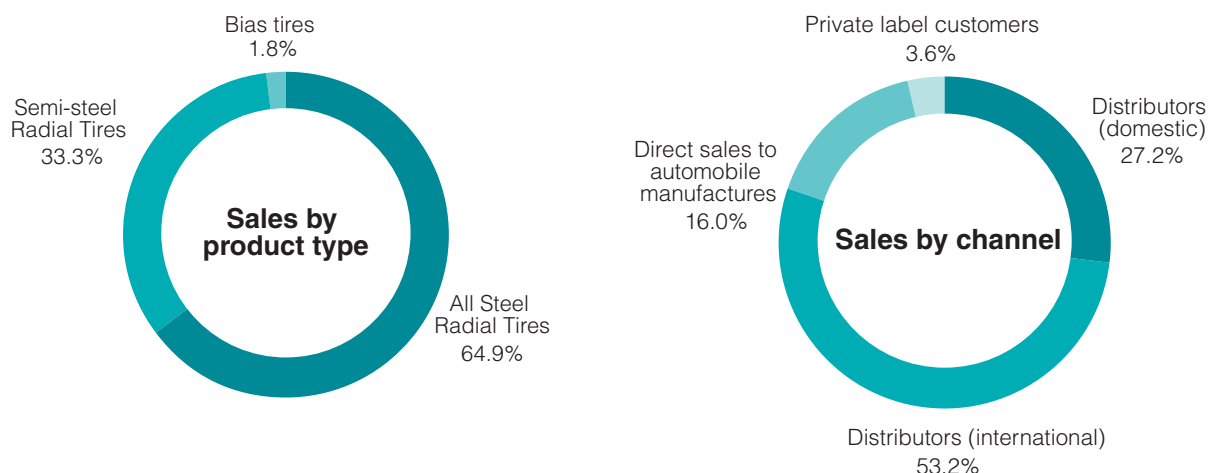
As a leading domestic manufacturer in China's commercial all steel radial tire replacement market, Prinx Chengshan has been deeply engaged in tire design, research and development, manufacturing and sales for forty-five years. With the mission and vision of "leading tire innovation, contributing to smart travel and sustainable development, and achieving a better life", Prinx Chengshan adheres to the core strategy of "cost leadership, efficiency driven, differentiated competition, and global operation".

The Group continuously provided high-performance tires embodying Prinx Chengshan's intelligence and concern to global dealers and Chinese automobile manufacturers to enhance the happiness experience of drivers and passengers.

During the Reporting Period, the Group sold approximately 18.6 million sets, representing an increase of approximately 23.2% as compared to 2020. Among them, sales of All Steel Radial Tires amounted to approximately 6.6 million sets, representing an increase of approximately 3.0% as compared to 2020; sales of Semi-Steel Radial Tires amounted to approximately 11.6 million sets, representing an increase of approximately 42.9% as compared to 2020. Sales of Bias Tires amounted to approximately 0.47 million sets, representing a decrease of approximately 24.3% as compared to 2020. During the year, the Group recorded revenue of approximately RMB7,537.2 million, representing a year-on-year increase of approximately 20.0%, and gross profit of approximately RMB1,039.1 million, representing a year-on-year decrease of approximately 25.8%. Profit attributable to owners of the Company for the year ended December 31, 2021 amounted to approximately RMB276.3 million, representing a year-on-year decrease of approximately 54.3%.

The Group mainly supplies to replacement market through distributors. For the year ended December 31, 2021, the Group's revenue from domestic and international distributor channels amounted to approximately RMB2,043.0 million (2020: approximately RMB1,947.2 million) and RMB4,010.9 million (2020: RMB2,359.9 million), respectively, each accounting for approximately 27.2% and 53.2% of the total revenue; revenue from direct sales to automobile manufacturers was approximately RMB1,209.2 million (2020: approximately RMB1,747.9 million), accounting for approximately 16.0% of the total revenue of the Group; and revenue from sales to private label customers was approximately RMB274.0 million (2020: approximately RMB228.2 million), accounting for approximately 3.6% of the total revenue of the Group. Among them, the sales of All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires accounted for 64.9%, 33.3% and approximately 1.8% of the Group's total revenue, respectively. In addition, the innovative sales model, "Zhianda" sales model, gradually became further mature through practice, which will bring new sales growth point.





During the Reporting Period, the Group adhered to the core values of “customer first, being responsible, devotion and professionalism, innovation and opening up”, and organized and carried out various tasks with a pragmatic, open and enterprising attitude.

### (1) Driving development with technological innovation, and improving efficiency with lean production

The Group adheres to the development driven by technological innovation. During the Reporting Period, the Group continued to strengthen technology research, innovate research and development (“R&D”) methods and continuously improve R&D capabilities. Relying on innovation platforms such as national enterprise technology center, post-doctoral workstation, Shandong Tire Manufacturing Innovation Center, Shandong Multi-scale Tire Life Cycle Engineering Research Center and Shandong Industrial Design Center, the Group conducts product development and process improvement to improve the performance of existing products, and at the same time develops technologies applied to future products, which will add impetus to the sustainable development of the Company.

The Group implements a comprehensive and stringent quality control and production management system. The Group’s Tire Production Base in Shandong promoted technological reform, reduced costs and production site complexity; continued to promote lean production, implemented 151 cost improvement projects such as product lightweight, energy saving and operation optimization, and achieved economic benefits exceeding expectations; continued to increase the degree of automation, improved workshop site management level and personnel production efficiency, and the working hour efficiency of All Steel Radial Tires/Semi-Steel Radial Tires products increased by 1.2% and 4.4% year-on-year, respectively, which laid a solid foundation for building the Company’s core competitive advantages.

The Group's Tire Production Base in Thailand adopts first-class manufacturing equipment, leading design concepts, intelligent manufacturing and management models, and conducts R&D and design with green and intelligent manufacturing standards, which is a solid step for the Group's global development goal. The Phase I of the Tire Production Base in Thailand commenced construction in 2019 and commenced operation in the second half of 2020. In 2021, the production capacity was fully utilized, and the production volume, quality and manufacturing costs all met the expected targets. At the same time, the Phase II of the project entered the construction and equipment installation period. In 2021, under the adverse environment of the outbreak and repeated occurrence of the Pandemic, the management team overcame difficulties and promoted the work of Pandemic prevention and control, operation and management, information technology and technology trial production in a pragmatic and efficient manner. During the Reporting Period, the capacity utilization rate of All Steel Radial Tires ("TBR")/ Semi-Steel Radial Tires ("PCR") in the Tire Production Base in Thailand was 86.7%/94.8%. Despite receiving plenty of orders, the shipment was hindered due to shortage of sea transport resources, and the delivery of orders was impacted. The shipment volume of TBR/PCR accounted for 91.1%/91.9% of production volume, respectively. The product quality has been highly recognized by customers. Relevant products have obtained certifications such as EU ECE and R117, Thailand TISI, Malaysia SIRIM, etc. The factory has obtained ISO 9001 (quality system certification), ISO 14001 (environmental management system), ISO 45001 (occupational health management system) and Thailand Green Factory Level 2 certification.

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 was awarded "2021 Outstanding Quality Brand Award" and "2021 Industry Quality Model Award". In December 2021, Prinx Chengshan, as a representative of a new manufacturing enterprise, participated in the 2021 China Green Tire Safety Week themed activity to popularize green tire knowledge for the public and help sustainable low-carbon travel.

### **(2) Continuously optimizing the supply chain system to improve operational efficiency**

The Group continued to optimize the supply chain system. Through big data analysis, the Group predicted and formulated production plans to meet customer needs, while improving inventory management to form a closed-loop management process system integrating customer, production, procurement and sales. During the Reporting Period, suppliers were included in the Company's "Carbon Peak, Carbon Neutrality" plan through green supply chain activities, adhering to the principle of sustainable development, and conducting supplier management, development and maintenance. Adhering to the 5R procurement principle, the Group ensures the timeliness of procurement and the comprehensive balance of cost and value through clear objectives and process improvement, providing material guarantee for production in multiple regions. The continuous optimization of supply chain organization and management process has realized efficient connection between procurement and sales, and improved the Company's operational efficiency. In terms of logistics management, the Company strengthened the management of carriers and transportation process through the launch of TMS (Transportation Management System) to improve customer satisfaction with the delivery process.

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



During the Reporting Period, the Group recorded a significant year-on-year increase both in sales volume and revenue, with domestic and international distribution keeping pace with the domestic OE market, and received remarkable achievement in the diversification of sales channels. 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 RMB1.52 billion.

### **Distributor channels**

#### *Domestic distributors*

##### Commercial vehicle tire replacement channel

The Group has a relatively high penetration rate in the replacement market for All Steel Radial Tires in the PRC. Since the end of the second quarter of 2021, the logistics transportation industry and infrastructure construction industry in the upstream of heavy trucks have shown a downward trend and continued until the end of the year. In addition, the number of heavy truck vehicles in use has increased rapidly in recent years, and a series of problems have emerged, such as insufficient supply of goods, fewer vehicles, excess capacity, and low freight rates. The replacement market for all steel tires has shrunk. In the face of the severe business environment, the Group and distributors worked together and made progress together to consolidate its share in the commercial vehicle tire replacement market in the PRC.

## Management Discussion and Analysis

During the Reporting Period, the Group started cooperation with 24 new domestic distributors and the number of five-star stores increased by 129. As of December 31, 2021, the Group had 167 domestic distributors and 612 five-star stores, and the cumulative contribution of five-star store customers accounted for approximately 32.24% of the total sales volume of the Group in the domestic replacement market for All Steel Radial Tires, further uplifting the market share of the Group in the domestic replacement market for All Steel Radial Tires.

The Group proactively seeks closer cooperation with distributors. From April to May 2021, the “Prinx Chengshan Commercial Vehicle Distributor Experience Exchange Communication and Training Meeting” with the theme of “Concerted Efforts and Mutual Benefits” was held in Wuhan, Yangzhou, Chengdu and Xi’an to empower the operation of dealers through exchange and sharing. From December 15 to December 16, 2021, the “2021–2022 Prinx Chengshan Commercial Vehicle Replacement Sales Center Distributor Conference” was held in Sanya, Hainan. Distributors from all over the Country and Prinx Chengshan witnessed the brand renewal of Chengshan Tire and the honour of “Top Ten Influential Tire Brand in China” by the World Brand Lab.

### Passenger vehicle tire replacement channel

According to the strategic plan, the Group continued to expand the business scale of passenger car tires. Since the establishment of a new passenger vehicle tire replacement sales center in the first half of 2020, the Group has promoted channel construction by optimizing organizational management and personnel structure, strengthening sales teams, and increasing brand investment to better serve and expand the domestic passenger vehicle tire replacement market. During the period, revenue from the domestic passenger vehicle replacement sales channel increased by 60.3% year-on-year.

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, the “Xiaopu System” of Prinx Chengshan’s omni-channel digital sales system was officially launched. The “Xiaopu System” links consumers, stores, distributors, and factories in real time, integrates the information of manufacturers’ transactions, store transactions, consumer services and other links, and builds a one-object-one-code information carrier, through which the real-time update of tire sales information is realized. Consumers understand product information and pre-sales/post-sales services through “Xiao Pu Ai Jia”. The store completed the transaction through “Xiaopu Cloud Store”, and the sales personnel obtained the sales information and analysis report in real time through “Xiaopu Butler”. In 2021, more than 17,000 online stores were registered, nearly 1.0 million transactions were completed, and more than 4.0 million software clicks were recorded.

During the Reporting Period, the Group’s revenue from domestic distributor channels amounted to RMB2,043.0 million, representing a year-on-year increase of 4.9% from RMB1,947.2 million for the same period of 2020.

### **International Marketing**

In 2021, the Pandemic continued to recur overseas. Despite the overall poor industry situation and the disruption of shipping, benefiting from the increased production capacity of the Thailand factory, the Group achieved a year-on-year increase of 45% in international sales in 2021 by exploring and expanding new logistics supply chain methods. During the Reporting Period, the Group improved the layout of overseas channels and services in lower-tier cities. Through the establishment of a European warehouse, the Group increased the flexibility of supply for customers, met the temporary needs of customers, provided customers with better services, and also provided convenience for the next step to promote the all-steel OE business in Europe.

During the Reporting Period, the Group cooperated with 39 new overseas distributors. Revenue from international marketing amounted to RMB4,010.9 million, representing a year-on-year increase of 70.0% from RMB2,359.9 million for the same period in 2020, among which, approximately 43% of the revenue was generated from the Tire Production Base in Thailand and approximately 57% of the revenue was generated from the Tire Production Base in Shandong.

With excellent products and services, the overseas market of Prinx Chengshan has maintained rapid growth in recent years, and has successfully signed 275 overseas distributors, serving more than 100 countries around the world.

### **Direct sales to automobile manufacturers**

Under the influence of the national policy of implementing the “China VI” standard for diesel heavy trucks, the production and sales volume of various commercial vehicle manufacturers increased in the first quarter of 2021. However, since May 2021, the sales volume of new heavy trucks has declined, and continued to decline in the third and fourth quarters.

The Group seized market opportunities and continued to strengthen cooperation with medium-to-high-end original equipment manufacturers, and established cooperative relationships with a number of new energy vehicle manufacturers demonstrating its development potential in the field of new energy. During the Reporting Period, the Group officially was officially accessed to the OE supplier system of GAC Hino, Yutong Commercial Vehicles, Zhengzhou Nissan and BAIC Motor, and started to provide OE under Prinx brand for pickup trucks of Isuzu. At the same time, the Company is participating in the development of new models of new energy, pick-up trucks and SUVs of Great Wall Motor, and has commenced the development plan of BYD passenger vehicle accessories and SAIC Volkswagen. As at the end of the Reporting Period, the Group has entered the supplier system of 68 automobile manufacturers. Through cooperation with a number of well-established automobile enterprises, the Group’s research and development level can be improved and the product performance can better meet the needs of customers. The Company was selected as one of “China’s Top 100 Auto Parts Enterprises in 2021” on July 12, 2021 and ranked 48th. In 2021, the Group was awarded the honorary titles of Hubei Dayun Automobile (Excellent Supplier), Dongfeng Huashen Automobile (Excellent Supplier), Futian Leisa (Value Contribution Award), Jiangling Automobile (Excellent Supplier) and Jinan Zhong Qi Silver Award Supplier.



During the Reporting Period, the Group's revenue from direct sales to automobile manufacturers amounted to RMB1,209.2 million, representing a decrease of 30.8% compared to RMB1,747.9 million in the same period of 2020, mainly due to weak customer demand.

### **Private label customers**

The agreement entered into between the Group and Cooper (Cooper Tire and Rubber Company) expired on June 30, 2021. The Group has responded in advance to develop its own-brand business to ensure the growth of the Group's export revenue. From 2022 onwards, the Group will no longer separately disclose the status of its labeled customers.

### **(4) Formulation of brand strategy — integration of internationalization and localization, multi-brand and differentiated development**



In 2021, Prinx Chengshan clarified the corporate positioning of “China's new manufacturing of tires” and the main development axis of “green, intelligent, international and branded”. Based on deep insight into consumers, Prinx Chengshan has formulated a brand strategy for the next three years: combining internationalization with localization, multi-brand and differentiated development. Its four major brands, namely Chengshan (成山), Prinx (浦林), Austone (澳通) and Fortune (富神), have completed system renovation.

In December 2021, the Group took the lead in launching a brand new brand image of “Chengshan Tire”, a strong brand of the Company, positioning itself as a “choice of Chinese drivers”, symbolizing the return of the lighthouse elements of Chengshan's 45-year core spirit, and reflecting Chengshan's determination to firmly develop locally. With the brand positioning of “striver with practical efforts”, it highlighted the brand value of “courage and perseverance” and the functional value of “tenacity and durability”.

The “Hua” series, a tire product line for passenger vehicles of Chengshan, will be launched in the market in 2022. The product quality and national culture characteristics are higher than those of similar products in the market, interpreting the confidence of new national brands, and the Company has also launched a new star store packaging and channel promotion policy simultaneously.

Facing the trend of intelligence and electrification in the automobile market, the Company has focused on building a young brand, Prinx, which is positioned as a high-end, technology and young brand. Prinx will adopt digital and youthful brand language to build connections with consumers. At the same time, it will build diversified new retail digital channels, create a convenient mobile service circle, and innovate user experience in multiple dimensions.

Austone and Fortune have also launched differentiated brand images and strategies based on their respective market characteristics. By reshaping the brand experience and value proposition in an all-round way, the Company will reiterate its commitment to users and partners in the era of sustainable travel — not just for some, but for every individual to innovate and create. We help every user to explore a better life with new manufacturing intelligence and perceptible technology.

With more rich brand connotation, Chengshan Tire has successively won the “2021 China’s 500 Most Valuable Brands” by the World Brand Lab, the “2021 China’s Top Ten Influential Tire Brands” by the World Manager Summit, the “Star of Automobile Supply Chain” of the 2021 Automotive Aftermarket Golden Star Award, etc., with a brand value of RMB34.158 billion, representing a year-on-year increase of approximately 17% as compared to 2020, ranking the fourth among China’s tire brands. 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. In May 2021, the Group was included in the “Energy and Chemical Group” list of China brand value evaluation information for four consecutive years at the “China Brand Value Evaluation Information Release and China Brand Construction Summit Forum”. The brand value of Prinx Chengshan increased by approximately 29% as compared with last year, which was much higher than the average value.

### **(5) Innovative sales model**

During the Reporting Period, the Group continued to promote full-process solutions for the commercial vehicle after-sales market under the service brand of “Zhianda”. “Zhianda Model” takes truck and bus tire leasing as the entry point, and through the effective application of RFID (Radio Frequency Identification Technology), TPMS (Tire Pressure Monitoring System) and other intelligent technologies, it can effectively improve the tire safety and operation efficiency of fleet customers, reduce the comprehensive use costs of customers, and ultimately achieve the management of the whole life cycle of tires. At the same time, the Company helps customers to refine their management and create value for customers through the integration of vehicle maintenance, post-market services and other functions.

Through the Zhianda Model, the Group has established its presence in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim regions, which are the most developed logistics industries in the PRC. 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.

During the Reporting Period, the innovative sales model achieved remarkable results, and the number of customers and service income increased steadily.

### (6) Forging ahead and expanding production capacity

In accordance with the sales demand forecast, in 2020, the Board successively approved and agreed to commence the production capacity expansion of 1.2 million sets/year of All Steel Radial Tires and 4.0 million sets/year of Semi-Steel Radial Tires of the phase II project of the Tire Production Base in Thailand. In 2021, due to the impact of the Pandemic in Thailand, the progress of the project was slightly delayed. It is expected that the phase II project has gradually reached the designed capacity in the first quarter of 2022, helping the Group to further explore 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 has reached the designed production capacity in the first quarter of 2022 and increased 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 April 2021, the “Prinx Chengshan 1.05 million sets of All Steel Radial Tire Quality Improvement Project” was successfully selected into the list of “2021 Shandong Province New and Old Kinetic Energy Conversion Major Project Pipeline Selection Project”. This list aims to strengthen the key project of “achieving breakthroughs in five years” for the replacement of old growth drivers with new ones in Shandong Province, and better play the leading and exemplary role of selected projects in the construction of projects in the province.

#### Production capacity expansion of the Group during the Reporting Period

| Product category        | Actual production capacity at the end of 2020<br>(10,000 sets) | Actual production capacity at the end of 2021<br>(10,000 sets) | Expected production capacity at the end of the Q1 of 2022<br>(10,000 sets) | Expected increase% |
|-------------------------|--|--|--|--------------------|
| All Steel Radial Tires  | 715  | 815  | 940  | 15.3%              |
| Semi-steel Radial Tires | 1,240  | 1,440  | 1,920  | 33.3%              |
| Bias Tires              | 120  | 120  | 120  | —                  |
| Total                   | 2,075  | 2,375  | 2,980  | 25.5%              |

## (7) Increasing investment in R&D and striving for innovation

The Group has strong R&D capabilities and possesses innovation platforms such as national enterprise technology center, post-doctoral workstation, Shandong Tire Manufacturing Innovation Center, Shandong Multi-scale Tire Life Cycle Engineering Research Center and Shandong Industrial Design Center. In 2021, based on PLM (product lifecycle management platform), the Company's R&D department implemented parameter design, optimized tire performance simulation forecast model, and connected to the laboratory information management system (LIMS). The success rate of new product development reached over 95%, which shortened the design and production time, and accelerated the design, production and launch of products. As at the end of the Reporting Period, the Group has been granted 273 intellectual property rights, including 15 invention patents, 117 utility models, 118 design patents and 23 software copyrights.

During the Reporting Period, the Group focused on the following R&D projects:

- development of new patterns, all of which have passed strict domestic and international tests, and the comprehensive performance has reached the level of international first-tier products in subjective and objective aspects;
- innovations in production processes such as synchronous mix, second tread technology, EPS pre-vulcanization production process, extrusion line one-click start-up, and wide-spread base-belt winding process;
- completion of the identification of five scientific and technological achievements, namely “high-performance special radial tire technology for commercial light vehicles”, “ultra-high-performance EV01 electric vehicle tire technology”, “application of tire evaluation system in virtual simulation technology for vehicle operation and stability performance”, “electronic radiation technology for high-performance passenger tire main materials” and “unlimited winding design and intelligent manufacturing technology for broad-base section load radial tire belt”;
- “Development and Industrial Application of Technologies for Green High-Performance Tire Series”, which was recognized as a significant scientific and technological achievement during the “13th Five-Year Plan” period by Weihai City; and
- “Low rolling resistance green heavy load radial tire”, which was selected into the “2021 Shandong Innovative Industrial Product Catalogue” of the Department of Industry and Information Technology of Shandong Province in August 2021. A total of 179 products were included in the catalogue, including 10 products from the rubber industry.

Prinx Chengshan actively expands the market of tires for new energy vehicles (“NEVs”). Prinx Chengshan established the “New Energy Vehicle Tire Collaborative Research Office” in 2018 to accelerate the exploration of new energy tire field. Three technological innovation projects, including green tires with ultra-high mileage, special products for new energy buses with long mileage, and ultra-low rolling resistance tires for new energy electric vehicles, were appraised by the review expert group.

The Company 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 Shandong 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 R&D, 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 building

The Group focused on improving organizational efficiency. In order to adapt to the transformation of the management and control model from a single manufacturing base to multiple manufacturing bases, the Group adjusted the organizational structure, streamlined the standardized operation process and standardized management. By streamlining the two-level management and control structure, the Group has redefined its organizational structure and functions, including planning, procurement, logistics and warehousing. Each functional department can make overall arrangements according to market changes, and can choose and define targeted market according to the characteristics and advantages of its branches. Through centralized procurement and production, the Group can effectively reduce costs, achieve faster order delivery, and improve operational efficiency, to establish a reliable operation system for the future development of Prinx Chengshan.

The Group actively introduces talents, pays attention to the integration of corporate culture and the cultivation and development of talents, and conducts multi-field and multi-level training to improve the team's leadership and business professional ability to meet the talent needs for the Company's rapid business development. The Group has established a result-oriented employee capability evaluation mechanism to accelerate the selection and training of outstanding talents and improve their motivation and enthusiasm for work. With the continuous development and expansion of the Tire Production Base in Thailand and the in-depth implementation of the Phase II of the project, Prinx Chengshan Tire (Thailand) Co., Ltd. ("**Prinx Thailand**") actively expanded its recruitment channels to achieve self-recruitment of all employees. At the same time, Prinx Thailand accelerated the selection and training of local employees. On the one hand, supervisors were assigned to work with Thai supervisors with their respective strengths, effectively reducing cultural conflicts and improving communication efficiency. On the other hand, all employees participated in the preparation of SOP (Standard Workflow) manual to train employees with multiple skills.



## (9) Intelligent manufacturing and information construction

During the Reporting Period, the Group continued to promote the construction of smart factories. The Tire Production Base in Shandong strengthened the automation and digitalization of the process from design to production. The R&D department promoted the application of a simulation intelligent design platform to achieve intelligent production scheduling. It also increased the quantity and level of RFID (Radio Frequency Identification) equipment and automatic equipment to improve the accuracy of data in the production process; and implemented the transportation management system, the tracking and control level of the logistics process of finished products. The Tire Production Base in Thailand has realized the digitization of whole-process product manufacturing, and steadily improved the digital capabilities in terms of resource allocation, process optimization, process control, quality control and traceability, thus steadily improving the product quality.

In 2021, the Group achieved the conversion of the ERP systems of its Tire Production Base in Thailand, North America branch and Shanghai Sales Company into SAP system to realize the digital reconstruction of the process in each business segment. “Prinx Chengshan Lean Digitalization Project” was awarded the Golden Dragon Tengfei Award in the selection of excellent benchmark projects for promoting digital transformation by China Computer Users Association.

### **New products**

During the Reporting Period, the Group actively developed new products and optimized its product structure according to its global business layout and market development trend. During the Reporting Period, the Group completed the R&D and launched a total of 401 products, including 118 All Steel Radial Tires and 283 Semi-Steel Radial Tires, further improving its market competitiveness and market share. At the same time, the Group developed 6 All Steel Radial Tires and 10 new pattern and products of Semi-Steel Radial Tires according to the demand in the OE market, the development trend of the replacement market and the expansion of overseas markets.

As at the end of the Reporting Period, the Group has completed the trial production and certification of Chengshan series of All Steel Radial Tires according to the product planning for the European market, and the products have been sold in the European market. The Group has carried out the R&D of a total of 4 patterns of Prinx semi-steel Radial Tires in an orderly manner. In addition, the Group also developed 2 new patterns for the North American market and 1 new pattern for the Southeast Asian market. In addition, based on the domestic market demand and relevant cooperation needs, the Company developed 3 products of All Steel Radial Tires and 4 patterns of Semi-Steel Radial Tires in an orderly manner.

### **Total sales volume of the Group’s products and sales volume of new products developed during the Reporting Period**

| <b>Product category</b> | <b>Sales volume of new products (10,000 sets)</b> | <b>Total sales volume (10,000 sets)</b> | <b>Proportion of sales of new products in total sales</b> |
|-------------------------|---|---|---|
| All Steel Radial Tires  | 270.7   | 658.0                                   | 41.1%   |
| Semi-steel Radial Tires | 587.2   | 1,156.7                                 | 50.8%   |
| Bias Tires              | 0.9   | 46.6                                    | 1.9%  |
| <b>Total</b>            | <b>858.8</b>                                      | <b>1,861.3</b>                          | <b>46.1%</b>  |

### New launch of “Mountain-climbing Tiger” CDH139, being “Chengshan” medium-long-distance and dual-drive special tire

At present, due to the improvement of road conditions and the change of vehicle models in China, the traditional driving pattern has gradually withdrawn from the long-distance expressway market, and the driving wheel can basically meet the demand by using the third-tier and fourth-tier pattern. However, the performance of third-tier and fourth-tier pattern on local wet slides, light snowways and climbing channels on the ground was still insufficient. By accurately capturing the market trend and being customer-oriented, Chengshan launched CDH139 “Mountain-climbing Tiger”, a special tire for medium-long-distance and dual-drive, to effectively meet the market and user needs.



In terms of R&D and mass production of new products, the first passenger vehicle tire “Hua Ren” series under the “Hua” series of the passenger vehicle tire product line of Prinx Chengshan has been launched to the market in 2022. “Hua Ren” focuses on long-range and high-performance passenger car tires, targeting private car consumers who are “practical, responsible and patriotic”. Through the dual-shield wear-resistant technology, it strengthens its leading position in abrasion resistance, durability and safety, and gradually increases the market share of Chengshan Tire in the field of passenger car tires by continuously building the reputation of consumers of family users.

## CHANGE OF COMPANY NAME

On June 9, 2021, the dual foreign name in Chinese of the Company was changed from “浦林成山(開曼)控股有限公司” to “浦林成山控股有限公司” and the English name of the Company was changed from “Prinx Chengshan (Cayman) Holding Limited” to “Prinx Chengshan Holdings Limited” (the “**Change of Company Name**”).

### Reason for the Change of Company Name

Since the initial public offering, the customer base of the Group has expanded from China to various overseas markets. In order to reflect the development of the Company’s business, adapt to changes in the external market environment and meet the needs of sustainable development, the Group is committed to becoming an international enterprise. The Board believes that the Proposed Change of Company Name can better reflect the Company’s current business network and provide a more appropriate corporate identity and image.

The new names will create an international image for the Company and facilitate the business development of the Company as well as its communication with relevant shareholders of the Company (the “**Shareholders**”), which is in the best interests of the Company and Shareholders as a whole.

### Effect of the Change of Company Name

The Change of Company Name affects neither any of the rights of 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 share certificates 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 shares of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") remain unchanged.

Details of the Change of Company Name are set out in the Company's announcement dated April 15, 2021, the circular dated April 15, 2021 and the announcement dated June 9, 2021.

### RESPONSE TO 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. The Group strengthened the Pandemic control in production, sales, transportation and other aspects, took the initiative to assume the responsibility of enterprises to fight against the Pandemic, actively organized and arranged production, and provided customers with safe, continuous and stable product supply.

In response to the Pandemic situation at home and abroad, the Company established a Pandemic prevention mechanism of "rapid response and precise Pandemic prevention". Through the establishment of a team of grass-roots Pandemic prevention specialists, the Company carried out personnel control, environmental disinfection, Pandemic publicity and material preparation, strictly implemented prevention and control measures in accordance with the requirements of the government, built a strong Pandemic prevention barrier, and strived to provide employees with a safe operating environment to ensure the health of employees and the safe production of the Company.

Prinx Shandong carried out vaccination for all employees. During the Reporting Period, the Company organized 6 vaccination sessions with a total of 10,819 doses. Prinx Chengshan (excluding Thailand) completed more than 70% of the booster vaccination. For personnel who are required to travel abroad and travel for work, the Company implemented the Pandemic situation in the destination in advance, refined the travel plan and made good travel arrangement on the basis of ensuring the health and safety of the dispatched personnel. The Company distributed anti-Pandemic gift packs before departure, and monitored them until they return to work safely.

## *Management Discussion and Analysis*

During the Reporting Period, with the mutation of the virus and the rapid spread of new strains, the spread of the Pandemic in Thailand was accelerated. Due to the unstable Pandemic prevention policies in Thailand, several adjustments were made to the quarantine period for returning to Thailand, and the number of international flights was limited, which affected expatriates and commissioning personnel of manufacturers to Thailand to a certain extent.

In view of the rapid spread of the Pandemic in Thailand and the changes in quarantine policies, Prinx Thailand took active measures to respond: on the one hand, it maintained full-process assistance and progress tracking for the visa of equipment suppliers to Thailand, and sought channels from multiple parties to accelerate the processing; timely warning and replacement of personnel in case of failure to travel to Thailand. For some of the equipment that needs to be used urgently, Prinx Thailand commissioned the equipment itself on the site through remote communication with the equipment supplier. On the other hand, Prinx Thailand strictly implemented the Company's Pandemic prevention plan, continuously improved the Pandemic prevention policies according to the development of the Pandemic, ensured the sufficiency of Pandemic prevention materials, established an inspection mechanism, implemented preventive nucleic acid testing, and actively sought support from the local government. By the end of the year, the Company achieved 3,126 vaccination for employees in the PRC and Thailand. The Company's internal Pandemic prevention and control was proper, and people were stable, which did not have a significant impact on production.

The overseas distribution channels were affected by the Pandemic, with obvious differences in geographical differences and timing. Thus, the Group took advantage of the complementary effects of the sales channel to maximize production capacity, while adopting flexible sales strategies to respond to the Pandemic spread trend and change of demand in different markets. Due to the impact of the Pandemic, the recovery progress of international customers' receivables slowed down and overdue situation brought cash flow risks to the Company. For this reason, the Group reinforced the interdepartmental linkage and enhanced the awareness of the credit risk prevention to avoid bad debt loss. Thanks to the Group's diversified market layout, the marketing of international marketing channels did not have a significant impact in 2021.

The Group paid real-time attention to capital dynamics through rolling budgets, strategically adopted different methods for foreign exchange settlement, and monitored and adjusted the scale of assets and liabilities denominated in foreign currencies in real time to avoid risks. As at the date of this report, based on the business operation and capital investment, the Board is of the view that the Group is in a good liquidity position and has sufficient working capital, which is not materially affected by the Pandemic and can meet the expected capital investment plan.

Except for the purchase of necessary materials for Pandemic prevention by Prinx Thailand, the Pandemic has not caused substantial financial burden or loss to the Group.

The Group watches closely the spread trends of the Pandemic all over the world and keeps close monitoring of the potential impact of repeated outbreak or even resurgence of the 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. Adhering to the vision and mission of “leading tire innovation, contributing to smart travel and sustainable development, and achieving a better life”, Prinx Chengshan continuously improves its sustainable development governance, and organically integrates the concept of sustainable development into its operation management. As one of the first “green factories” selected by the Ministry of Industry and Information Technology of the People’s Republic of China and a leader in energy consumption per unit in the industry, the Group continues to adopt environmental protection measures and upgrade production processes. During the Reporting Period, the Group invested approximately RMB50.679 million in emission reduction, resource protection and waste management, continuous energy conservation and consumption reduction, improvement of the flue gas treatment system in the plant area and sewage treatment project in the plant area to reduce the adverse impact of business operations 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 regulations, the Group has included environmental, social and governance matters into the scope of responsibilities of the Group’s Development Strategy and Risk Management Committee. The Board is fully responsible for and leads the Group’s sustainable development management, and has established an ESG office to assist the Board in coordinating and communicating with the management, and assist the Board in fulfilling relevant responsibilities. To ensure the implementation of sustainable development strategies and policies, the management reports the progress of ESG issues to the Board meetings on a quarterly basis. At the same time, the EHS Department (Environmental, Health and Safety), the Strategic Planning Department, the Procurement Department and other relevant departments of the Group actively consider and formulate the medium and long-term goals, schedules of environmental KPIs and how to continuously strengthen ESG factors 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.



## Management Discussion and Analysis

In the face of the challenges posed by the Pandemic, 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.

During the Reporting Period, the staff of Chengshan Group Company Ltd.\* (成山集團有限公司) (“**Chengshan Group**”), together with the staff of Prinx Chengshan Holdings Limited, donated RMB700,000 to Rongcheng Charity Federation, including RMB500,000 for One-day Donation, RMB100,000 for Love Fund and RMB100,000 for Justice and Courage Fund. With the spread of the Pandemic in Thailand in 2021, Thailand has entered a critical period of pandemic prevention and control. While performing internal pandemic prevention and control and pandemic management and control of external partners, Prinx Thailand was also actively helping the Thai people to fight against the Pandemic. The management personnel of Prinx Thailand launched a mask donation activity in Tajam Village, Thailand, and donated a total of 36,000 masks to help villagers solve the problem of shortage of Pandemic prevention materials in a short period of time. 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 against the Pandemic by donating 1,000 bags of rice and 2,000 bags of instant noodles to Thai citizens who are living in hardship due to the Pandemic.

During the Spring Festival, Dragon Boat Festival, Thailand New Year and other important festivals, the Group transported materials from the hometown to the dispatched employees twice. The Company provided holiday lunch boxes to all employees and awarded employees who have made outstanding contributions to pandemic prevention and control.

In terms of environment, the Tire Production Base in Thailand engaged 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.

## BUSINESS STRATEGIES AND PROSPECTS

Looking forward to 2022, the external environment is complex and volatile. The development of the Pandemic has been under control to a certain extent. Despite the acceleration of the global vaccination process, the uneven progress of vaccination in various countries, together with the emergence and spread of new variants of the virus and the anti-Pandemic measures taken by various countries such as quarantine or lockdown, have brought uncertainties to market demand and order delivery. Since March 2022, in order to cooperate with the Pandemic prevention and control, the Tire Production Base in Shandong has recently suspended production for one week, and some employees in the factory area were under closed management to maintain delivery. In terms of supply chain, the economic recovery of major economies has slowed down in the post-Pandemic era, and the trend of trade protection or manufacturing industry recovery has emerged in order to find economic momentum. Such phased “anti-globalization” has aggravated the disruption of global supply chain to a certain extent, but opportunities and challenges coexist.

\* For identification purpose only

Due to the impact of the decline in demand, the Pandemic and the increase in raw material costs, the number of orders in the domestic commercial vehicle replacement market in 2022 is expected to be lower than that of the same period of last year. Due to the impact of the change of the “China V” and “China VI” standards, domestic heavy truck enterprises have overdrawn the demand, and it is expected that the related All Steel Radial Tire OE market may show a downward trend in the short term. The overseas market of All Steel Radial Tires has recovered rapidly, and there are business development opportunities. The orders for passenger vehicle replacement and OE market were generally stable and positive, and the demand for international marketing orders was strong. However, the progress of order execution may be under pressure in the short term due to the impact of shipping space and sea freight rates.

Facing the difficult external situation and industry difficulties, the Group will forge ahead and adopt the following strategies:

- (1) Optimize management and strengthen operation. Internally, the Company reduced expenses and costs, reduced non-productive expenses, reduced raw material procurement costs, and carried out more technological lean projects to control expenses. On the other hand, the Group will strengthen its operation to seize the market and form a two-way positive cycle of “boosting production with sales and promoting sales with production”.
- (2) Accelerate transformation and upgrading. The Company will continue to deepen tire technology innovation and R&D, further transform to “intelligent manufacturing” and “quality manufacturing”, transform to green development, and to “manufacturing + service”, promote the high-end transfer of enterprises to the industrial chain, and give full play to its advantages to extend the competitive chain. The Group will continue to improve the construction of the R&D system, apply tire cloud computing, intelligent design platform, and multi-scale limited-element analysis technology to tire three-dimensional modeling, and develop advanced technologies such as tire ultra-static noise technology.
- (3) Adopt active sales strategies to increase the market share, achieve sales growth and ensure scale effect.

In the domestic commercial vehicle tire replacement market, the Group will build up its backbone with eight operating businesses and guide the sales to shift forward in a timely manner, with a view to building a culture with humanity and a foundation with service.

In the commercial vehicle tire OE market, the Group will seize the opportunity of the upward recovery of the commercial vehicle market, make progress while maintaining stability, and actively explore new tire OE demand, to consolidate the Company’s market position. At the same time, the Group will pay attention to the new energy OE market, vigorously promote new technology products, increase the proportion of sales of low-rolling and high-performance products, build new competitive advantages, and rapidly improve the level of OE specifications, so as to establish an updated and higher-end brand image.

In the passenger car tire replacement and OE market, the Group will implement the “customer first” business philosophy, and strengthen market interaction, customer communication, market feedback and channel quality by means of the “Second Dealer Committee”, product exclusive exchange meeting and distributor conference.

## Management Discussion and Analysis

The international marketing team will take advantage of the capacity expansion in Thailand, focus on sales in North America, Europe and Thailand, explore the sales growth potential in the Middle East, Africa and Latin America, and do a good job in shipping logistics to ensure delivery. The international marketing team will overcome internal and external difficulties and contribute to the Company's performance growth in 2022.

- (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) Pursue green and sustainable development. The Company promotes the use of new environmentally friendly materials, strengthen the research on tire renovation technology, recycling of rubber materials, and the application of bio-based materials, and make its due contributions to carbon peak and carbon neutrality in China.

## FINANCIAL REVIEW

### Revenue

For the year ended December 31, 2021, the revenue of the Group was approximately RMB7,537.2 million, representing an increase of approximately RMB1,254.0 million from approximately RMB6,283.1 million for the year ended December 31, 2020.

### Sales by product type

|                         | 2021<br><i>RMB' 000</i> | 2020<br><i>RMB' 000</i> |
|-------------------------|-------------------------|-------------------------|
| All Steel Radial Tires  | <b>4,888,933</b>        | 4,724,563               |
| Semi-steel Radial Tires | <b>2,511,046</b>        | 1,380,601               |
| Bias Tires              | <b>137,182</b>          | 177,966                 |
| Total                   | <b>7,537,161</b>        | 6,283,130               |

For the year ended December 31, 2021, revenue from sales of All Steel Radial Tires increased from approximately RMB4,724.6 million for the year ended December 31, 2020 to approximately RMB4,888.9 million, representing an increase of approximately 3.5%, with a year-on-year increase in sales volume of 3.0% mainly due to the release of production capacity in Thailand; revenue from sales of Semi-Steel Radial Tires increased from approximately RMB1,380.6 million for the year ended December 31, 2020 to approximately RMB2,511.0 million for the year ended December 31, 2021, representing an increase of approximately 81.9%, with a year-on-year increase in sales volume of Semi-Steel Radial Tires of 42.9% mainly due to the release of production capacity in Thailand, and the increase in unit price of products. Revenue from sales of Bias Tires decreased by approximately 22.9% mainly due to the decrease in sales volume of Bias Tires.

| Sales by channel                         | 2021<br><i>RMB' 000</i> | 2020<br><i>RMB' 000</i> |
|--|-------------------------|-------------------------|
| Distributors                             |                         |                         |
| Domestic                                 | <b>2,043,029</b>        | 1,947,173               |
| International                            | <b>4,010,882</b>        | 2,359,897               |
|  | <b>6,053,911</b>        | 4,307,070               |
| Direct sales to automobile manufacturers | <b>1,209,222</b>        | 1,747,878               |
| Private label customers                  | <b>274,028</b>          | 228,182                 |
| Total                                    | <b>7,537,161</b>        | 6,283,130               |

For the year ended December 31, 2021, revenue from sales to distributors increased from approximately RMB4,307.1 million for the year ended December 31, 2020 to approximately RMB6,053.9 million, which was primarily attributable to the increase in market share benefiting from the release of production capacity in Thailand and the further exploration in domestic and international markets.

For the year ended December 31, 2021, revenue from sales to automobile manufacturers decreased from approximately RMB1,747.9 million for the year ended December 31, 2020 to approximately RMB1,209.2 million, mainly due to the decrease in demand of automobile manufacturers.

For the year ended December 31, 2021, revenue from sales to private label customers increased from approximately RMB228.2 million for the year ended December 31, 2020 to approximately RMB274.0 million, mainly due to the increase in sales volume and unit price of the Private Label business.

### Cost of sales

The Group's cost of sales increased from approximately RMB4,881.8 million for the year ended December 31, 2020 to approximately RMB6,498.0 million for the year ended December 31, 2021, representing an increase of approximately 33.1%. The increase was mainly due to the increase in unit cost as a result of the increase in sales volume by 23.2% year-on-year and the increase in raw material prices and ocean freight charges.

### Gross profit and gross profit margin

The Group's gross profit for the year ended December 31, 2021 amounted to approximately RMB1,039.1 million, representing a decrease of approximately 25.8% compared to approximately RMB1,401.4 million for the year ended December 31, 2020. The Group's gross profit margin for 2021 was approximately 13.8% (2020: 22.3%). The decrease in gross profit and gross profit margin was mainly due to the increase in raw material prices and the increase in sea freight rates, resulting in higher cost increases than selling prices.

### Other Income

The Group's other income for the year ended December 31, 2021 amounted to approximately RMB60.7 million, representing an increase of approximately RMB18.2 million from approximately RMB42.4 million for the year ended December 31, 2020. The increase was mainly due to the increase in government grants of approximately RMB21.5 million to approximately RMB29.0 million for the year ended December 31, 2020; the increase in production volume of the Tire Production Base in Shandong and the Tire Production Base in Thailand resulted in income from sales of scrap materials for the year ended December 31, 2021 increased to approximately RMB31.7 million from approximately RMB20.9 million for the year ended December 31, 2020.

### Selling and distribution expenses

The Group's selling and distribution expenses increased from approximately RMB391.2 million for the year ended December 31, 2020 to approximately RMB437.8 million for the year ended December 31, 2021, representing an increase of approximately 11.9%. The increase was primarily due to the corresponding increase in the variable selling expense due to the increase in sales volume.

### R&D expenses

The Group's R&D expenses increased from approximately RMB158.1 million for the year ended December 31, 2020 to approximately RMB254.0 million for the year ended December 31, 2021, representing an increase of approximately 60.7%. The increase was mainly due to the increase in R&D investment in the Tire Production Base in Shandong and the Tire Production Base in Thailand and actively develop products to meet market needs during the period.

### Administrative Expenses

For the years ended December 31, 2021 and 2020, the Group's administrative expenses amounted to approximately RMB176.0 million and RMB171.3 million, respectively, representing an increase of approximately 2.7%. 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 as well as the reduction of non-essential expenses by the Company.

### Other gains/(losses)

For the year ended December 31, 2021, the Group's other gains increased by approximately RMB70.2 million from other losses of approximately RMB29.6 million for the year ended December 31, 2020 to gains of approximately RMB40.6 million in 2021, which was mainly due to the compensation of lawsuit received by Prinx Shandong.

### Finance Income

For the years ended December 31, 2021 and 2020, the Group's finance income amounted to approximately RMB7.5 million and RMB14.6 million, respectively. The decrease in finance income was due to the effect of the lower balance of funds and the decrease in foreign exchange gains.

### Finance Costs

The Group's finance costs amounted to approximately RMB12.4 million and RMB5.4 million for the years ended December 31, 2021 and 2020, respectively. The increase in finance costs was mainly due to the increase in loan interest as a result of the increase in loans.



### Income tax expense

For the years ended December 31, 2021 and 2020, the Group's income tax benefit was approximately RMB10.4 million and income tax expense was RMB93.5 million, representing a decrease of approximately 111.1%, which was due to the lower income tax as a result of the decrease in profit and the recognition of deferred income tax assets of tax losses.

### Profit for the year

The Group's profit for the year decreased by approximately RMB328.4 million from approximately RMB604.7 million for the year ended December 31, 2020 to approximately RMB276.3 million for the year ended December 31, 2021. The decrease was mainly due to the decrease in the gross profit and increase in expenses.

### Profit attributable to the Shareholders

As a result of the foregoing factors, profit attributable to Shareholders for the year ended December 31, 2021 amounted to approximately RMB276.3 million (2020: approximately RMB604.8 million).

### Dividend distribution

For the years ended December 31, 2021 and 2020, the Group's total dividend distribution amounted to approximately RMB106.7 million and RMB116.0 million, representing a decrease of approximately 8.0% due to dividend distribution per share remaining unchanged with the difference arising from different exchange rates.

### Total comprehensive income for the year

Total comprehensive income for the year of the Group decreased by approximately RMB236.7 million from approximately RMB468.9 million for the year ended December 31, 2020 to approximately RMB232.2 million for the year ended December 31, 2021. The decrease was primarily due to an decrease in net profit and increase in foreign currency statement translation losses incurred by entities whose functional currency is foreign currency.

### Liquidity And Financial Resources

The Group maintained a sound financial position. The Group's borrowing demand was not seasonal. As at December 31, 2021, the Group's cash and cash equivalents (including restricted cash) amounted to approximately RMB854.5 million, representing an increase of approximately RMB235.5 million from approximately RMB618.9 million as at December 31, 2020, which was mainly due to the increase in security deposits for bank acceptance bills. For currencies of the Group cash and cash equivalents, see Note 24 to the consolidated financial statements. As at December 31, 2021, the Group had bank borrowings of approximately RMB1,898.0 million (2020: approximately RMB665.2 million), of which RMB884.3 million was denominated in RMB and the remaining was denominated in USD. Borrowings at floating interest rates accounted for 18%, and borrowings at fixed interest rates accounted for 82%. 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 28 to the consolidated financial statements.

## Management Discussion and Analysis

The current ratio as at December 31, 2021 was approximately 1.2 (2020: 1.1). During the Reporting Period, the Company purchased low-and medium-risk wealth management products to hedge risk while increasing financial returns. As of December 31, 2021, the balance of such wealth management products amounted to RMB85.1 million.

### Inventory

As at December 31, 2021, the Group's inventories amounted to RMB1,484.9 million, representing an increase of RMB511.3 million as compared with RMB973.5 million as at December 31, 2020. The increase was due to the increase in raw materials, work-in-progress and finished goods as a result of the commencement of production of the Tire Production Base in Thailand.

### Trade receivables

As at December 31, 2021, the Group's trade receivables amounted to RMB1,383.7 million, representing an increase of approximately RMB52.7 million as compared to RMB1,331.0 million as at December 31, 2020. The increase was mainly due to the increase accounts receivables as a result of the increase in business from the North American market.

### Prepayments, Other Receivables and Other Current Assets included in Current Assets

As at December 31, 2021 and 2020, the Group's prepayments, other receivables and other current assets included in current assets were approximately RMB 259.6 million and RMB153.6 million, respectively representing an increase of approximately RMB106.0 million. The increase was mainly due to the increase in relevant deductible input tax.

### Amounts due from related parties

As at December 31, 2021 and 2020, the Group's amounts due from related parties were RMB78.8 million and RMB215.4 million, respectively, representing a decrease of approximately RMB136.6 million. The decrease was mainly due to the year-on-year decrease of RMB180.4 million in revenue from sales to China National Heavy Duty Truck Group Co. Ltd\* (中國重型汽車集團) and the corresponding decrease in receivables.

### Trade payables

As at December 31, 2021 and 2020, the Group's trade payables amounted to RMB1,957.6 million and RMB1,434.2 million, respectively, representing an increase of approximately RMB523.4 million, which was mainly due to the increase in purchase of raw materials as a result of the expansion of production capacity and the corresponding increase in payables.

### Other payables and accruals

As at December 31, 2021 and 2020, the Group's other payables and accruals amounted to RMB1,030.9 million and RMB1,232.9 million, respectively, representing a decrease of approximately RMB202.0 million. The decrease was mainly due to the decrease in payables for purchase of machinery and equipment of RMB186.4 million.

### Prepayments and Other Receivables included in Non-Current Assets

As of December 31, 2021 and 2020, the Group's prepayments and other receivables included in non-current assets amounted to approximately RMB79.1 million and RMB8.5 million, respectively, representing an increase of approximately RMB70.6 million. This increase was mainly due to growth in prepayments of construction of property, plant and equipment.

### Gearing ratio

As at December 31, 2021, the gearing ratio was 21.4% (2020: 2.0%). The ratios was calculated as net surplus/debt divided by total capital. Net surplus/debt is calculated as total borrowings less cash and cash equivalents and restricted cash. Total capital is calculated as equity plus convertible redeemable preferred shares on an as-if converted basis plus net surplus/debt, which is total equity and financial liabilities at fair value through profit or loss as shown in the consolidated statements of financial position and net surplus/debt.

### Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year ended December 31, 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.

### Charges on Assets

As at December 31, 2021, the Group's restricted cash balance of approximately RMB125.7 million (2020: approximately RMB55.8 million) was pledged as security for bills payable issued by the Group and for letters of credit. The Group's property, plant and equipment of approximately RMB3,338.2 million (2020: approximately RMB2,380.4 million) were pledged as security for bank borrowings of RMB1,223.7 million and undrawn loan facilities of RMB191.3 million. Save for the above, the Group did not have any charges on its assets.

### Investments

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. The Company intends to construct the Tire Production Base in Thailand on the Land. The details of the transaction could be found in the announcement published by the Company dated December 27, 2018. As the highest applicable percentage ratio (as defined under the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange) in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

## Management Discussion and Analysis

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 has commenced the construction project of the Phase II of the Tire Production Base in Thailand with a production capacity of 1.2 million sets of all steel tires per year, and the total investment amount of the project is expected to be approximately RMB541.0 million. In the first half of 2021, the Company has commenced the construction project of the Phase II of the Tire Production Base in Thailand with a production capacity of 4.0 million sets of semi steel tires per year, and the total investment amount of the project is expected to be approximately RMB896.0 million. The phase II project has reached the designed production capacity in the first quarter of 2022. There are still some unused factory space available for construction of Phase III (2.0 million sets of semi-steel tires per year). The Company will start based on the overall situation.

The Group has initiated the expansion plan of Prinx Shandong, a wholly-owned subsidiary of the Company, in the second half of 2020. The total investment of the project is expected to be approximately RMB666.0 million, which will increase the annual production capacity of All Steel Radial Tires by 1.05 million units and the annual production capacity of Semi-Steel Radial Tires by 2.8 million units, which has reached the designed production capacity in the first quarter of 2022.

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.”, a wholly-owned subsidiary of the Group, was registered in Anhui with registered capital of RMB378.0 million.

On August 31, 2021, the Board considered and approved the resolution on the adjustment of the shareholding structure of Anhui Prinx Chengshan Tire Co., Ltd. (“**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 RMB378.0 million to RMB1.0 billion, of which Prinx Shandong will contribute RMB510 million, accounting for 51% of the registered capital; and Hefei Dongcheng Industrial Investment Co., Ltd., a new shareholder, will contribute RMB490.0 million, accounting for 49% of the registered capital. The Anhui Project is currently undergoing the pre-approval procedures and the approval of land indicators. The Group will make further announcement after the approval is obtained and the agreement is signed.

The construction of the second factory in Anhui will be the future investment plan of the Group.

Save as disclosed above, the Group did not have any other significant investments for the year ended December 31, 2021. Up to the date of this annual report, the Group did not participate in any other significant investments other than the Tire Production Base in Thailand and the production expansion plan for Prinx Shandong.

## RISKS AND UNCERTAINTIES

### (1) Macro Environment Risks

Given that the impact of the Pandemic will continue, the supply chain problem will still be difficult to solve in the short term and the economic expectations will weaken, the global economy will still face severe challenges in 2022, and the uncertainty of global economic recovery will increase significantly. On January 25, 2022, the International Monetary Fund (IMF) lowered the global economic growth forecast for 2022 by 0.5 ppts to 4.4% in the latest World Economic Outlook (WEO), and comprehensively adjusted the growth forecast of major economies for the year. With the large-scale spread of the Omicron strain, it is expected that major western countries will adopt fully liberalized Pandemic prevention policies in 2022, which will bring re-adjustment and re-balance of the global industrial chain and supply chain, and will bring huge challenges and uncertainties to the logic of China's macroeconomic operation.

In 2022, China's economic growth is likely to be "stable after a decline". Although China's economy is facing pressure in the short term, the support of macroeconomic policies will be further strengthened. On the one hand, in order to cope with the pressure of weak economic margin, the support of monetary policy continued to increase. Recently, the Loan Prime Rate (LPR) and the Medium-term Lending Facility (MLF) rate have been lowered, and a Required Reserve Ratio (RRR) cut has also been implemented. Looking forward to 2022, it is expected that the monetary policy will be loosened in both quantity and structure. Fiscal policy in 2022 will play a more important role in stabilizing growth, and is expected to make efforts in both increasing expenditure and reducing income.

### (2) 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. For the year ended December 31, 2021, the Group's revenue denominated in USD from overseas operations accounted for approximately 56.1% (2020: 41.2%) of the total revenue, which was mainly used for the procurement of overseas raw materials, and the operating expenses of Prinx Thailand were mainly settled in THB. Therefore, the Group was exposed to foreign exchange risk arising from USD and THB. 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 uses financial instruments such as forward exchange settlement and options to reduce 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.



### **(3) Impacts Caused by Tariff and Anti-dumping and Countervailing Duty Imposed by the United States Government on Products Imported from the PRC and Thailand**

On March 22, 2018, then U.S. President Trump signed a presidential memorandum declaring that according to the results of the “301 survey”, tariffs would be imposed on imports from China 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%. After President Biden took office in 2021, additional tariffs continue to be imposed on goods imported from China.

In addition, on February 15, 2019, the U.S. Department of Commerce imposed an anti-dumping and countervailing deposit tax on truck and bus tires under the “anti-dumping and countervailing” tax order on truck and bus tires in China. Prinx Chengshan was ordered to pay a combined security rate of 42.16% of the anti-dumping and countervailing duty. On February 3, 2020, the U.S. Department of Commerce issued a notice to initiate the first administrative review process for anti-dumping and countervailing duties against imported truck and bus tires from China. The investigation period for the anti-dumping review is from February 15, 2019 to January 31, 2020, and the investigation period for the countervailing review is from February 15, 2019 to December 31, 2019. On June 21, 2021, the U.S. 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, and Shandong Company of the Group applied a separate tax rate of 17.04%. On December 20, 2021, the U.S. Department of Commerce announced the final-determination duty rate of the first administrative review on the countervailing duty against truck and bus tires from China. From December 23, 2021, the Group’s Shandong Company will pay countervailing duty deposits for truck and bus tires exported to the U.S. at the tax rate of 17.47%. Such change in tax rate has greatly reduced the tax rate for the Group’s exports to the United States and enhanced the competitiveness of the Group’s products in the United States market. In addition, the Group also actively participated in the second administrative review on countervailing duty against tires imported from China by the U.S. Department of Commerce launched on April 1, 2021. The investigation period of the countervailing review is from January 1, 2020 to December 31, 2020. On February 28, 2022, the U.S. Department of Commerce announced the preliminary-determination duty rate of the second administrative review on the countervailing duty against truck and bus tires from China, and Shandong Company of the Group is subject to a separate tax rate of 17.85%, which is expected to be finally determined by the end of December 2022. On December 8, 2021, the U.S. Department of Commerce announced the list of mandatory respondents to the sixth countervailing investigation of the administrative review of the semi-steel tire in China. Sumitomo rubber was selected as a compulsory respondent, and the Group also actively participated in the review. The countervailing tax rate of the Group in the review will depend on the results of the complaint of Sumitomo rubber, a compulsory respondent.

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 a countervailing investigation against the tires for passenger vehicles and light trucks from Vietnam. The U.S. 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, an average anti-dumping duty rate of 17.06% applied. This move will have a negative impact on the sales of the Group's Tire Production Base in Thailand.

The uncertainty of anti-dumping and countervailing duty rates will pose risks to the Company's operations. To this end, the Company will make arrangements in advance and actively respond to the following aspects to reduce the impact on the Company: firstly, to expand the sales of the Tire Production Base in Thailand in non-U.S. markets and reduce the reliance on a single market; secondly, to develop non-U.S. market products by relying on the Company's R&D efforts, and improve the competitiveness of the Tire Production Base in Thailand through product adjustment and enrichment.

#### **(4) Overseas investment risk**

During the Reporting Period, the construction and operation of the Company's overseas production bases progressed 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. Local economic, political, policy and legal changes in Thailand may change the investment environment in Thailand, affect the construction period of project investment, and pose risks to the Company's operation and investment. Whether the Pandemic can be effectively controlled in Thailand will affect the production and transportation in the Tire Production Base in Thailand. Due to travel restrictions brought by the pandemic control, some Chinese-based personnel could not travel to Thailand in a timely manner or return to China to visit relatives on time. The Group adopted comprehensive measures such as remote training to guide the office, implementation of SOP standardized rotation training, arranging personnel exchanges in batches, and expanding recruitment channels in multiple aspects. Some businesses were evaluated and adjusted to the headquarters for undertaking, so as to reduce the impact of the Pandemic on daily operations. In order to cope with the difficulties in tire warehousing in Thailand caused by the shortage of container volume, the Group has cooperated with other parties internally and externally to find new ocean carriers to reduce the risk of shipment 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.

### (5) Climate change risks

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 incorporates 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 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, the Company has established a list of applicable laws and regulations which is 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. Based on the full cooperation between the legal department of the Company and external legal advisors, and through the continuous and effective supervision of the Company, the Company is able to comply with the relevant laws and regulations within and outside the PRC that have a significant impact on the Company.

## CAPITAL STRUCTURE

There was no change in the capital structure of the Company during the Reporting Period. The capital of the Company comprises ordinary shares and other reserves.

## CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at December 31, 2021, the Group had capital commitments of approximately RMB228.5 million (2020: approximately RMB774.8 million). The Group had no contingent liability that would result in a significant impact during the Reporting Period (2020: nil).

## **SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES, AND JOINT VENTURES**

For the year ended December 31, 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.”, which is mainly developing tire rental service business. The three companies are currently in normal business operation. 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 mentioned above, in April 2021, Anhui Company, a wholly-owned subsidiary of the Group, was registered in Anhui with a registered capital of RMB378.0 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 RMB1.0 billion, of which, Prinx Shandong will contribute RMB510.0 million, accounting for 51% of the registered capital; and Hefei Dongcheng Industrial Investment Co., Ltd., a new shareholder will contribute RMB490.0 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 in the section headed “Investments”, the Group did not have any other significant investments, material acquisitions and disposals of subsidiaries, associated companies and joint ventures during the Reporting Period.

## **FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OR CAPITAL ASSETS**

As mentioned above, it is the Group’s future investment plan to construct the second domestic factory project in Anhui. On August 31, 2021, the Board considered and approved the investment proposal for the first phase of the Tire Production Base in Anhui. The total investment of the project is expected to be approximately RMB3,000.0 million, which will increase the annual production capacity of All Steel Radial Tires by 800,000 sets and the annual production capacity of Semi-Steel Radial Tires by 5 million sets. The source of funding was the shareholder’s capital contribution and the syndicated loan. On December 20, 2021, the Board approved the annual financial budget of the Company for 2022, which covers the investment plan of the first phase of the project of Anhui Company with an estimated total investment of RMB1.748 billion. As mentioned above, the Anhui Project is currently undergoing pre-approval procedures and land quota approval, and will commence construction when appropriate after obtaining the approval.

Save as disclosed above, there was no plan authorized by the Board for other substantial investment or additions of capital assets.

## **HUMAN RESOURCES MANAGEMENT**

As at December 31, 2021, the Group had a total of 6,450 employees (as at December 31, 2020: 6,124). For the year ended December 31, 2021, the Group's employee benefit expenses amounted to approximately RMB613.7 million (for the year ended December 31, 2020: approximately RMB579.9 million).

The Group pays remuneration and bonuses to employees based on their positions and skills and based on the output of performance results, and timely understands and refers to the market standards of the industry to adjust the remuneration level. Through position value assessment, positions are divided into different professional sequences, and a rank system is established. Through skills assessment and other methods, skill subsidies are provided to those with high work skills to provide incentives.

In order to attract, retain, motivate and encourage employees to strive to create value for the Company and the Shareholders, the Group has established a training institute and successively cooperated with a number of universities such as Qingdao University of Science and Technology, Shandong University of Science and Technology and Weihai Ocean Vocational College to train talents and jointly build a high-quality talent training base and a skill training base. During the Reporting Period, the Group continued to strengthen all-round cooperation with key universities in the province, and achieved good development in talent training, training base construction and other aspects. Through supporting various cultural, physical, skill competitions, scholarship establishment and other activities of colleges and universities, the Group further strengthened the employer brand building among colleges and universities, and won good reputation.

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**"). All options granted and accepted and remained unexpired prior to such termination continued to be valid and exercisable in accordance with their terms and the terms of the 2019 Share Option Scheme. For details, please refer to the Company's circular dated April 16, 2021 and announcements dated May 17, 2021 and June 18, 2021, respectively. Details about the changes in Options for the year ended December 31, 2021 are set out in the section headed "Share Option Scheme" in this annual report.

The Company also adopted a profit sharing scheme (the "**Profit Sharing Scheme**") on July 5, 2019. Details of the profit sharing scheme adopted by the Company are set out in the section headed "Profit Sharing Scheme" in the Directors' Report of this annual report.



## Directors and Senior Management

### EXECUTIVE DIRECTORS

**Mr. Che Baozhen**, aged 39, was appointed as a Director on May 22, 2015 and was appointed as a member of the Nomination and Remuneration Committee. He has also been the general manager of Prinx (Shandong) Tire Co., Ltd. ("**Prinx (Shandong) Tire**"), one of the subsidiaries of the Company, from April 2017 to January 2021. Mr. Che joined our Group in December 2005. He is all subsidiaries of the Company (excluding Prinx Chengshan (Qingdao) Industrial Research and Design Co., Ltd. ("**Prinx (Qingdao)**"), Shenzhen Zhianda Tire Technology Service Co., Ltd., Shanghai Zhianda Rubber Technology Co., Ltd., Prinx Chengshan Europe GmbH ("**Prinx (Europe)**") and Prinx Chengshan Tire North America LLC. Mr. Che is also our chief executive officer. He has over 15 years of experience in automotive tire industry and is responsible for the overall day-to-day operations, management, administration and strategic planning of our Group. Prior to joining our Group, Mr. Che was a staff of Chengshan Group from December 2003 to May 2010, where he was responsible for handling external relations and asset management with external parties. In June 2010, Mr. Che was appointed as the assistant of general manager in Shandong Haizhibao Ocean Technology Company Limited. In December 2010, Mr. Che was appointed as the chairman of Rongcheng Chengshan Construction Property Limited Company.

Mr. Che obtained undergraduate bachelor degree in computer sciences and technology from the University of Science and Technology in Beijing, the PRC in July 2003. He further obtained a master degree in business administration from Bond University, Queensland, Australia in October 2015.

Mr. Che is the son of Mr. Che Hongzhi, the chairman of the Board and a non-executive Director.

**Mr. Shi Futao**, aged 52, was appointed as a Director on October 28, 2015. Mr. Shi joined our Group in December 2005 as a financial controller and was promoted to a director of Prinx (Shandong) Tire in November 2014 and a deputy general manager in September 2015. He is a director of Prinx Investment Holding Limited ("**Prinx Investment**"), Prinx Chengshan (Hong Kong) Tire Limited ("**Prinx Hong Kong Tire**"), Prinx (Hong Kong) Rubber Company Limited ("**Prinx Rubber**"), Jinan Zhianda Tire Service Co., Ltd., Zhianda (Shanghai) Tire Service Co., Ltd., Prinx Chengshan Tire North America Inc. and Prinx Thailand, all being subsidiaries of the Company. He has over 30 years of experience in accounting and financial management in the PRC. Mr. Shi is responsible for the overall financial management of our Group.

Mr. Shi obtained a master degree in company finance from the University of Salford in the United Kingdom in December 2002. He was admitted as a non-practicing certified accountant by the Chinese Institute of Certified Public Accountants ("**CICPA**") in 1995. Mr. Shi was recognized as a Senior International Finance Manager ("**SIFM**") by the International Financial Management Association in December 2011. He was awarded with the first stage of high-end accounting personnel training engineering enterprises certificate by Shandong Provincial Party Committee Organization Department, the Shandong Province Finance Bureau and the Shanghai National Accounting Institute in April 2014. Since January 2016, Mr. Shi has been a fellow member of the Chartered Institute of Management Accountants ("**CIMA**") in the United Kingdom and a Chartered Global Management Accountant of the American Institute of Certified Public Accountants in the United States, respectively.

## *Directors and Senior Management*

**Ms. Cao Xueyu**, aged 51, was appointed as a Director on March 5, 2018. Ms. Cao was also appointed as a joint company secretary of the Company on March 29, 2019. She joined the Group as a director of Prinx Hong Kong Tire on July 1, 2016. Ms. Cao is responsible for the overall management, administration and strategic planning of the Group. She is a director of Prinx Rubber and Prinx Investment, subsidiaries of the Company. Prior to joining the Group, Ms. Cao was a cost accountant and sales accounting supervisor in Nestle Qingdao Limited from June 1994 to January 1997. She was responsible for the internal reportorial documentations relating to sales. In September 2000, she joined the Best Western International Inc. as an account clerk in its national office in New Zealand, and worked as the assistant accountant in April 2001 until May 2004. In September 2004, Ms. Cao was the finance manager of Wistar Enterprises Limited. She was responsible for supervising the finance team of the company to provide financial and management accounting support to the subsidiaries of the company.

Ms. Cao was awarded with the New Zealand Diploma in Business by the Auckland University of Technology, New Zealand, in April 2003. She was recognized as the Associate Chartered Management Accountant by the Chartered Institute of Management Accountants since November 2015. In October 2016, Ms. Cao was admitted as a certified accountant by the Certified Public Accountant Australia (“**CPA (Aust.)**”).

### **NON-EXECUTIVE DIRECTORS**

**Mr. Che Hongzhi**, aged 65, was appointed as a Director on May 22, 2015. He was re-designated as non-executive Director on March 5, 2018. He was also appointed as the chairman of the Board and the chairman of the Development Strategy and Risk Management Committee. He is the founder of the Group. Mr. Che is a director of all subsidiaries of the Company (excluding Prinx (Europe), Qingdao Zhianda Investment Co., Ltd. and Prinx Chengshan Tire North America Inc.). He is also the legal representative of two PRC subsidiaries of the Company. Mr. Che is responsible for providing professional opinion and strategic direction to the Group. Since December 2003, he has been the chairman and executive director of Chengshan Group. He has approximately 21 years of experience in tire production industry. Prior to establishing the Group, Mr. Che was the chairman of Shandong Chengshan Tires Company Limited from October 2000 to May 2010.

Mr. Che obtained a professional certificate in chemistry from Yantai Education College, in July 1987. He was awarded as a national model worker by the State Council of the PRC in April 2005. He was further being credited as an outstanding provincial party member by Shandong Provincial Party Committee, the PRC in June 2016.

Mr. Che is the father of Mr. Che Baozhen, the Executive Director.

**Mr. Wang Lei**, aged 43, was appointed as a Director with effect from April 20, 2017. He was re-designated as non-executive Director on March 5, 2018. Mr. Wang has also been a director of Prinx (Shandong) Tire since April 20, 2017. On December 28, 2014, he joined the Group as a director of Prinx (Shandong) Tire until October 15, 2015. Mr. Wang is responsible for providing professional opinion and judgment to the Group. Prior to joining the Group, he was employed as vice section chief of the reception section of the general manager office by Shandong Chengshan Tires Company Limited in December 2001. In October 2007, he acted as the deputy head of general office of Chengshan Group; in December 2009, as the head of general office of Chengshan Group; and in March 2014, as the deputy general manager of administrative center in Chengshan Group. In February 2017, he was appointed as the general manager of the administrative centre of Chengshan Group. Mr. Wang was responsible for the administrative management of the company. Mr. Wang is an executive director of Chengshan Group.

Mr. Wang obtained an associate degree in financial accounting from Shandong TV University, Shandong, the PRC in July 1998. He further obtained an undergraduate degree in economic management from the CPC Shandong Provincial Committee Party School, Shandong, the PRC in December 2001. Mr. Wang was honoured as a 2012 new Long March Raiders of Weihai City (2012年度威海市新長征突擊手) by Weihai Communist Youth League in December 2013.

**Mr. Shao Quanfeng**, aged 38, was appointed as a non-executive Director on February 24, 2020. In July 2007, Mr. Shao served as the general accountant of the group finance department of China National Heavy Duty Truck Group Co., Ltd.; in May 2012, he served as the trainee assistant to the general manager of the sales department of CNHTC Ji'ning Commercial Truck Co., Ltd.; in November 2012, he served as the trainee assistant to the general manager of the special vehicle business department of CNHTC; in July 2014, he served as the trainee assistant to the general manager of CNHTC Finance Manager of Investment Holdings Limited; In August 2018, he served as the first-level business director of the finance department of Sinotruk International Co., Ltd.; he has been the managing director of Sinotruk (Hong Kong) International Capital Limited since December 2018.

Mr. Shao obtained a bachelor's degree in accounting from Shandong University in the PRC in July 2007 and was granted intermediate accountant certificate in August 2011.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Mr. Zhang Xuehuo**, aged 59, was appointed as an independent non-executive Director, the chairman of the Nomination and Remuneration Committee and a member of each of the Audit Committee and the Development Strategy and Risk Management Committee with effect from September 10, 2018. Mr. Zhang has been the chairman of China Mineral Ventures Limited (“**China Mineral Ventures**”) since 1997. He was the founder of China Mineral Ventures. Mr. Zhang founded China National Gold Development Group (Hong Kong) Limited (“**China National Gold**”), a subsidiary of Zijin Mining Group Co., Ltd. (the shares of which were listed on the Stock Exchange in 1999, stock code: 2899). He was its chairman from 2003 to 2006. Since 2006, Mr. Zhang has been a director of China Gold. Mr. Zhang was the chairman of Guoda Gold Company Limited (“**Shandong Guoda Gold**”) from 2003 to 2011. Mr. Zhang is currently a director of Shandong Guoda Gold. Mr. Zhang has been engaging in the investment industry for nearly 30 years and has extensive experience in overseas mining resources, energy, real estate, biomedical and health industries.

Mr. Zhang has been an independent non-executive director of Doumob (stock code: 1917), a company listed on the Stock Exchange, since December 29, 2021.

Mr. Zhang obtained a bachelor’s degree in international trade from The School of International Trade, Xiamen University, the PRC in 1985.

**Mr. Choi Tze Kit, Sammy**, aged 59, has been appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination and Remuneration Committee since September 10, 2018. Mr. Choi has about 36 years of experience in finance and auditing. Since July 6, 2018, Mr. Choi has been an independent non-executive director of Minshang Creative Technology Holdings Limited (formerly known as Food Wise Holdings Limited) (stock code: 1632), a company whose shares are listed on the Stock Exchange. From October 2016 to August 2017, Mr. Choi was an independent non-executive director of Ernest Borel Holdings Limited, a company listed on the Stock Exchange (stock code: 1856). Mr. Choi was an independent non-executive director of Fufeng Group Limited (stock code: 546), a company listed on the Stock Exchange, from January 2007 to November 2015 and PanAsialum Holdings Company Limited (Stock Code: 2078), a company listed on the Stock Exchange, from February 2016 to February 2017.

Mr. Choi graduated from Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) in 1985. He is a member of the Institute of Chartered Accountants in England and Wales (“**ICAEW**”), a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors.

Mr. Choi is currently a member of the Professional Conduct Committee, the Professional Development Committee and the Investigation Panel of the Hong Kong Institute of Certified Public Accountants. He has also been a council member of Hong Kong Chiu Chow Merchants Mutual Assistance Society Limited since October 2013. He was a council member of The Society of Chinese Accountants and Auditors from 2010 to 2015. In 2018, he was elected as the Honorary Financial Adviser of the Hong Kong-Kowloon Yung Shing Tong’s Friend Chamber of Commerce.

**Mr. Wang Chuansheng**, aged 62, was appointed as our independent non-executive Director and a member of each the Audit Committee and Development Strategy and Risk Management Committee with effect from September 10, 2018. Mr. Wang has been the director of Academic Division of Engineering in Qingdao University of Science & Technology since December 2016. In November 2015, Mr. Wang was appointed as the distinguished expert by Taishan Scholars. Mr. Wang was a teacher of the mechanical faculty in Shandong Institute of Chemical Engineering from July 1982 to September 1984. Mr. Wang has been working at Qingdao University of Science & Technology (previously known as Qingdao Institute of Chemical Technology) (the “**University**”) since September 1984. From September 1984 to November 1984, Mr. Wang was a teacher in mechanical engineering faculty at the University. During the period between November 1984 and June 1995, he was the vice office manager of the chemical machinery faculty at the University. From June 1995 to December 1995, he acted as the vice-manager of the mechanical engineering faculty. Mr. Wang was promoted to the position of vice-principal of the machinery engineering faculty in December 1995. In March 2002, he was further promoted to the vice-principal of the electromechanical engineering faculty of the University. From April 2004 to December 2016, Mr. Wang was the head of the electromechanical engineering faculty of the University before he was promoted to the current position.

Mr. Wang obtained a doctorate degree in chemical process machinery from the School of Mechanical and Electrical Engineering of Beijing University of Chemical Technology in the PRC in June 2000. He was recognized as the professor of Qingdao University of Science & Technology by Shandong Province Higher Education Teacher Position Advanced Review Committee in December 1999.

Mr. Wang was awarded with the Second-Class National Science and Technology Progress Award-Synchronous Rotor Mixer Technology by the State Council of the PRC in December 2001. He was further awarded with the Second-Class National Science and Technology Progress Award-Industrialisation of waste rubber and waste plastics pyrolysis of resources utilisation of complete sets of technology and equipment by the State Council of the PRC in December 2011. In October 2013, Mr. Wang was recognized as the National Oil and Chemical Outstanding Science and Technology Worker by the China Petroleum and Chemical Industry Federation. In August 2020, Mr. Wang was granted the title of the “Doctor of the Chemical Industry and Engineering Society of China (CIESC)” by the CIESC. In September 2019, he was granted the medal in commemoration of the 70th anniversary of the PRC by Chinese Communist Party Central Committee, the State Council and China’s Central Military Commission.



### SENIOR MANAGEMENT

**Mr. Jiang Xizhou**, aged 50, joined the Company in August 2019 as an assistant to the general manager. He has been the deputy general manager of the Company since January 2020, the deputy general manager of Shandong Company since January 2021, the vice president of the Company and the director of the production and operation center of the Company, the general manager of Shandong Company and the director of the technology center of the Company since January 2021. He is currently responsible for the overall management of the R&D center, manufacturing center, equipment power center and EHS of the Company. Prior to joining our Group, Mr. Jiang held various technical and management positions in Anhui Jiatong Tire Co., Ltd. from July 1995 to May 2013; he served as the general manager of Fujian Jiatong Tire Co., Ltd. and the general manager of Jiatong Co., Ltd. (S Jiatong), a company listed on the Shanghai Stock Exchange, from June 2013 to June 2015; he served as the general manager of Anhui Jiatong Tire Co., Ltd. from July 2015 to August 2017; and he served as the manufacturing director of Jiatong Tire (China) Investment Co., Ltd. from September 2017 to July 2019.

Mr. Jiang graduated from Hefei University of Technology with a major in polymer materials and obtained his bachelor degree in July 1995.

**Mr. Yu Hang**, aged 45, joined the Company in October 2020 as the deputy general manager of the Company in charge of sales management and marketing. Since January 2021, he has been serving as the vice president of the Company and the general manager of the sales and marketing department, and the director of the service and support center. Prior to joining the Group, Mr. Yu served as the product development manager, regional sales manager (Brittany, France) and technology manager (Shanghai) of global environmental competition at the headquarters of Michelin Group (Clermont-Ferrand, France) from July 2000 to December 2004; from January 2005 to July 2009, he served as the director of government relations, standards and regulations of Michelin in Greater China; from August 2009 to December 2011, he served as the global customer director of original tire business in Michelin Group (Paris, France); from January 2012 to September 2020, he served as the vice president of Michelin Group in Greater China, and concurrently served as the general manager of the original tire business unit, the general manager of the B2C Tyreplus retail network and the general manager of the B2B business in succession.

Mr. Yu was recommended for admission to Xidian University for the bachelor degree in communications engineering in September 1995; from July 1998 to June 2000, he studied information science at the Institut National Polytechnique de Lorraine in France and obtained a master's degree; from August 2007 to July 2009, he studied Executive Business Administration (EMBA) at the China Europe International Business School, and obtained a master's degree.

**Mr. Hu Houbao**, aged 42, joined the Company in July 2020 as the assistant to the general manager of the Company and the manager of the strategic planning department. He has been the assistant to the president, the director of the quality management center, the manager of the strategic planning department and the director of the industry-university-research cooperation committee since January 2021. Prior to joining our Group, Mr. Hu worked as an engineer in the technology department of Anhui Jiatong Tire Co., Ltd. from July 2001 to August 2004, and as a supplier management chief engineer of SAIC General Motors Co., Ltd. from April 2007 to July 2020. Mr. Hu also serves as a member of the National Technical Committee for Tyre Wheels Standardization, a member of the Technical Expert Group of the Branch of Waste Rubber Comprehensive Utilization of China Rubber Industry Association, a member of the Technical Expert Group for Compulsory Product (TC14 Motor Vehicle Tire) Certification of the Certification and Accreditation Administration of the PRC, and is in charge of one soft science project of the Shanghai Municipal People's Government.

Mr. Hu obtained a bachelor's degree in rubber engineering from Qingdao University of Chemical Technology in July 2001. He studied business management at Nanjing University of Aeronautics and Astronautics from September 2004 to April 2007 and obtained a master's degree. He has been studying for a doctoral degree in management science and engineering at Tongji University since September 2016.

**Mr. Ju Xunning**, aged 55, has been the deputy director of the production and operation center of the Company since January 2021. He has been the deputy general manager of the Company since February 2018. Mr. Ju has also been the general manager of the semi-steel affairs department of Prinx (Chengshan) Tires since July 2017. He joined our Group in March 2006 as the assistant to the quality systems director in Prinx (Shandong) Tire. Mr. Ju was promoted to the position of vice-chief officer of the manufacturing process improvement department in November 2010. Mr. Ju was appointed as the chief technology officer of All Steel Products in January 2012. In August 2013, he became the production director and continued to serve as the deputy director of the process improvement department. In March 2014, Mr. Ju was promoted to our chief technology officer for semi-steel products. Mr. Ju was further promoted as the chief quality officer in Prinx (Shandong) Tire in December 2016 before he was appointed to the current position, and was appointed as the chief technology officer for semi-steel products of the Group in July 2017. Mr. Ju was responsible for the overall operation and management of the semi-steel business department of our Group. He joined Rongcheng Rubber Factory as a trainee in July 1988, and was promoted to the position of the chief of the phase I engineering formula design department for radial tires in Rongcheng Guotai in July 1995. He was the director of division I of the department of technology in November 1997. In January 2004, Mr. Ju acted as the chief engineer of Shandong Chengshan Group Co., Ltd..

Mr. Ju was awarded with a professional diploma in rubber engineering by Qingdao University of Science & Technology in July 1988. Mr. Ju was recognized as a senior engineer by the Engineering and Technical Services Review Committee of Shandong Province in December 2001. In October 1998, Mr. Ju was awarded a Provincial Science and Technology Progress Award-Industrial Technology of Radial Tires with a Production Capacity of 300,000 Sets Per Year by the Science and Technology Progress Award Evaluation Committee of Shandong Province. In December 1999, Mr. Ju was awarded the second prize of the National Science and Technology Progress Award-Industrial Technology of Radial Tires with a Production Capacity of 300,000 Sets Per Year by the Ministry of Science and Technology of the PRC. In April 2000, he was recognized as the Top 10 Youth Talent by the Communist Youth League of China in Rongcheng City, Rongcheng Broadcasting Bureau and Rongcheng Daily Newspaper. In December 2013, he was awarded with the First-class Hundred Technical Innovation of Workers Achievements Award in Weihai City by the Weihai City Labour Competition Committee.

## *Directors and Senior Management*

**Mr. Wang Yu**, aged 48, has been the director of commercial vehicle replacement sales centre of the sales and marketing headquarters since January 2021. He joined the Group in February 2004 as a regional manager of Prinx (Shandong) Tire and was promoted to the position of sales manager in North China in June 2009 and vice-sales market department officer in April 2010, respectively. In March 2014, Mr. Wang was further promoted to the chief sales and market department officer position. Mr. Wang was responsible for the overall sales of commercial vehicle tire replacement of the Group. Prior to joining the Group, he joined Shandong Chengshan Tires Company Limited in August 2001 as a sales consultant.

**Mr. Chu Xiaohua**, aged 38, has been the director of the international sales center of the sales and marketing headquarters since January 2021. He has been the Qingdao international sales center general manager of the Company in May 2017 when he first joined the Group. Mr. Chu is responsible for the overall international sales of the Group. Prior to joining the Group, Mr. Chu was a salesman when he first joined Qingdao Crowntyre International Trade Company Limited in May 2008. Mr. Chu was promoted to deputy manager of the sales department in January 2013. He was responsible for the business development and maintenance in the markets in Southeast Asia, Oceania and Russia. In May 2013, Mr. Chu was appointed by the company to work in its branch in Singapore as manager. He was responsible for cooperating with headquarter of the company to manage in its branch in Singapore. In December 2013, he was responsible for the establishment of the company's branch in Dubai. Mr. Chu was a partner of American Tire and Wheel Centers Inc in July 2015. He is responsible for the overall business operations, and coordination of sales, marketing and logistics of the Company.

Mr. Chu obtained a bachelor degree in international economics and trade from Qingdao University of Technology in July 2007.

**Mr. Zhang Yougan**, aged 47, joined our Group in June 2020 as the general manager of the Tire Manufacturing Center of Prinx (Shandong). He has been the deputy general manager and in charge of the work of Prinx Thailand since October 2020 and the general manager of Prinx Thailand since May 2021. Prior to joining our Group, Mr. Zhang held various technical and management positions in Anhui Jiatong Tyre Co., Ltd. from July 1996 to January 2015. He served as the assistant to the general manager of Anhui Jiatong Tyre Co., Ltd. from January 2015 to June 2017. He served as the deputy general manager of Anhui Jiatong Tyre Co., Ltd. from June 2017 to June 2020.

Mr. Zhang obtained a diploma in mechanical design and manufacturing from Hefei University of Technology in July 1996 and completed an EMBA study at Shanghai Better Education Institute of Management in February 2009.

## JOINT COMPANY SECRETARIES

**Ms. Cao Xueyu (“Ms. Cao”)**, one of the executive Directors, is also one of the joint company secretaries of the Company (the “**Joint Company Secretaries**”).

### Change Of Joint Company Secretary

On July 19, 2021, Ms. Lam Yuk Ling (“**Ms. Lam**”) has resigned as a joint company secretary of the Company with effect from July 19, 2021 due to other work arrangements. Ms. Lam confirmed that she has no disagreement with the Board and there is no other matter relating to her resignation that needs to be brought to the attention of the Shareholders.

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 a 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 Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute (formerly known as 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 has been granted a waiver (the “**Revised Waiver**”) by the Stock Exchange from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules and in relation to the eligibility of Ms. Cao to act as the Joint Company Secretary for the 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.

The Remaining Waiver Period expired on March 28, 2022. The Stock Exchange agreed that Ms. Cao is qualified to act as the company secretary of the Company under Rule 3.28 of the Listing Rules.

## Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended December 31, 2021.

### SHARE OPTION SCHEME

The purpose of the share option scheme is to attract, retain and motivate senior and mid-level management and key employees of the Company, to provide them with the opportunity to acquire equity interests in the Company, to align their interests with the Company's performance and equity performance, and to enhance the value of the Company and attract human resources that are valuable to the Group. The Company adopted the 2021 Share Option Scheme on the 2021 Adoption Date. The 2021 Share Option Scheme shall be valid and effective for a period of eight years commencing from the 2021 Adoption Date.

#### 2021 Share Option Scheme

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 available for issue under the 2021 Share Option Scheme is 14,950,000 Shares (as at the date of the annual report for the year ended December 31, 2020: 764,500 Shares for the 2019 Share Option Scheme), representing approximately 2.35% (as at the date of the annual report 2020: 0.12%) of the total number of issued Shares as at the date of this annual report.

Eligible Participant means 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 has passed the stipulated probation period.

The total number of Shares which may be issued upon exercise of all options to be granted under the 2021 Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Adoption Date. The Company may seek approval of the Shareholders in general meeting to refresh the 10% limit under the 2021 Share Option Scheme provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2021 Share Option Scheme and any other share option schemes of the Company under the limit as refreshed must not exceed 30% of the total number of Shares in issue from time to time.

No Grantee shall be granted an Option if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the Options granted to such Grantee (including both exercised and outstanding Options) in any 12-month period exceeding 1% of the total number of Shares in issue. Where any further grant of Options to a Grantee, if exercised in full, would result in the total number of Shares already issued or to be issued upon exercise of all Options granted and to be granted to such Grantee (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant exceeding 1% of the total number of Shares in issue, such further grant must be separately approved by the Shareholders in general meeting with such Grantee and his/her associates abstaining from voting.



As at the date of this annual report, the remaining life of the 2021 Share Option Scheme is approximately seven years.

### 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 executive or substantial Shareholders, 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 share options granted as at the 2021 Grant Date | Outstanding at the beginning of year | Exercised during the year | Lapsed during the year | Outstanding at the end of year |
|---------------------------------------|--|---|--------------------------------------|---------------------------|------------------------|--------------------------------|
| 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  | —                                    | —                         | 750,000                | 28,800,000                     |
| Total:                                |  | 35,050,000  | —                                    | —                         | 750,000                | 34,300,000                     |

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, a total of 750,000 share options under the 2021 Share Option Scheme were lapsed due to the resignation or retirement of the grantees. 34,300,000 Options were outstanding as at the end of the period.

Details of the 2021 Share Option Scheme and the share options granted are set out in the circular of the Company dated April 15, 2021, and the announcements dated May 17, 2021, June 28, 2021, respectively.

The valuation of the share options granted for the year ended December 31, 2021 is set out in note 26 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 adopted the 2019 Share Option Scheme on the 2019 Adoption Date and terminated the 2019 Share Option Scheme on the 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 Participant means 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 has passed 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. The offer of a grant of share options may be accepted within 28 days from the date of offer.

Among the Options granted, 1,317,500 Options were granted to the Directors, chief executive of the Company or substantial Shareholders, 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 share options granted as at the 2019 Grant Date | Outstanding at the beginning of the year | Exercised during the year | Cancelled during the year | Lapsed during the year | Outstanding at end of year |
|---------------------------------------|--|---|--|---------------------------|---------------------------|------------------------|----------------------------|
| 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                               | 578,500                   | 372,550                   | 619,000                | 9,816,750                  |
| Total:                                |  | 14,400,000  | 12,704,300                               | 578,500                   | 372,550                   | 619,000                | 11,134,250                 |

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 the share options granted shall be vested and exercisable from the expiry of 12 months, 24 months and 36 months, respectively, on the date of grant; if the share options are not vested due to the failure of meeting performance standards of the participants of the incentive scheme in the first three vesting periods, the share options granted shall be exercisable at any time from the expiry of 48 months from the 2019 Grant Date for the fourth exercise period subject to the fulfillment of performance standards in the fourth annual appraisal and the deferred vesting conditions, and the vesting proportion shall be the remaining unvested share options after excluding the lapsed share 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.

## Report of the Directors

During the Reporting Period, a total of 578,500 share options were exercised, a total of 372,550 share options were cancelled, and a total of 619,000 share options lapsed due to resignation or retirement of grantees. 11,134,250 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 on the business day preceding the 2020 Grant Date is HK\$7.820 per Share.

The grantees of the Options granted in 2020 are the employees of the Group, and no grantees were the Directors, chief executives or substantial Shareholders of the Company, or an associate (as defined in the Listing Rules) of any of them, details of which during the Reporting Period were as follows:

| Position(s) held   | Number of share options granted as at the 2020 Grant Date | Outstanding at the beginning of the year | Exercised during the year | Cancelled during the year | Lapsed during the year | Outstanding at end of year |
|--|---|--|---------------------------|---------------------------|------------------------|----------------------------|
| Director, chief executive or substantial Shareholders of the Company or their associates | —   | —  | —                         | —                         | —                      | —                          |
| Other Senior Management and employees  | 835,500   | 835,500                                  | —                         | 22,250                    | 97,000                 | 716,250                    |
| Total:   | 835,500   | 835,500                                  | —                         | 22,250                    | 97,000                 | 716,250                    |

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.

During the year ended December 31, 2021, out of the share options granted in 2020, a total of 22,250 share options were cancelled and a total of 97,000 share options were lapsed or lapsed due to the resignation or retirement of the grantees. 716,250 Options were outstanding as at the end of the year.

Details of the 2019 Share Option Scheme and the share options granted are set out in the circular of the Company dated June 13, 2019, the announcements dated July 15, 2019, July 9, 2019 and July 9, 2020 and the circular dated April 15, 2021.

### **Options Exercised and Issued Shares**

As mentioned in the section headed “Options Granted in 2019”, for the year ended December 31, 2021, a total of 578,500 Options granted in 2019 were exercised, and a total of 578,500 ordinary shares were issued accordingly. The issued shares have a par value of US\$0.00005 each and a total share capital of 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 on the business day preceding the 2019 Grant Date is HK\$7.22 per Share.

A total of 19 grantees exercised their Options and were issued the Shares, and such grantees were employees of the Company.

The gross proceeds from the issue of shares amounted to HK\$4,190,654, which is intended to be used for general working capital. As of December 31, 2021, the Group had fully utilized the proceeds.

### **PROFIT SHARING SCHEME**

The Profit Sharing Scheme, which was adopted on July 5, 2019 by the Company, and the share option scheme together form the Company’s long-term incentive scheme (which cannot be participated 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. Through the above plans, the Company wishes to provide employees with opportunities to share the Company’s development dividends, and their personal interests are closely linked to the Company’s performance to enhance the value of the Company.

### **PRINCIPAL ACTIVITIES**

The Company is principally engaged in the manufacturing and sales of tire products in the PRC and other global markets. The analysis of the Group’s principal business for the year ended December 31, 2021 is set out in Note 1 of the consolidated financial statements.



## RESULTS

The financial results of the Group for the year ended December 31, 2021 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income on pages 104 to 105 of this annual report.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.2 per ordinary share before tax for the year ended December 31, 2021. The final dividend is subject to the approval of the Shareholders at the annual general meeting (“**AGM**”) to be held on June 16, 2022 and will be paid on or about July 27, 2022 to Shareholders whose names appear on the register of members of the Company on June 24, 2022.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) Pursuant to the Notice of the State Administration of Taxation on Issues Relating to the Determination of Chinese-Controlled Enterprises Registered Overseas as Resident Enterprises on the Basis of De Facto Management Bodies, the Company is required to withhold 10% enterprise income tax when it distributes the Final Dividend to its non-resident enterprise shareholders, and the withholding and payment obligation lies with the Company. In respect of all Shareholders whose names appear on the Company’s register of members as at the record date for determination of entitlement to the final dividend who are not individuals (including HKSCC Nominees Limited (“**HKSCC**”), other corporate nominees or trustees such as securities companies and banks, and other entities or organizations, which are all considered as non-resident enterprise shareholders), the Company will distribute the final dividend after deducting enterprise income tax of 10%. The Company will not withhold and pay the individual income tax for all PRC resident enterprises, exempted institutions and natural person Shareholders whose names appear on the register of members of the Company on the record date for determination of entitlement to the final dividend.

If any resident enterprise (as defined in the Enterprise Income Tax Law) listed on the Company’s register of members which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, does not desire to have the Company withhold the said 10% enterprise income tax, it shall lodge with Computershare Hong Kong Investor Services Limited documents from its governing tax authority confirming that the Company is not required to withhold and pay enterprise income tax in respect of the dividend that it is entitled before 4:30 p.m. on June 21, 2022.

If you wish to change your shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will withhold and pay the enterprise income tax for its non-resident enterprise shareholders strictly in accordance with the laws and the requirements of the relevant government departments and based on the register of members of the Company on the Record Date. The Company assumes no liability whatsoever in respect of and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the Shareholders or any disputes over the mechanism of withholding.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, June 13, 2022 to Thursday, June 16, 2022, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Thursday, June 16, 2022, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, June 10, 2022.

Subject to the approval of the Shareholders at the AGM, the proposed final dividend will be payable to the Shareholders whose names appear on the register of members of the Company on Friday, June 24, 2022, being the record date for determination of entitlement to the final dividend. The register of members of the Company will be closed from Wednesday, June 22, 2022 to Friday, June 24, 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, June 21, 2022.

## DIVIDEND POLICY

The Company has adopted a dividend policy (the “**Dividend Policy**”). The Board shall consider the following factors before declaring or recommending dividends:

- the Company's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the subsidiaries of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and internal or external factors that may have an impact on the business, financial results and position of the Company; and
- other factors that the Board deems relevant.

The payment of dividend is also subject to any restrictions under the applicable laws and the Company's Articles of Association (the “**Articles of Association**”).

As stated in the Company's prospectus dated September 24, 2018 (the "Prospectus"), after listing, the Group plans to declare and pay dividends of no less than 20% of the distributable net profit attributable to equity shareholders in the future. Going forward, the Group will continuously evaluate its dividend policy in light of its financial position and the prevailing economic environment.

## BUSINESS REVIEW

### 1. Business Review of the Company

The Company is principally engaged in the R&D, manufacturing and sales of tires. It has three product categories, namely All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires, covering passenger, commercial, industrial, agricultural and some special vehicle tires. The Company pursued the core strategies of cost leadership, efficiency-driven, competitive differentiation and global operation, and focused on the improvement of the industry chain in order to respond to customers' demand in a systematic, professional and rapid manner and to create value for them. Prinx Chengshan emphasizes on safety, environmental protection, integrity and mutual benefits, and is a company of green development with strong sense of social responsibility.

For further details, please refer to related contents in this section and "Business Review and Outlook" in the section headed "Management Discussion and Analysis" in this annual report.

Substantially all of the Group's revenue was from sale of tires. The following table sets forth a summary of financial ratios for indicated periods and dates:

| Financial Indicators                           | Year ended December 31, |       |       |        |        |
|--|-------------------------|-------|-------|--------|--------|
|  | 2021                    | 2020  | 2019  | 2018   | 2017   |
| Revenue growth rate <sup>(1)</sup>             | 20.0%                   | 12.4% | 7.4%  | 7.6%   | 26.7%  |
| Net profit increase rate <sup>(2)</sup>        | -54.3%                  | 26.1% | 0.2%  | 175.7% | -40.4% |
| Gross profit margin <sup>(3)</sup>             | 13.8%                   | 22.3% | 19.2% | 19.3%  | 15.9%  |
| EBIT margin <sup>(4)</sup>                     | 3.6%                    | 11.0% | 9.7%  | 10.9%  | 4.5%   |
| Net profit margin <sup>(5)</sup>               | 3.7%                    | 9.6%  | 8.6%  | 9.2%   | 3.6%   |
| Return on equity <sup>(6)</sup>                | 7.2%                    | 16.8% | 14.9% | 20.6%  | 11.2%  |
| Return on total assets <sup>(7)</sup>          | 3.3%                    | 9.1%  | 8.7%  | 10.4%  | 4.5%   |
| Gearing ratio <sup>(8)</sup>                   | 56.9%                   | 49.5% | 41.4% | 42.1%  | 59.7%  |
| Trade receivables turnover days <sup>(9)</sup> | 67                      | 67    | 63    | 68     | 66     |
| Inventory turnover days <sup>(10)</sup>        | 70                      | 65    | 58    | 59     | 59     |

Notes:

- (1) Revenue growth rate = (revenue for the period/revenue for the previous period-1) \* 100%;
- (2) Net profit increase rate = (net profit for the period/net profit for the previous period-1) \* 100%;
- (3) Gross profit margin = (gross profit for the period/revenue for the period) \* 100%;
- (4) EBIT margin = (profit for the period before finance costs-net and income tax expense/revenue for the period) \* 100%;
- (5) Net profit margin = (net profit for the period/revenue for the period) \* 100%;
- (6) Return on equity = (profit attributable to Shareholders for the period/average equity attributable to Shareholders as at the beginning and end of the period) \* 100%;
- (7) Return on total assets = (net profit for the period/average total assets at the beginning and the end of the period) \* 100%;
- (8) Asset-liability ratio = (total liabilities/total assets) \* 100%;
- (9) Trade receivables turnover days = (C total trade receivables at the beginning of the period + total trade receivables at the end of the period)/2/revenue for the period \* 365 days; and
- (10) Inventory turnover days = (C total inventory at the beginning of the period + total inventory at the end of the period)/2/cost of sales for the period \* 365 days.

The Company selects representative financial indicators in terms of profitability, operational capability and solvency to analyze the Company's growth capability. The Company's financial indicators were stable, of which revenue increased by approximately 20.0% year-on-year and net profit decreased by approximately 54.3% year-on-year in 2021. In 2021, the Company recorded profit before income tax of approximately RMB265.9 million, representing a year-on-year decrease of approximately 61.9%. The decrease in profitability was mainly due to the increase in prices of major raw materials, the surge in sea freight rates and the weak demand in the domestic market. The gearing ratio of the Company as at December 31, 2021 increased by approximately 7.4 ppt year-on-year, which was mainly due to the expansion projects of Prinx Thailand and Prinx Shandong. While progressively expanding production capacity, the Company has maintained sufficient liquidity and strong solvency. The turnover days of trade receivables of the Company in 2021 were approximately 67 days, which is consistent with that of 2020. The inventory turnover days were around 70 days, representing an increase of 5 days as compared to the turnover days in 2020, which was due to the shortage of export containers leading to the prolonged inventory time of exported goods. In view of the above, the Company has relatively high competitiveness and strong capability for operation and management and can continue to create value for Shareholders.

## 2. Particulars of important events affecting the Company that have occurred since the end of the financial year

As of the date of this annual report, the overall impact of the Pandemic across the world and the Country's macroeconomic policy adjustments on the macro economy is unclear. The Group will continue to pay close attention to the development of the Pandemic, make further judgments and estimates and take relevant measures accordingly.

### 3. Development Strategies of the Company

#### (1) Planning of the Company

1. With the vision and mission of “leading tire innovation, contributing to smart travel and sustainable development, and achieving a better life”, the Group firmly implements the four core development strategies of “cost leadership, efficiency driven, differentiated competition, and global operation”, grasps the development trend of the industry, and is committed to improving the innovation ability and core competitiveness of the enterprise, so as to promote smart travel and sustainable development.
2. The Group has formulated a medium-and long-term plan for steady and long-term development, and set a stage goal of achieving a revenue of RMB16.0 billion in 2025. Through the realization of strategic goals, the Company will return to the leading level of the domestic industry, build a world-class tire manufacturer, and achieve technology-led tire innovation.
3. The Group is customer-oriented, market-oriented and sales target-oriented evaluation tools, focusing on the six strategic dimensions of marketing, R&D, manufacturing, team, system and model, to build itself into a world-class tire manufacturer. The Group strives for the coordination of the entire value chain including procurement, supply chain, finance, manufacturing, quality, R&D and market to support the high-quality corporate development.
4. The Group consolidated the construction of three talent teams, namely management, R&D and production, and cultivated a corporate culture based on the core values of “customer first, responsibility, professionalism, innovation and openness”.
5. The Group implemented a multi-brand strategy and implemented the combination of internationalisation and localisation. The Group’s four major brands, namely Prinx, Chengshan, Austone and Fortune, differentiated development, enhanced the brand competitiveness based on core products, and used new manufacturing intelligence and perceptual technology to help each user explore a better life.
6. Based on the Company’s multi-scale tire full life cycle manufacturing innovation center to enhance its core R&D capabilities, the Group continuously improves its technology value-added services to form a competitive advantage in the market.
7. The Group has actively built the CS-LEAD model: “a two-level management and control system that matches the strategy (Construction), a systematic construction of three talent teams, a learning organization, an engineer culture of craftsmanship, a talent assessment and inspiring mechanism, and a dual-channel development system of business and management”. The Group has expanded the channels for employee growth, paid attention to the happiness index of employees, and has become an enterprise that employees feel happy, welcomed by customers and respected by the society.



**(2) Opportunities of the Company**

1. With the increase of the PRC automobile ownership, together with the introduction of relevant national policies to reconstruct the industrial structure and optimize the industrial layout, which have regulated the production order of the industry, the tire industry has been promoted, and thus brings opportunities for the development of the Company.
2. RCEP (Regional Comprehensive Economic Partnership, Regional Comprehensive Economic Partnership Agreement) has brought development opportunities to China's tire market. Under the backdrop of the Pandemic, the international economy was under pressure, and China's Pandemic was well controlled, domestic production resumed, and the export market was favorable.
3. In the context of "carbon peak and carbon neutrality", the Company has continued to promote low-carbon energy structure, intelligent manufacturing and digital transformation in recent years, laying a foundation for the Company to achieve low-carbon transformation and high-quality development.
4. The Company's management system is improving, the management team is relatively stable, and the personnel structure tends to be reasonable, laying a good human resources foundation for the development of the Company.
5. The reasonable capital structure, sufficient cash flow and stable financial position of the Company provide good financial conditions for leapfrog development.
6. With the layout of sales companies in Europe, America and production bases in Thailand, the Company has basically formed a global production and operation pattern, and is more confident to cope with the challenges brought by the changes in the international situation.
7. With the in-depth cooperation model of manufacturers and the development of tire leasing business, the Company further approached the market and customers, enhanced the Company's ability to respond quickly to customer needs, and provided customers with faster and more valuable services.

**4. Environmental Policies and Performance of the Company**

The Group complies with various environmental laws and regulations. Hazardous materials involved in the production process are stored, used and disposed of in accordance with regulatory requirements. The waste water, waste gas and other pollutants generated during the production process of the Group are in compliance with national emission standards and disposal requirements. Hazardous waste is stored and disposed of in accordance with regulatory requirements. The Company has established the Environmental Compliance Obligation Identification Management Procedures and the Environmental Information Exchange Management Procedures to receive national and local policies and regulations on environmental protection and take corresponding actions.

## 5. Future Prospects

The outlook of the Group is set forth in the section headed “Management Discussion and Analysis” of this annual report.

## 6. Risks and Uncertainties and Compliance with Relevant Laws and Regulations

A description of the principal risks and uncertainties that the Group may be facing and compliance with the relevant laws and regulation are contained in the section headed “Management Discussion and Analysis” of this annual report.

## FINANCIAL HIGHLIGHTS

A summary of the consolidated statement of profit or loss and the consolidated assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

### Major customers

For the year ended December 31, 2021, the transaction amounts attributable to the Group’s top five customers accounted for approximately 21.2% (2020: 23.1%) of the Group’s total revenue while the transaction amounts attributable to the Group’s single largest customer accounted for approximately 8.1% (2020: 8.8%) of the Group’s total revenue.

### Major Suppliers

For the year ended December 31, 2021, the transaction amounts attributable to the Group’s top five suppliers accounted for approximately 24.5% (2020: 30.5%) of the Group’s total purchases while the transaction amounts attributable to the Group’s single largest supplier accounted for approximately 9.6% (2020: 13.0%) of the Group’s total purchases.

During the Reporting Period, save as disclosed in Note 36 to the consolidated financial statements, none of the Directors, any of their close associates or any Shareholders which to the knowledge of the Directors owned more than 5% of the number of the issued shares of the Company was interested in the top five customers or suppliers of the Group.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the Company’s share capital during the Reporting Period are set out in Note 25 to the consolidated financial statements.

## RESERVE

Details of the movements in the reserves of the Company and the Group during the Reporting Period are set out in Notes 27 and 38 to the consolidated financial statements respectively.

## DISTRIBUTABLE RESERVES

As at December 31, 2021, the Company's reserves available for distribution amounted to approximately RMB2,211.0 million (as at December 31, 2020: approximately RMB2,194.0 million).

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2021 are set out in Note 28 to the consolidated financial statements.

## DIRECTORS

The Directors during the Reporting Period and up to the date of this annual report are as follows:

### Executive Directors:

Che Baozhen  
Shi Futao  
Cao Xueyu

### Non-Executive Directors:

Che Hongzhi  
Wang Lei  
Shao Quanfeng

### Independent Non-Executive Directors:

Zhang Xuehuo  
Choi Tze Kit Sammy  
Wang Chuansheng

In accordance with Article 108 of the Articles of Association, Mr. Che Hongzhi, Mr. Choi Tze Kit, Sammy and Mr. Wang Lei shall retire by rotation at the AGM and, being eligible, have offered themselves for re-election.

A circular setting out, among other things, details of the Directors subject to rotation and re-election at the AGM will be dispatched to the Shareholders in due course.

## DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 43 to 50 of this annual report.

## **CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all of the independent non-executive Directors are independent for the year ended December 31, 2021.

## **DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT**

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation). For the details of the service contracts and the appointment letters of each of the Directors, please see the section headed "Corporate Governance Report" in this annual report.

## **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE**

Save as disclosed in Note 10 to the consolidated financial statements, no Director has a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period and up to the date of this annual report.

## **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period and up to the date of this annual report.

## **EMOLUMENT POLICY**

The primary duties of the Nomination and Remuneration committee of the Company are to make recommendations to the Board on the appointment of the Directors, the management of the Board's succession, the overall remuneration policy and structure relating to all the Directors and senior management of the Group, review performance based remuneration and ensure none of the Directors determine their own remuneration.

In determining the remuneration of Directors and senior management, the Board takes into consideration the remuneration level of comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group, individual performance of each Director and the Company's performance.

Details of the emoluments of the Directors, and the five highest paid individuals during the Reporting Period are set out in Note 10 to the consolidated financial statements.

## **RETIREMENT AND EMPLOYEE BENEFITS SCHEME**

Details of the retirement and employee benefits scheme of the Company are set out in Note 10 to the consolidated financial statements.

## EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report relating to the “Share Option Scheme”, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

## CHANGES IN INFORMATION OF DIRECTORS

Changes in information of Directors since the date of the 2021 interim report and up to the date of this report which are required to be disclosed are set out below:

| Name of Director | Details of changes |
|------------------|--------------------|
|------------------|--------------------|

|                  |   |
|------------------|---|
| Mr. Zhang Xuehuo | Mr. Zhang has been an independent non-executive director of Doumob (stock code: 1917), a company listed on the Stock Exchange, since December 29, 2021. |
|------------------|---|

Save as disclosed in this annual report in relation to “Directors” and above, there is no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

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

As at December 31, 2021, the interests and short positions of the Directors and 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 have 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 which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules:

| Name            | Capacity/Nature of interest        | Number of Shares        | Long/short position | Shareholding in the Company<br>Approximate percentage |
|-----------------|------------------------------------|-------------------------|---------------------|---|
| Mr. Che Hongzhi | Interest of spouse                 | 441,859,500<br>(Note 1) | Long position       | 69.43%  |
| Mr. Che Baozhen | Interest of controlled corporation | 441,859,500<br>(Note 2) | Long position       | 69.43%  |
|                 | Beneficial owner                   | 580,000<br>(Note 3)     | Long position       | 0.09%   |
| Mr. Shi Futao   | Beneficial owner                   | 5,664,000<br>(Note 4)   | Long position       | 0.89%   |
| Ms. Cao Xueyu   | Beneficial owner                   | 773,000<br>(Note 5)     | Long position       | 0.12%   |



### Notes:

- (1) 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 are interested.
- (2) As at December 31, 2021, Mr. Che Baozhen directly owned 50% equity interest in Shanghai Chengzhan Information Technology Center ("**Shanghai Chengzhan**"), which in turn owned 95% equity interest in Beijing Zhongmingxin Investment Co., Ltd. ("**Beijing Zhongmingxin**"), which in turn controlled 42.50% equity interest in Chengshan Group. As such, Mr. Che Baozhen, Shanghai Chengzhan and Beijing Zhongmingxin are deemed to be interested in the interests of Chengshan Group.
- (3) As at December 31, 2021, Mr. Che Baozhen held interests in these Shares through the options granted under the share option schemes under physically settled equity derivatives.
- (4) As at December 31, 2021, Mr. Shi Futao held interests in 5,512,000 Shares through the options granted under the share option schemes under physically settled equity derivatives.
- (5) As at December 31, 2021, Ms. Cao Xueyu held interests in 725,500 Shares through the options granted under the share option schemes under physically settled equity derivatives.
- (6) The calculation is based on the total number of 636,440,000 Shares in issue as at December 31, 2021.

Save as disclosed above, as at December 31, 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at any time for the year ended December 31, 2021 was the Company or its subsidiaries a party to 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.

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

As at December 31, 2021, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

| Name  | Capacity/Nature of interest        | Number of Shares        | Long/short position | Shareholding in the Company<br>Approximate percentage |
|---|------------------------------------|-------------------------|---------------------|---|
| Sinotruk (Hong Kong) Capital Holding Limited                  | Beneficial owner                   | 61,672,000<br>(Note 1)  | Long Position       | 9.69%   |
| Sinotruk (Hong Kong) International Investment Limited Company | Interest of controlled corporation | 61,672,000<br>(Note 1)  | Long Position       | 9.69%   |
| Sinotruk (Hong Kong) Limited                                  | Interest of controlled corporation | 61,672,000<br>(Note 1)  | Long Position       | 9.69%   |
| Sinotruk (BVI) Limited  | Interest of controlled corporation | 61,672,000<br>(Note 1)  | Long Position       | 9.69%   |
| China National Heavy Duty Truck Group Co., Ltd.               | Interest of controlled corporation | 61,672,000<br>(Note 1)  | Long Position       | 9.69%   |
| Chengshan Group   | Beneficial owner                   | 441,859,500<br>(Note 2) | Long Position       | 69.43%  |
| Beijing Zhongmingxin  | Interest of controlled corporation | 441,859,500<br>(Note 2) | Long Position       | 69.43%  |
| Shanghai Chengzhan  | Interest of controlled corporation | 441,859,500<br>(Note 2) | Long Position       | 69.43%  |
| Ms. Li Xiuxiang   | Interest of controlled corporation | 441,859,500<br>(Note 2) | Long Position       | 69.43%  |
| Ms. Bi Wenjing  | Interest of spouse                 | 442,439,500<br>(Note 3) | Long Position       | 69.52%  |

### Notes:

- As at December 31, 2021, China Heavy Duty Truck Group Co., Ltd. held 100% interest in Sinotruk (BVI) Limited, and Sinotruk (BVI) Limited held 51% of the issued share capital of Sinotruk (Hong Kong) Limited, which in turn held 100% of the issued share capital of Sinotruk (Hong Kong) International Capital Limited, which in turn held 100% of the issued share capital of Sinotruk (Hong Kong) Capital Limited, which in turn held 61,672,000 shares of the Company. As a result, China National Heavy Duty Truck Group Co., Ltd., Sinotruk (BVI) Limited, CNHTC Sinotruk (Hong Kong) Limited and Sinotruk (Hong Kong) International Capital Limited are deemed to be interested in the 61,672,000 Shares held by Sinotruk (Hong Kong) Capital Holding Limited.
- As at December 31, 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.
- Ms. Bi Wenjing is the spouse of Mr. Che Baozhen. As such, he is deemed to be interested in all the Shares in which Mr. Che Baozhen is interested.

(4) The calculation is based on the total number of 636,440,000 Shares in issue as at December 31, 2021.

Save as disclosed above, as at December 31, 2021, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which fall to be disclosed under the Divisions 2 and 3 of Part XV of the SFO, or were required to be entered into the register referred to in section 336 of the SFO.

### PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2021.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

### TAX RELIEF

Under Cayman Islands law, there are no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

### NON-COMPETITION UNDERTAKING

Chengshan Group, Mr. Che Hongzhi, the chairman of the Board and a non-executive Director of the Company, Ms. Li Xiuxiang, Mr. Che Baozhen, an executive Director and the chief executive officer of the Company, Ms. Bi Wenjing, Rongcheng Dongsheng Property Rental Company Limited\* (榮成東晟房屋租賃有限公司), Beijing Zhongmingxin\* (北京中銘信), Rongcheng Chengyuan Shareholding Investment Centre\* (榮成成源股權投資中心), Rongcheng Hongsheng Shareholding Investment Centre\* (榮成鴻昇股權投資中心), Rongcheng Chengda Shareholding Investment Centre\* (榮成成大股權投資中心), Rongcheng Chenghai Shareholding Investment Centre\* (榮成成海股權投資中心), Rongcheng Pucheng Shareholding Investment Centre\* (榮成浦成股權投資中心), Rongcheng Haocheng Shareholding Investment Centre\* (榮成浩成股權投資中心) and Beijing Baichuantong Consultant Company Limited\* (北京百川通諮詢有限責任公司) ("**Beijing Baichuantong**") (the "**Deed of Non-Competition Parties**") as then controlling shareholders of the Company entered into the Deed of Non-Competition ("**Deed of Non-Competition**") on September 10, 2018, pursuant to which the Deed of Non-Competition Parties have, irrevocably and unconditionally, undertaken to and covenanted with the Group during the control period that, he/it will not, and will procure his/its close associates (except any members of our Group) not to, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company, among other things, engage, participate or hold interests in or otherwise be involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which competes or is likely to compete with the Company's business of tire manufacturing and sale of tires business in the PRC.

Please refer to the section headed "Relationship with Controlling Shareholders" in the Prospectus for details of the Deed of Non-Competition.

\* For identification purpose only

On June 19, 2019, Beijing Baichuantong transferred all of its 95% equity interest in Beijing Zhongmingxin to Shanghai Chengzhan. Upon completion of the transfer, each of Mr. Che Baozhen and Ms. Li Xiuxiang directly owns 50% equity interest in Shanghai Chengzhan, which in turn owns 95% equity interest in Beijing Zhongmingxin, which in turn owns 42.5% equity interest in Chengshan Group. Accordingly, Mr. Che Baozhen, Ms. Li Xiuxiang, Shanghai Chengzhan and Beijing Zhongmingxin are deemed to be interested in the interests of Chengshan Group. Beijing Baichuantong ceased to be a controlling shareholder of the Company. Shanghai Chengzhan replaced Beijing Baichuantong as a controlling shareholder of the Company. Shanghai Chengzhan is also a close associate of Mr. Che Baozhen and Ms. Li Xiuxiang as defined under the Deed of Non-competition.

The Company has received the annual confirmation from the signed Deed of Non-Competition Parties in respect of their compliance with the Deed of Non-Competition during the Reporting Period for disclosure in this annual report.

Based on the information and confirmation provided by the controlling shareholders of the Company, the independent non-executive Directors have reviewed the implementation of Deed of Non-Competition during the Reporting Period, and are satisfied that the relevant controlling shareholders of the Company have complied with the Deed of Non-Competition.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

Save as disclosed in this annual report, none of the Directors or their associates had any interest in any business which directly or indirectly compete or may compete with the businesses of the Group during the year ended December 31, 2021.

## **CONTROLLING SHAREHOLDER' S INTERESTS IN CONTRACTS**

Save as disclosed in the below sections headed "Related Party Transactions" and "Continuing Connected Transactions" and Note 36 to the consolidated financial statements, none of the relevant controlling shareholders of the Company or their respective subsidiaries directly or indirectly had any material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party for the year ended December 31, 2021.

## **DIVIDEND WAIVED OR AGREED TO BE WAIVED BY SHAREHOLDERS**

For the year ended December 31, 2021, the Board confirms that no Shareholder has waived or agreed to waive any dividend.

## **RELATED PARTY TRANSACTIONS**

Details of the related party transactions were set out in Note 36 to the consolidated financial statements. Details of any related party transactions which constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules are disclosed below, and other related party transactions (other than the purchase of water and electricity from Chengshan Group, which are fully exempt from the disclosure requirements under Chapter 14A of the Listing Rules) do not constitute connected transactions.

The Board confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above related party transactions.

## CONTINUING CONNECTED TRANSACTIONS

For the year ended December 31, 2021, the Group had the following continuing connected transactions:

| Name of relevant connected persons   | Connected relationship with the Group   | Nature of transactions | Annual cap for the year ended December 31, 2021<br>(RMB'000) | Actual transaction amount for the year ended December 31, 2021<br>(RMB'000) |
|--|---|------------------------|--|---|
| Chengshan Group  | Chengshan Group is the controlling Shareholder  | Property Leasing       | 8,000  | 7,213   |
| Rongcheng Chengshan Energy-Saving Services Co., Ltd. (" <b>Rongcheng Chengshan Energy-Saving Services</b> ") | Rongcheng Chengshan Energy-Saving Services is a wholly-owned subsidiary of Chengshan Group, the controlling Shareholder | Energy management      | 5,000  | 2,602   |
| Rongcheng Chengshan Properties Co., Ltd. (" <b>Rongcheng Chengshan Properties</b> ")                         | Rongcheng Chengshan Properties is wholly owned by Chengshan Group, the controlling Shareholder                          | Property services      | 6,400  | 5,964   |

### Leasing properties from Chengshan Group

On March 1, 2018, Prinx (Shandong) Tire entered into a property lease agreement with Chengshan Group in relation to the leasing of certain properties by our Group from Chengshan Group (the "**Property Lease Agreement**") for a term commencing from March 1, 2018 and ending on February 28, 2021.

As the original property lease agreement will expire on February 28, 2021, and the Group is expected to carry on the transactions contemplated thereunder upon its expiry, Prinx (Shandong) Tire entered into the 2021 property lease agreement ("**2021 Property Lease Agreement**") with Chengshan Group on December 18, 2020, to renew the corresponding transactions contemplated under the existing property lease agreement. The scope of properties leased remains the same as the original property lease agreement. The term of the agreement is 34 months from March 1, 2021 to December 31, 2023.

The proposed annual caps for the transactions contemplated under the 2021 Property Lease Agreement for the years ending December 31, 2021, 2022 and 2023 are RMB8.0 million, RMB8.0 million and RMB8.0 million, respectively. In arriving at the annual caps for the transactions contemplated under the 2021 Property Lease Agreement, the Directors have considered (i) the historical rental amounts paid by the Group to Chengshan Group under the existing property lease agreement; (ii) the estimated total leased area; and (iii) the prevailing market rate of comparable property units in the local community.



As the Group has historically leased from Chengshan Group certain properties as office space, dormitories and staff canteen, it is in the interests of the Group in terms of cost, time and stability to enter into the 2021 Property Lease Agreement. The Directors consider it beneficial to renew the existing property lease agreement so long as the relevant rental fees and other terms are favourable to the Group, in order to avoid unnecessary disturbance to the Group's operations.

Pursuant to the Property Leasing Agreement, Prinx (Shandong) Tire has leased from Chengshan Group (i) part of the office units located at No. 98 Nanshan North Road, Rongcheng City, Shandong Province, the PRC, with a total area of 6,988.92 sq.m as office premises; (ii) Nos.49–53 and 55 Guotai Community, Rongcheng City, Shandong Province, the PRC with a total area of 11,597.92 sq.m as dormitories; and (iii) No. 56 Guotai Community, Rongcheng City, Shandong Province, the PRC with a total area 3,124.65 sq.m as staff canteen.

The Group will continue to lease the properties from Chengshan Group through the transactions contemplated under the Property Lease Agreement. The Directors (including the independent non-executive Directors) therefore consider that it will benefit the Company for the Group to continue the transactions under the Property Lease Agreement for the year ended December 31, 2021. As for the rent amount, for the year ended December 31, 2021, the cap for these continuing connected transactions in total was RMB8.0 million, and the actual transaction amount for the year was approximately RMB7.2 million.

### **Purchasing property services from Rongcheng Chengshan Properties**

On January 5, 2018, Prinx (Shandong) Tire entered into a property services agreement with Rongcheng Chengshan Properties in respect of Rongcheng Chengshan Properties providing certain property services to the Group (the "**Property Services Agreement**") for a term commencing on January 1, 2018 and ending on December 31, 2020.

As the original property services agreement will expire on December 31, 2020, and the Group is expected to carry on the transactions contemplated thereunder upon its expiry, Prinx (Shandong) Tire entered into the 2021 property services agreement ("**2021 Property Services Agreement**") with Rongcheng Chengshan Properties on December 18, 2020, to renew the corresponding transactions contemplated under the existing property services agreement. The provision of services includes control of access to facilities, security, management of vehicles, cleaning, gardening, conference room management and repair and maintenance of common area and shared facilities. The term of the agreement is 3 years from January 1, 2021 to December 31, 2023.

The proposed annual caps for the transactions contemplated under the 2021 Property Services Agreement for the years ending December 31, 2021, 2022 and 2023 are RMB6.4 million, RMB6.4 million and RMB6.4 million, respectively. The above annual caps are arrived at based on (i) the historical amounts paid by the Group to Chengshan Group under the existing property services agreement; (ii) the new scope of services and management area that Chengshan Group is engaged by the Group for; and (iii) the prevailing market rates for similar services in the PRC.

The principal business of Chengshan Group includes property management. The Board considers that the provision of property management services by Chengshan Group helps to promote good property management service quality. The arrangement with Chengshan Group has been in place for a number of years, therefore so long as the relevant fees and other terms are favourable to the Group, in order to avoid unnecessary disturbance to the Group's operations, the Directors consider it beneficial to renew the existing property services agreement.

Pursuant to the Property Services Agreement, Rongcheng Chengshan Properties will provide Prinx (Shandong) Tire with services including control of access to facilities, security, management of vehicles, cleaning, gardening, repair and maintenance of common area and shared facilities, etc.

The Group will continue to purchase property services from Rongcheng Chengshan Properties through the transactions contemplated under the Property Services Agreement. Rongcheng Chengshan Properties has extensive professional experience and abundant labour resources for providing comprehensive property services. The Directors (including the independent non-executive Directors) therefore consider that it will benefit the Company for the Group to continue the transactions under the Property Services Agreement for the year ended December 31, 2021. As for the purchase amount, for the year ended December 31, 2021, the cap for these continuing connected transactions in total was RMB6.4 million, and the actual transaction amount for the year was approximately RMB6.0 million.

### **Purchasing Energy-saving Services from Rongcheng Chengshan Energy-Saving Services**

On March 28, 2018, Prinx (Shandong) Tire entered into an energy management framework agreement with Rongcheng Chengshan Energy-Saving Services (the “**Energy Management Framework Agreement**”), for a period from March 28, 2018 until December 31, 2020.

As the original energy management framework agreement (as amended by the supplemental agreement) will expire on December 31, 2020, and the Group is expected to carry on the transactions contemplated thereunder upon its expiry, Prinx (Shandong) Tire entered into the 2021 energy management framework agreement (“**2021 Energy Management Framework Agreement**”) with Rongcheng Chengshan Energy-Saving Services on December 18, 2020, to renew the corresponding transactions contemplated under the existing energy management framework agreement. The scope of energy management services provided remains the same as the original energy management framework agreement. The term of the agreement is 3 years from January 1, 2021 to December 31, 2023.

The proposed annual caps for the transactions contemplated under the 2021 Energy Management Framework Agreement for the years ending December 31, 2021, 2022 and 2023 are RMB5.0 million, RMB5.0 million and RMB5.0 million, respectively. The term of the agreement is 3 years from January 1, 2021 to December 31, 2023.

During the implementation of energy-saving services, the parties unanimously agreed upon on-site measurement and technical exchanges that if Rongcheng Chengshan Energy-Saving Services carried out energy-saving renovation on the energy system of Prinx (Shandong) Tire, Prinx (Shandong) Tire will generate huge energy-saving benefits. The arrangement with Chengshan Group has been in place for a number of years and will achieve the goal of reducing Prinx (Shandong) Tire's electricity consumption cost, while ensuring the smooth running of the energy-saving renovation project. As such, the Directors consider it beneficial to renew the existing energy management framework agreement.

The proposed annual caps for the transactions contemplated under the 2021 Energy Management Framework Agreement for the years ending December 31, 2021, 2022 and 2023 are RMB5.0 million, RMB5.0 million and RMB5.0 million, respectively. The above annual caps are arrived at based on (i) the historical amounts paid by the Group to Chengshan Group under the existing energy management framework agreement; (ii) the expected energy-saving efficiency measures under the 2021 Energy Management Framework Agreement; (iii) the expected energy-saving renovation projects of Prinx (Shandong) Tire; and (iv) following arm's length negotiations between Rongcheng Chengshan Energy-Saving Services and Prinx (Shandong) Tire, with reference to previous prices and on the principle of fairness.

Pursuant to the Supplemental Agreement, Rongcheng Chengshan Energy-Saving Services may from time to time provide energy-saving services to the Group according to Energy Management Framework Agreement. In addition, the parties plan to add another energy-saving renovation project and provide special energy-saving services, mainly including energy-saving renovation of air compressor system, water pump system and motor system in the existing energy system, all of which will be replaced by new energy-saving equipment.

The Group will continue to purchase Energy-saving Services from Rongcheng Chengshan Energy-Saving Services through the transactions contemplated under the Energy Management Framework Agreement. Prinx (Shandong) Tire will be able to pay the investment cost of its energy conservation projects out of energy saving revenue, and therefore ease pressure on internal capital resources. Accordingly, the Directors (including the independent non-executive Directors) are of the view that it is beneficial to the Company for the Group to continue the transactions under the Energy Management Framework Agreement for the year ending December 31, 2021, and in respect of the purchase amount, the revised cap for these continuing connected transactions for the year ending December 31, 2021 is RMB5.0 million, and the actual transaction amount for the year is approximately RMB2.6 million.

For the 2021 Property Services Agreement and 2021 Energy Management Framework Agreement, as one or more of the applicable percentage ratios for the annual caps contemplated under each of the agreements exceed 0.1% but all of which are less than 5%, the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempt from the independent shareholder approval requirement under Rule 14A.76(2) of the Listing Rules.

For the 2021 Property Lease Agreement, the transaction under the 2021 Property Lease Agreement is regarded as an acquisition of asset under Rule 14.04(1)(a) of the Listing Rules. The value of the right-of-use asset recognized under the 2021 Property Lease Agreement is approximately RMB21.2 million. As the highest percentage ratio is more than 0.1% but less than 5%, the transaction is classified as a one-off connected transaction and is subject to announcement and reporting requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Board (including the independent non-executive Directors) considers that the 2021 Property Services Agreement, 2021 Energy Management Framework Agreement and 2021 Property Lease Agreement ("**2021 Agreements**") are entered into in the Group's ordinary course of business, and the terms of the 2021 Agreements and the annual caps thereunder are on normal commercial terms or better and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## Report of the Directors

For details of the renewal of the continuing connected transaction agreements due to expire in 2020 and 2021, please refer to the announcements published by the Company on December 18, 2020 and December 30, 2020.

For the details of these continuing connected transactions, including specific pricing terms or program under each agreement and material information about pricing policies and guidance, please refer to the section headed “Continuing Connected Transactions” in the Prospectus. During the Reporting Period, the Group complied with the value and the transaction terms pursuant to these pricing policies and guidance when carrying on continuing connected transactions.

In respect of the transactions under the Property Lease Agreement, the Property Services Agreement and the Energy Management Framework Agreement, as one or more of the applicable percentage ratios (other than the profits ratio) as defined in Rule 14.04(9) of the Listing Rules is expected to be more than 0.1% but less than 5%, the transactions contemplated thereunder are subject to reporting, annual review and announcement requirements but exempt from circular and independent Shareholders’ approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

During the Reporting Period, our independent non-executive Directors have reviewed the above continuing connected transactions and have confirmed that such transactions were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal or better commercial terms; and
- (iii) in accordance with the agreements for such transactions, the terms of which are fair and reasonable, and are in the interest of the Shareholders as a whole.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions.

The Company’s auditor were engaged to report on the Group’s non-exempt continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above.

The Directors confirm that the auditor have confirmed the matter set out in Rule 14A.56 of the Listing Rules.

Save as disclosed in this annual report, during the Reporting Period, the Company did not have any connected transactions or continuing connected transactions which are required to be disclosed in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules.

## **SANCTIONED BUSINESS ACTIVITIES**

For the year ended December 31, 2021, the Company fulfilled its undertakings to the Stock Exchange in relation to business with countries subject to laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the European Union and its member states, United Nations or the Government of Australia. Details of the Company's undertakings are set out in the section headed "Business — Business Activities in Countries subject to International Sanctions — Our undertakings and internal control procedures" in the Prospectus.

During the Reporting Period, no business had been taken place between the Group and the countries subject to international sanctions.

## **CHARITABLE DONATIONS**

During the Reporting Period, there was no charitable and other donations made by the Group.

## **MATERIAL LEGAL PROCEEDINGS**

For the year ended December 31, 2021, the Company were not involved in any material legal proceeding or arbitration. To the best knowledge of the Directors, there is no material legal proceeding or claim which is pending or threatened against the Company.

## **PERMITTED INDEMNITY PROVISIONS**

The Company has arranged for appropriate insurance coverage for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising from corporate activities.



Pursuant to the Articles of Association, the Directors, managing directors, alternate Directors, auditors, secretary and other officers for the time being of the Company and the trustees (if any) for the time being acting in relation to any of the affairs of the Company, and their respective executors or administrators, shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty. Such person shall not be liable to account to any of them for the acts, receipts, neglects or defaults of any other of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects of the Company shall be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, except as the same shall happen by or through their own fraud, dishonesty or recklessness. To indemnify the Company and/or the Directors (and/or other officers) named for this purpose against any loss, damage, liability and claim which they may suffer or sustain in connection with any breach by any Director (and/or other officers) or any of them of their duties to the Company, the Company may make a payment of insurance premium or other moneys for maintaining insurance, bonds or other instruments for the benefit of the Company or the Directors (and/or other officers) or any of them.

### **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**") 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.

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.

## **SUBSEQUENT EVENTS**

Details of other significant events after the balance sheet date are set out in note 37 to the consolidated financial statements.

The Company plans to make amendments to the Memorandum of Association and the Articles of Association of the Company (the “**Memorandum and Articles**”). For details, please refer to the announcement and circular to be issued by the Company.

## **AUDIT COMMITTEE**

The audit committee of the Company has, together with the management and the external auditor of the Company, reviewed the accounting principles and practices adopted by our Company as well as the audited consolidated financial statements for the year ended December 31, 2021.

## **CORPORATE GOVERNANCE CODE**

The Company is committed to maintaining high level of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 81 to 98 of this annual report.

## **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% (being the minimum public float prescribed by the Stock Exchange and the Listing Rules) of the Company’s entire issued share capital were held by the public at any time during the Reporting Period and up to the date of this annual report.

## **AUDITOR**

PricewaterhouseCoopers has been appointed as auditor for the year ended December 31, 2021. PricewaterhouseCoopers has audited the accompanying financial statements which were prepared in accordance with the HKFRSs.

PricewaterhouseCoopers is subject to retirement and, being eligible, offers itself for re-appointment at the forthcoming AGM. A resolution for re-appointment of PricewaterhouseCoopers as auditor will be proposed at the AGM.

By order of the Board  
*Chairman and Non-executive Director*  
**Che Hongzhi**

Hong Kong, May 10, 2022

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2021.

## CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining a high standard of corporate governance through an effective board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency to all the Shareholders, to safeguard the interests of its Shareholders and enhance its value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has been in compliance with all applicable code provisions under the Corporate Governance Code for the year ended December 31, 2021. The Company will continue to review and monitor its corporate governance practices in order to ensure the compliance with the Corporate Governance Code.

## THE BOARD

### Responsibility

The Board is responsible for the overall leadership of the Group, oversees the Group’s strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company’s affairs, the Board has established three Board committees, including the Audit Committee (the “**Audit Committee**”), the Nomination and Remuneration Committee (the “**Nomination and Remuneration Committee**”), the Development Strategy and Risk Management Committee (the “**Development Strategy and Risk Management Committee**”) (collectively, the “**Board Committees**”). The Board has delegated to these Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against its Directors, and will conduct annual review on such insurance coverage.

## BOARD COMPOSITION

As at the date of this annual report, the Board comprised three executive Directors, three non-executive Directors and three independent non-executive Directors as set out below:

### Executive Directors:

Che Baozhen (*Chief Executive Officer*)

Shi Futao

Cao Xueyu

### Non-Executive Directors:

Che Hongzhi (*Chairman*)

Wang Lei

Shao Quanfeng

### Independent Non-Executive Directors:

Zhang Xuehuo

Choi Tze Kit Sammy

Wang Chuansheng

The biographies of the Board of Directors are set out in section headed “Directors and Senior Management” in this annual report.

For the year ended December 31, 2021, the Board has met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing at least one-third of the Board. Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

Save as disclosed in the biographies of the Directors as set out in the section headed “Directors and Senior Management” of this annual report, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director or chief executive.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and expertise to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee and the Nomination and Remuneration Committee.

As regards the code provision under the Corporate Governance Code requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

## INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

During the Reporting Period, all current Directors have received relevant training on corporate governance and regulatory issues, and have provided their training records. In view of the above, the Company considers that all Directors have complied with Code Provision C.1.4 of the Corporate Governance Code.

A summary of the continuous professional developments in relation to the business of the Group received by the Directors for the year ended December 31, 2021 is as follows:

| Name of Director                           | Training form                       | Training Content   |
|--|-------------------------------------|--|
| <b>Executive Directors</b>                 |                                     |  |
| Che Baozhen                                | Meetings/seminars/training sessions | Laws and Regulations/Corporate Governance/corporate operation/industry-related |
| Shi Futao                                  | Meetings/seminars/training sessions | Laws and Regulations/Corporate Governance/Industry-related/Capital Market      |
| Cao Xueyu                                  | Meetings/seminars/training sessions | Laws and Regulations/Corporate Governance/Accounting                           |
| <b>Non-Executive Directors</b>             |                                     |  |
| Che Hongzhi                                | Meetings/seminars/training sessions | Industry-related/Laws and Regulations/Corporate Governance                     |
| Wang Lei                                   | Meetings/seminars/training sessions | Industry-related/Laws and Regulations/Corporate Governance                     |
| Shao Quanfeng                              | Meetings/seminars/training sessions | Industry-related/Laws and Regulations/Corporate Governance                     |
| <b>Independent Non-Executive Directors</b> |                                     |  |
| Zhang Xuehuo                               | Meetings/seminars/training sessions | Industry-related/Laws and Regulations/Capital Market                           |
| Choi Tze Kit Sammy                         | Meetings/seminars/training sessions | Laws and Regulations/Corporate Governance/Accounting/Taxation                  |
| Wang Chuansheng                            | Meetings/seminars/training sessions | Industry-related/Laws and Regulations  |



The Company encourages continuous professional development training for all the Directors to develop and refresh their knowledge and skills. The company secretary of the Company updates and provides the Directors with written training materials in relation to their roles, functions and duties from time to time.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code Provision C.2.1 of the Corporate Governance Code, the roles of chairman of the Board and chief executive officer should be separate and should not be performed by the same individual.

The chairman of the Board (the “**Chairman**”) and the chief executive officer of the Company (the “**Chief Executive Officer**”) are currently two separate positions held by Mr. Che Hongzhi and Mr. Che Baozhen, respectively, with clear distinction in responsibilities. The Chairman is responsible for providing strategic advice and guidance on the development of the Group, while the Chief Executive Officer is responsible for the day-to-day operations of the Group.

Mr. Che Baozhen, the Chief Executive Officer, is the son of Mr. Che Hongzhi, the Chairman.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for term of three years from September 10, 2021, subject to termination in accordance with the requirements of the service contract.

Mr. Che Hongzhi and Mr. Wang Lei, the non-executive Directors, have entered into service contracts with the Company for a term of three years commencing from September 10, 2021, subject to termination as provided in the service contracts.

Mr. Shao Quanfeng, a non-executive Director, has entered into a service contract with the Company for a term of three years commencing from February 24, 2020, subject to termination as provided therein.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for term of one year commencing from September 10, 2021, subject to termination in accordance with the requirements of the service contract.

None of the Directors has a service contract with the Group which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

The Directors are subject to retirement by rotation and re-election at each annual general meeting of the Company in accordance with Article 108 and Article 112 of the Articles of Association. Appointed as an addition to the Board or to fill a casual vacancy on the Board will be subject to re-election by the Shareholders at the next following annual general meeting or the first general meeting of the Company respectively after the appointment. In addition, when an independent non-executive Director proposed for re-election has served the Company for more than nine years, his/her re-election will be subject to a separate resolution to be approved at the annual general meeting.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination and Remuneration Committee is responsible for reviewing the Board composition, and for making recommendations to the Board on the appointment, re-election and succession planning of Directors.

For details of the Directors who will retire from office by rotation and offer themselves for re-election at the AGM, please refer to the section headed "Report of the Directors" in this annual report.

### BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than 14 days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board meetings and Board Committee meetings, reasonable notice is generally given by the Company. The agenda and accompanying Board papers are dispatched to the Directors or committee members at least three days before the Board meetings or Board Committee meetings to ensure that the Directors have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings shall be kept by the company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail on the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by all Directors.

### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of 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 year ended December 31, 2021.

The Company's employees, who are likely to be in possession of inside information of the Company, have also been subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the Company's relevant employees was noted by the Company during the year ended December 31, 2021.

### DELEGATION BY THE BOARD

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense. Directors are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

### **CORPORATE GOVERNANCE FUNCTIONS**

The Board confirmed that corporate governance is a collective responsibility of the Directors, whose corporate governance functions includes:

- (a) review and monitor the Company's policies and practices in complying with legal and regulatory requirements;
- (b) review and monitor the training and continuous professional development of the Directors and senior management;
- (c) develop, review and monitor the code of conduct and compliance manual applicable to employees and the Directors;
- (d) develop and review the Company's corporate governance and practices, make recommendations and report on related issues to the Board;
- (e) review the Company's compliance with the corporate governance and disclosures in the Corporate Governance Report; and
- (f) review and monitor the Company's compliance with its whistleblowing policy.

### **BOARD COMMITTEES**

#### **AUDIT COMMITTEE**

The Audit Committee consists of three members, namely Mr. Choi Tze Kit, Sammy (Chairman), Mr. Wang Chuansheng and Mr. Zhang Xuehuo, all being independent non-executive Directors.

The terms of reference of the Audit Committee are posted on the Stock Exchange's website and the Company's website. According to the terms of reference, the major duties of the Audit Committee are as follows:

1. make recommendations to the Board on the appointment, re-appointment and/or removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and consider any questions of resignation or dismissal of that auditor;
2. monitor the integrity of financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;
3. oversee the Company's risk management, financial reporting system and internal control procedures;

4. oversee the Company's corporate governance functions, including review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, and the training and continuous professional development of Directors and senior management; and
5. oversee the Company's continuing connected transactions, including holding meetings every six months to review the reports on continuing connected transactions.

The main work of the Audit Committee in 2021 was as follows:

- reviewed the report on the 2021 audit plan;
- reviewed the 2020 annual financial report;
- reviewed the 2021 interim results report;
- discussed tax compliance matters;
- reviewed the internal control of the Company for connected transactions and continuing connected transactions; and
- discussed and reviewed the internal control system of the Company.

The Audit Committee has reviewed the audited consolidated financial statements for the year ended December 31, 2021.

### **Nomination and Remuneration Committee**

The Nomination and Remuneration Committee currently comprises three members, including two independent non-executive Directors, namely Mr. Zhang Xuehuo (Chairman) and Mr. Choi Tze Kit, Sammy, and an executive Director, namely Mr. Che Baozhen.

The terms of reference of the Nomination and Remuneration Committee are published on the Stock Exchange's website and the Company's website. According to the terms of reference, the major duties of the Nomination and Remuneration Committee are as follows:

1. review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
2. make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and establishing a formal and transparent procedure for developing remuneration policy;
3. review and approve the management's remuneration proposals with reference to the Board's goals and objectives;
4. make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, as the Board may direct;

5. make recommendations to the Board on the remuneration of non-executive Directors;
6. make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman of the Board and the managing director;
7. identify individuals suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorship;
8. consider salaries paid by comparable companies in the industry in which the Company operates, time commitment and responsibilities, and employment conditions elsewhere in the Group;
9. review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment in order to ensure that such compensation is consistent with the contractual terms and is otherwise fair and in line with market practice;
10. review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct in order to ensure they are consistent with contractual terms and are otherwise reasonable and appropriate;
11. ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration;
12. review the policy of the Company and its subsidiaries and associated companies at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries and associated companies, the present subsidiaries and associated companies of the Company or the businesses operated by its present subsidiaries and associated companies or (as the case may be) its predecessor, on expense reimbursements for the Directors and senior management; and
13. assess the independence of independent non-executive Directors.

The Company has adopted a nomination policy ("**Nomination Policy**"). Pursuant to the Nomination Policy, the Nomination and Remuneration Committee assesses, selects, and recommends candidates for directors to the Board on criteria such as credibility, success, and experience in the tire manufacturing industry, time available to be invested, benefits of sectors represented by the candidates, and the diversity the candidates will bring to the Board. The recommendations of the Nomination and Remuneration Committee will then be put to the Board for decision.

The main work of the Nomination and Remuneration Committee in 2021 was as follows:

- reviewed the structure, size, and composition of the Board;
- reviewed the Board's diversity policy;

- reviewed the remuneration of the Directors and senior management of the Company for 2020 and make recommendations to the Board on adjustments;
- assessed the performance of executive Directors and approved the terms of executive Directors' service contracts;
- reviewed the remuneration policy and structure of the Company's Directors and senior management in 2021;
- discussed and reviewed the remuneration of independent non-executive Directors and confirmed the terms of appointment contracts of independent non-executive Directors;
- discussed and reviewed the appointment and remuneration of senior management;
- discussed and reviewed the second vesting of the 2019 Share Option Scheme of the Company;
- discussed and reviewed the 2021 Share Option Scheme and the grant;
- discussed and reviewed the resolution on the change of joint company secretaries of the Company;
- considered re-election of retiring directors at 2021 annual general meeting; and
- reviewed whether there are independent non-executive directors who are or will be directors of 7 or more companies.

The Group actively attracts, selects and cultivates senior management talents to facilitate the implementation of the global development strategy. By implementing international, professional and diversified talent recruitment, training, evaluation and succession programs, the Group strengthens the pool of talents with international operation vision and diversified professional experience and skills, and provides talents with equal opportunities, inclusive corporate culture and a platform for sustainable development in various aspects such as organizational designing, leadership training, cultural construction, remunerations and incentive schemes.

## **DIRECTORS' REMUNERATION**

The Company has made full disclosure of remunerations of Directors by name, amount and type in Note 10 to the consolidated financial statements. No Director has waived or agreed to waive any remuneration for the year ended December 31, 2021.



## REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the senior management of the Company, whose biographies are set out on pages 43 to 51 of this annual report, for the year ended December 31, 2021 is set out below:

| <b>Emolument bands</b>  | <b>Number of senior management</b> |
|---|------------------------------------|
| HK\$1,500,001 to HK\$2,500,000 (approximately RMB1,226,401 to RMB2,044,000) | 5                                  |
| HK\$2,500,001 to HK\$3,500,000 (approximately RMB2,044,001 to RMB2,861,600) | 0                                  |
| HK\$3,500,001 to HK\$4,500,000 (approximately RMB2,861,601 to RMB3,679,200) | 1                                  |
| HK\$4,500,001 to HK\$5,500,000 (approximately RMB3,679,201 to RMB4,496,800) | 1                                  |

## BOARD DIVERSITY POLICY

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a board diversity policy to ensure that the Company will, when determining the composition of the Board, consider board diversity in terms of, among other things, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All appointments by the Board will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The board diversity policy is summarized as follows:

The selection of candidates will be based on a series of diversity scopes, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be made according to the merits of candidates and their contribution to the Board. The Company is committed to maintaining gender diversity on the Board of Directors and avoiding a single gender for Board members.

In view of the expansion of the Group's domestic and overseas markets and operation scale, the Company has set the following objectives for the diversity of the Board: within three years, through training or selection, the Board shall comprise the following members with professional skills and experience:

- 1) who possess an international vision and law-related professional background, and will be responsible for monitoring the international legal environment and improving the risk prevention mechanism in line with the implementation of the Group's internationalization strategy; and
- 2) Equipped with upstream and downstream industry background and professional skills to deepen the upstream and downstream synergy of the supply chain.

In 2021, the Group adopted a combination of training and practice to enhance the ability of Board members to operate internationally. In the next two years, the Company will actively deploy and strive to equip the Board with the above capabilities and experience, so as to achieve this diversity target and meet the needs of the Company's global operation.

The Company will review the Board diversity policy and the relevant measurable targets based on its business operation and development needs, and monitor the progress towards the achievement of these targets.

As at the date of this annual report, the Board comprises nine Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills, knowledge and length of service.

## **DEVELOPMENT STRATEGY AND RISK MANAGEMENT COMMITTEE**

The Development Strategy and Risk Management Committee consists of three members, including two independent non-executive Directors, Mr. Wang Chuansheng and Mr. Zhang Xuehuo, and a non-executive Director, Mr. Che Hongzhi (Chairman).

The terms of reference of the Development Strategy and Risk Management Committee are published on the Stock Exchange's website and the Company's website. According to the terms of reference, the major duties of the Development Strategy and Risk Management Committee are as follows:

1. understand and oversee the overall operation of the Company;
2. understanding, analyse, and monitor the current situation of the international and domestic industry;
3. understand and oversee relevant national policies;
4. study the short, medium and long-term development strategies of the Company or the relevant issues;
5. provide consultancy advice on the Company's long-term development strategy and major decisions on major investments, reforms and etc.;
6. review and approve the special research report on the development strategies;
7. publish routine research reports on a regular or irregular basis;

8. review and make recommendations on the general objectives and basic policies of compliance management and risk management;
9. determine strategic structures and resources for the risk management of the Company, and ensure that they are compatible with the internal risk management policy of the Company;
10. review and make recommendations on the institutional set up and duties in relation to compliance management and risk management; oversee the Company's risk management and internal control systems on an ongoing basis, and ensure that a review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries has been conducted at least annually. The review shall cover all material controls, including financial, operational and compliance controls, and shall, in particular, include:
  - i. the changes, since last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
  - ii. the scope and quality of management's ongoing monitoring of risks and the internal control systems, and its internal audit function;
  - iii. the extent and frequency of communication of monitoring results to the Board (or the special committees under it);
  - iv. significant control failures or weaknesses that have been identified during the period, and the extent to which they have resulted in unforeseen outcomes or contingencies;
  - v. the effectiveness of the Company's procedures on financial reporting and compliance with the Listing Rules;
11. review and make recommendations on the institutional set up and duties in relation to compliance management and risk management, and ensure the adequacy resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions;
12. evaluate and advise on risks relating to major decisions to be considered and approved at the Board and the solutions to such major tasks;
13. formulate the limits of major risks;

14. supervise, examine and make recommendations to the Board on relevant risk management policies;
15. evaluate and determining the Company's ESG-related risks and opportunities;
16. ensure that appropriate and effective ESG risk management and internal control systems are in place;
17. formulate the Company's ESG management approach, strategy, priorities and objectives;
18. regularly review the Company's performance on ESG matters, discuss and review the Group's annual ESG report;
19. review and advise on compliance reports and risk evaluation reports to be reviewed by the Board; and
20. perform such other duties determined by the Board and required by the Listing Rules or regulatory requirement of the place where the shares of the Company are listed.

The main work of the Development Strategy and Risk Management Committee in 2021 was as follows:

- studied the development strategies of the Company, discuss and review the medium and long-term strategic plans;
- Continuously supervised the Company's risk management and internal control systems, and provide advice on the Company's compliance management;
- made recommendations on the Company's ESG policies, discuss, review and monitor the progress of ESG on a regular basis;
- discussed and reviewed the Company's report on Pandemic risk management;
- discussed and reviewed the proposal of increasing the registered capital of Prinx Thailand;
- discussed and reviewed the amendment and restatement of the loan agreement dated March 17, 2020 between Prinx Thailand and Bank of China (Hong Kong) Limited, Bank of China (Thai) Public Company Limited and The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch (the total facility amount increased from US\$90.0 million to US\$170.0 million);
- discussed and reviewed the proposal on the establishment of Anhui Company;
- considered and approved the resolution on capital increase and shareholders' agreement of Anhui Company; and
- discussed and reviewed the resolution on the change of name of the Company.

## DIRECTORS' ATTENDANCE RECORDS

For the year ended December 31, 2021, the Company held 4 Board meetings, 3 Audit Committee meetings, 3 Nomination and Remuneration Committee meetings, 4 Development Strategy and Risk Management Committee meetings and one AGM.

The attendance record of each Director at the Board meetings, Board committee meetings and the general meetings of the Company held during the year ended December 31, 2021 is set out in the table below:

| Name of Director        | The Board | Audit Committee | Nomination and Remuneration Committee | Development Strategy and Risk Management Committee | Annual General Meeting |
|-------------------------|-----------|-----------------|---------------------------------------|--|------------------------|
| Mr. Che Baozhen         | 4/4       |                 |                                       |  |                        |
| Ms. Cao Xueyu           | 4/4       |                 |                                       |  | 1/1                    |
| Mr. Shi Futao           | 4/4       |                 |                                       |  | 1/1                    |
| Mr. Che Hongzhi         | 4/4       |                 |                                       | 2/2  | 1/1                    |
| Mr. Wang Lei            | 4/4       |                 |                                       |  | 1/1                    |
| Mr. Shao Quanfeng       | 4/4       |                 |                                       |  | 1/1                    |
| Mr. Zhang Xuehuo        | 4/4       | 3/3             | 2/2                                   | 4/4  | 1/1                    |
| Mr. Choi Tze Kit, Sammy | 4/4       | 3/3             | 2/2                                   |  | 1/1                    |
| Mr. Wang Chuansheng     | 4/4       | 3/3             |                                       | 4/4  | 1/1                    |

The Company will schedule at least four regular Board meetings each year and such number of Board committee meetings as required under the respective terms of reference to carry out the functions of the Board Committees. Meetings will also be arranged between the Chairman and the independent non-executive Directors without the presence of executive Directors and non-executive Directors.

## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2021 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the Auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 99 to 103 of this annual report.

## RISK MANAGEMENT AND INTERNAL CONTROL

In the course of business operation, the Group is subject to various risks, including business risks, financial risks, compliance risks, and operational and other risks, etc. The Board acknowledges its responsibility for the Group's risk management and internal control systems, and is responsible for reviewing the effectiveness of such systems. The Audit Committee is responsible for the Group's internal audit function, including reviewing the Group's financial records, internal control procedures, and risk management systems. The Development Strategy and Risk Management Committee is authorized by the Board to continuously oversee the risk management (including the sanctions risk exposure) and implementation of relevant internal control systems of the Group. Under the supervision of the Board, the Group's management are responsible for designing and implementing the risk management and internal control system of the Group. Such systems are established to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has established comprehensive risk management and internal control processes through which we monitor, evaluate and manage the risks that we are exposed to in our business activities. The risk management procedure of the Group is based on the well-defined risk identification standards, risk monitor responsibilities and risk control measure of each major classification. The management of the Group actively monitors the macroeconomic, trend of tire industry and changes of each jurisdiction's laws and regulations, and assesses the production expansion and income and outcome and absorptive capacity of the foreign investment. The risk management procedure of the Group clearly specifies the management duties, authorization and approval of each sides in respect of the major risk identification and management, and develops clear written policy for significant risk management process and circulate it to all managements and staffs. The Group has adopted a series of internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

In order to effectively reduce unnecessary financial risks and operational risks, thus ensure the realization of corporate business objectives, the Group has set up a relatively independent internal control audit department to establish and improve the internal control system. The Group relied upon an independent consultant to review the functions, and has engaged an international consulting company ("**Consulting Company**") in June 2019 to provide internal control consulting services targeting corporate governance for three years. On the one hand, the Consulting Company evaluates the internal control and risk management of the Group from a more objective and independent perspective, to enhance the Group's internal control in an all-around way. On the other hand, the internal audit department of the Company participates fully in the evaluation of the internal control by the Consulting Company while continuously learning useful experience. This will also improve the professional capabilities of the internal control audit department of the Group.



The Directors and senior management of the Group receive training related to continuing disclosure obligation of listed company regularly. The Group has also engaged an external legal consultant and auditor to obtain its professional guidance on disclosure obligations in respect of inside information. The management of the Group is responsible for designing, implementing, and maintaining the effectiveness of the internal control system, which includes control of the compliance with disclosure obligations in respect of inside information. The Board is responsible for supervising and controlling the appropriateness and efficiency of the internal control measures carried by management.

The Group has adopted various measures to ensure the effective implementation of the internal control system, through the establishment of a team, the review of the Group's internal control system, and the guidance in respect of the internal control policies, the responsibilities and duties of the listing company's directors and management under the Listing Rules, and other applicable laws and regulations provided to the Directors, senior management and employees.

The Board performs an annual review of the Group's risk management and internal control systems. During the Reporting Period, the Board and the management have reviewed the effectiveness of the Group's risk management and internal control systems and confirmed that they are adequate and effective to effectively mitigate the risks that may affect the Group in achieving its strategic objectives.

### AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the auditor of the Company to the Company during the year ended December 31, 2021 was approximately as follows:

| <b>Service Category</b>             | <b>Amount (RMB)</b>     |
|-------------------------------------|-------------------------|
| Audit services                      | 3,128,699               |
| Non-audit services (tax consulting) | <u>656,644</u>          |
| <b>Total</b>                        | <b><u>3,785,343</u></b> |

### JOINT COMPANY SECRETARIES

On March 29, 2019, the Company appointed Ms. Cao, an executive Director, as the joint company secretary of the Company. The Company believes that Ms. Cao should be able to perform her responsibilities as the joint company secretary by virtue of her legal and compliance knowledge and past experience and her profound understanding of the Company's business and operations.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Lam (resigned on July 19, 2021), a manager of TMF Hong Kong Limited (a company secretarial service provider), and Ms. Szeto (appointed on July 19, 2021), as the other joint company secretaries of the Company. Her primary contact person at the Company is Mr. Shi Futao, an executive Director and Ms. Cao, an executive Director and a joint company secretary of the Company.

For the year ended December 31, 2021, Ms. Cao, Ms. Lam and Ms. Szeto have undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## **COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONSHIP**

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information on the Company for the Shareholders and investors to make informed investment decisions.

The AGMs provide opportunity for Shareholders to communicate directly with the Directors. The chairman of the Company and the chairman of the Board Committees of the Company will attend the annual general meetings to answer Shareholders' questions. The auditor will also attend the annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website. The Company maintains a website at [www.prinxchengshan.com](http://www.prinxchengshan.com) where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

## **SHAREHOLDERS' RIGHTS**

To safeguard the Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

## **CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS**

According to the Articles of Association, the Shareholders may put forward proposals at the general meetings of the Company for consideration. Any one or more Shareholders(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company to require an extraordinary general meeting to be convened by the Company for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene such general meeting shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

## **PUTTING FORWARD ENQUIRIES TO THE BOARD**

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the investor relations at the headquarters of the Company by email at [investor@prinxchengshan.com](mailto:investor@prinxchengshan.com).

## **CHANGES IN CONSTITUTIONAL DOCUMENTS**

The Memorandum and Articles have been amended and restated, with effect from the Listing Date. No changes were made to the Memorandum and Articles during the Reporting Period.

The Company plans to make amendments to the Memorandum and Articles. For details, please refer to the announcement and circular to be issued by the Company.

To the Shareholders of Prinx Chengshan Holdings Limited  
(incorporated in the Cayman Islands with limited liability)

## Opinion

### What we have audited

The consolidated financial statements of Prinx Chengshan Holdings Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 104 to 188, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is “the provision for impairment of trade receivables”.

| Key Audit Matter  | How our audit addressed the Key Audit Matter  |
|---|---|
| <p><b>The provision for impairment of trade receivables</b></p> <p>Refer to note 2.11, note 4(c), note 9 and note 22 to the consolidated financial statements.</p> <p>As at 31 December 2021, the net carrying amount of the Group's trade receivables amounted to RMB1,118.0 million, after netting of the accumulated provision for impairment of RMB17.2 million.</p> <p>To measure the expected credit loss, trade receivables have been grouped based on shared credit risk characteristics.</p> <p>The Group provided for the impairment of trade receivables based on lifetime expected credit loss. The expected credit loss is estimated based on historical loss experience including the counterparty's past settlement details and incurred credit losses in observed periods, and existing market conditions with adjustment to reflect forward-looking factors.</p> | <p>We obtained an understanding of the management's internal control and process of provision impairment assessment of trade receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors.</p> <p>We evaluated and tested, on a sample basis, the key controls over the Group's provision impairment assessment of trade receivables.</p> <p>We evaluated the outcome of prior period provision impairment assessment of trade receivables to assess the effectiveness of management's estimation process.</p> <p>We performed the following procedures on assessing expected credit loss of trade receivables:</p> <ul style="list-style-type: none"> <li>• We evaluated the appropriateness of the provisioning methodologies adopted by management including the appropriateness of grouping based on credit risk characteristics of the relevant trade receivables.</li> <li>• We agreed historical data, including the counterparty's past settlement profile and incurred credit losses in observed periods, on a sample basis, to the relevant accounting records of the Group.</li> <li>• We tested the accuracy of the aging analyses of trade receivables on a sample basis.</li> <li>• We reviewed the economic indicators selected by management in determining forward-looking factors and evaluated the economic scenarios and the underlying probability weightings applied by management based on our understanding of the relevant industry and with reference to external macro-economic data.</li> <li>• We tested the mathematical accuracy of the calculation of the provision for impairment of trade receivables.</li> </ul> |

| Key Audit Matter  | How our audit addressed the Key Audit Matter  |
|---|---|
| We consider the provision for impairment of trade receivables a key audit matter because the carrying amount of trade receivables is significant and the estimation of impairment provision is inherently subjective and requires exercise of significant management judgement. | <p>We assessed the adequacy of the disclosures related to the provision for impairment of trade receivables in the context of the applicable financial reporting framework.</p> <p>Based on the above, we considered that management's judgements and assumptions applied in the impairment assessment of trade receivables were supportable by the evidence obtained and procedures performed.</p> |

### Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Directors and The Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.



## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is CHAN Chiu Kong, Edmond.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 10 May 2022

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

|   | Note   | Year ended 31 December |                 |
|---|--------|------------------------|-----------------|
|   |        | 2021<br>RMB'000        | 2020<br>RMB'000 |
| <b>Revenue</b>  | 6      | <b>7,537,161</b>       | 6,283,130       |
| Cost of sales   | 9      | <b>(6,498,013)</b>     | (4,881,767)     |
| <b>Gross profit</b>   |        | <b>1,039,148</b>       | 1,401,363       |
| Selling and distribution expenses   | 9      | <b>(437,849)</b>       | (391,225)       |
| Administrative expenses   | 9      | <b>(175,966)</b>       | (171,334)       |
| Research and development costs  | 9      | <b>(253,979)</b>       | (158,062)       |
| Net impairment losses on financial assets   | 3.1(b) | <b>(1,577)</b>         | (4,441)         |
| Other income  | 7      | <b>60,667</b>          | 42,420          |
| Other gains/(losses) — net  | 8      | <b>40,594</b>          | (29,559)        |
| <b>Operating profit</b>   |        | <b>271,038</b>         | 689,162         |
| Finance income  | 11     | <b>7,544</b>           | 14,557          |
| Finance costs   | 11     | <b>(12,380)</b>        | (5,428)         |
| Finance costs — net   | 11     | <b>(4,836)</b>         | 9,129           |
| Share of result of associates   |        | <b>(300)</b>           | (75)            |
| <b>Profit before income tax</b>   |        | <b>265,902</b>         | 698,216         |
| Income tax expense  | 12(a)  | <b>10,400</b>          | (93,468)        |
| <b>Profit for the year</b>  |        | <b>276,302</b>         | 604,748         |
| <b>Profit attributable to:</b>  |        |                        |                 |
| — Shareholders of the Company   |        | <b>276,304</b>         | 604,820         |
| — Non-controlling interests   |        | <b>(2)</b>             | (72)            |
|   |        | <b>276,302</b>         | 604,748         |
| <b>Earnings per share for profit attributable to shareholders of the Company for the year</b> |        |                        |                 |
| — Basic (RMB)   | 13     | <b>0.43</b>            | 0.95            |
| — Diluted (RMB)   | 13     | <b>0.43</b>            | 0.95            |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

|   | Note | Year ended 31 December |                 |
|---|------|------------------------|-----------------|
|   |      | 2021<br>RMB'000        | 2020<br>RMB'000 |
| <b>Profit for the year</b>  |      | <b>276,302</b>         | 604,748         |
| <b>Other comprehensive loss:</b><br><i>Item that may be reclassified subsequently to profit or loss</i> |      |                        |                 |
| Currency translation differences  |      | <b>(44,112)</b>        | (135,887)       |
| <b>Other comprehensive loss for the year, net of tax</b>  |      | <b>(44,112)</b>        | (135,887)       |
| <b>Total comprehensive income for the year</b>  |      | <b>232,190</b>         | 468,861         |
| <b>Attributable to:</b>   |      |                        |                 |
| — Shareholders of the Company   |      | <b>232,192</b>         | 468,933         |
| — Non-controlling interests   |      | <b>(2)</b>             | (72)            |
| <b>Total comprehensive income for the year</b>  |      | <b>232,190</b>         | 468,861         |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2021

|   | Note  | As at 31 December |                 |
|---|-------|-------------------|-----------------|
|   |       | 2021<br>RMB'000   | 2020<br>RMB'000 |
| <b>Assets</b>   |       |                   |                 |
| <b>Non-current assets</b>                                 |       |                   |                 |
| Property, plant and equipment                             | 16    | 4,657,021         | 3,852,024       |
| Right-of-use assets                                       | 17    | 116,293           | 125,009         |
| Intangible assets   | 18    | 73,360            | 52,080          |
| Investment in associates                                  |       | 6,008             | 6,308           |
| Prepayments   | 23    | 79,069            | 8,467           |
|   |       | <b>4,931,751</b>  | 4,043,888       |
| <b>Current assets</b>                                     |       |                   |                 |
| Inventories   | 20    | 1,484,864         | 973,517         |
| Trade and notes receivables                               | 22    | 1,383,717         | 1,331,037       |
| Prepayments, other receivables and other current assets   | 23    | 259,611           | 153,642         |
| Financial assets at fair value through profit or loss     | 21    | 107,155           | 153,479         |
| Amounts due from related parties                          | 36(b) | 78,820            | 215,370         |
| Restricted cash   | 24    | 125,679           | 55,780          |
| Cash and cash equivalents                                 | 24    | 728,813           | 563,165         |
|   |       | <b>4,168,659</b>  | 3,445,990       |
| <b>Total assets</b>                                       |       | <b>9,100,410</b>  | 7,489,878       |
| <b>Equity and liabilities</b>                             |       |                   |                 |
| <b>Equity attributable to shareholders of the Company</b> |       |                   |                 |
| Share capital   | 25    | 201               | 200             |
| Share premium   | 25    | 2,185,598         | 2,180,207       |
| Reserves  | 27    | 1,734,533         | 1,599,179       |
|   |       | <b>3,920,332</b>  | 3,779,586       |
| <b>Non-controlling interests</b>                          |       | <b>(200)</b>      | 617             |
| <b>Total equity</b>                                       |       | <b>3,920,132</b>  | 3,780,203       |

## Consolidated Statement of Financial Position

As at 31 December 2021

|                                     | Note  | As at 31 December      |                        |
|-------------------------------------|-------|------------------------|------------------------|
|                                     |       | 2021<br><i>RMB'000</i> | 2020<br><i>RMB'000</i> |
| <b>Liabilities</b>                  |       |                        |                        |
| <b>Non-current liabilities</b>      |       |                        |                        |
| Bank borrowings                     | 28    | 1,600,262              | 570,970                |
| Lease liabilities                   | 17    | 13,154                 | 21,805                 |
| Deferred income                     | 32    | 59,851                 | 55,220                 |
| Deferred tax liabilities            | 33    | 37,622                 | 57,766                 |
|                                     |       | <b>1,710,889</b>       | 705,761                |
| <b>Current liabilities</b>          |       |                        |                        |
| Trade payables                      | 29    | 1,957,593              | 1,434,152              |
| Other payables and accruals         | 30    | 1,030,900              | 1,232,937              |
| Contract liabilities                | 5     | 59,285                 | 81,676                 |
| Lease liabilities                   | 17    | 9,775                  | 9,208                  |
| Provision for warranties            | 31    | 66,753                 | 69,482                 |
| Amounts due to related parties      | 36(b) | 18,279                 | 6,231                  |
| Current income tax liabilities      |       | 29,042                 | 76,041                 |
| Bank borrowings                     | 28    | 297,762                | 94,187                 |
|                                     |       | <b>3,469,389</b>       | 3,003,914              |
| <b>Total liabilities</b>            |       | <b>5,180,278</b>       | 3,709,675              |
| <b>Total equity and liabilities</b> |       | <b>9,100,410</b>       | 7,489,878              |

The accompanying notes form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 104 to 188 were approved by the Board of Directors on 10 May 2022 and were signed on its behalf.

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**Che Baozhen**  
Director

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**Shi Futao**  
Director



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

|   | Note   | Equity attributable to shareholders<br>of the Company |  |                                  | Total<br>RMB'000 | Non-<br>controlling<br>interests<br>RMB'000 | Total<br>equity<br>RMB'000 |
|---|--------|---|--|----------------------------------|------------------|---|----------------------------|
|   |        | Share<br>capital<br>RMB'000<br>(Note 25)              | Share<br>premium<br>RMB'000<br>(Note 25) | Reserves<br>RMB'000<br>(Note 27) |                  |   |                            |
| <b>Balance at 1 January 2020</b>  |        | 199   | 2,171,942                                | 1,241,788                        | 3,413,929        | 389   | 3,414,318                  |
| <b>Comprehensive income</b>   |        |   |  |                                  |                  |   |                            |
| Profit for the year   |        | —   | —  | 604,820                          | 604,820          | (72)  | 604,748                    |
| <b>Other comprehensive income</b>   |        |   |  |                                  |                  |   |                            |
| Currency translation difference   |        | —   | —  | (135,887)                        | (135,887)        | —   | (135,887)                  |
| <b>Total other comprehensive<br/>income, net of tax</b>                   |        | —   | —  | (135,887)                        | (135,887)        | —   | (135,887)                  |
| <b>Total comprehensive income</b>   |        | —   | —  | 468,933                          | 468,933          | (72)  | 468,861                    |
| <b>Transactions with shareholders</b>                                     |        |   |  |                                  |                  |   |                            |
| Employee share option schemes   |        |   |  |                                  |                  |   |                            |
| — issue of shares   | 25, 27 | 1   | 8,265                                    | (2,860)                          | 5,406            | —   | 5,406                      |
| — value of employee services  | 26, 27 | —   | —  | 9,986                            | 9,986            | —   | 9,986                      |
| Cash dividends  | 14     | —   | —  | (115,989)                        | (115,989)        | —   | (115,989)                  |
| Transactions with non-controlling<br>interests                            |        | —   | —  | (2,679)                          | (2,679)          | —   | (2,679)                    |
| Capital contributions by non-<br>controlling interests of<br>subsidiaries |        | —   | —  | —                                | —                | 300   | 300                        |
| <b>Total transactions with<br/>shareholders</b>                           |        | 1   | 8,265                                    | (111,542)                        | (103,276)        | 300   | (102,976)                  |
| <b>Balance at 31 December 2020</b>  |        | 200   | 2,180,207                                | 1,599,179                        | 3,779,586        | 617   | 3,780,203                  |

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

|   | Note   | Equity attributable to shareholders<br>of the Company |  |                                  | Non-<br>controlling<br>interests<br>RMB'000 | Total<br>equity<br>RMB'000 |                  |
|---|--------|---|--|----------------------------------|---|----------------------------|------------------|
|   |        | Share<br>capital<br>RMB'000<br>(Note 25)              | Share<br>premium<br>RMB'000<br>(Note 25) | Reserves<br>RMB'000<br>(Note 27) |   |                            | Total<br>RMB'000 |
| <b>Balance at 1 January 2021</b>                        |        | <b>200</b>  | <b>2,180,207</b>                         | <b>1,599,179</b>                 | <b>3,779,586</b>                            | <b>617</b>                 | <b>3,780,203</b> |
| <b>Comprehensive income</b>                             |        |   |  |                                  |   |                            |                  |
| Profit for the year                                     |        | —   | —  | 276,304                          | 276,304                                     | (2)                        | 276,302          |
| <b>Other comprehensive income</b>                       |        |   |  |                                  |   |                            |                  |
| Currency translation difference                         |        | —   | —  | (44,112)                         | (44,112)                                    | —                          | (44,112)         |
| <b>Total other comprehensive<br/>income, net of tax</b> |        | —   | —  | (44,112)                         | (44,112)                                    | —                          | (44,112)         |
| <b>Total comprehensive income</b>                       |        | —   | —  | 232,192                          | 232,192                                     | (2)                        | 232,190          |
| <b>Transactions with shareholders</b>                   |        |   |  |                                  |   |                            |                  |
| Employee share option schemes                           |        |   |  |                                  |   |                            |                  |
| — issue of shares                                       | 25, 27 | 1   | 5,391                                    | (1,858)                          | 3,534                                       | —                          | 3,534            |
| — value of employee services                            | 26, 27 | —   | —  | 12,078                           | 12,078                                      | —                          | 12,078           |
| Cash dividends  | 14     | —   | —  | (106,708)                        | (106,708)                                   | —                          | (106,708)        |
| Transactions with non-controlling<br>interests          |        | —   | —  | (350)                            | (350)                                       | (815)                      | (1,165)          |
| <b>Total transactions with<br/>shareholders</b>         |        | <b>1</b>  | <b>5,391</b>                             | <b>(96,838)</b>                  | <b>(91,446)</b>                             | <b>(815)</b>               | <b>(92,261)</b>  |
| <b>Balance at 31 December 2021</b>                      |        | <b>201</b>  | <b>2,185,598</b>                         | <b>1,734,533</b>                 | <b>3,920,332</b>                            | <b>(200)</b>               | <b>3,920,132</b> |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2021

|   | Note  | Year ended 31 December |                 |
|---|-------|------------------------|-----------------|
|   |       | 2021<br>RMB'000        | 2020<br>RMB'000 |
| <b>Cash flows from operating activities</b>                                     |       |                        |                 |
| Cash generated from operations  | 34(a) | 473,316                | 692,624         |
| Interest paid   |       | (34,542)               | (17,481)        |
| Income tax paid   |       | (56,649)               | (25,456)        |
| Net cash generated from operating activities                                    |       | 382,125                | 649,687         |
| <b>Cash flows from investing activities</b>                                     |       |                        |                 |
| Purchases of property, plant and equipment                                      |       | (1,376,578)            | (1,226,007)     |
| Proceeds from government grants   |       | 9,576                  | 18,445          |
| Proceeds from disposal of property, plant and equipment                         | 34(b) | 1,356                  | 1,293           |
| Purchase of right-of-use assets   |       | (1,625)                | —               |
| Purchase of intangible assets   | 18    | (25,204)               | (5,775)         |
| Repayment of loans granted to a third party                                     |       | —                      | 2,000           |
| Purchase of financial assets at fair value through profit or loss               | 21    | (2,624,390)            | (3,319,400)     |
| Proceeds from disposal of financial assets at fair value through profit or loss | 21    | 2,671,331              | 3,349,537       |
| Interest received   |       | 3,562                  | 5,866           |
| Net cash used in investing activities   |       | (1,341,972)            | (1,174,041)     |

## Consolidated Statement of Cash Flows

For the year ended 31 December 2021

|  | Note  | Year ended 31 December |                 |
|--|-------|------------------------|-----------------|
|  |       | 2021<br>RMB'000        | 2020<br>RMB'000 |
| <b>Cash flows from financing activities</b>          |       |                        |                 |
| Proceeds from borrowings                             | 34(b) | 1,646,578              | 762,284         |
| Repayments of borrowings                             | 34(b) | (394,477)              | (434,124)       |
| Payment of lease liabilities                         | 34(b) | (10,539)               | (9,184)         |
| Employee share option scheme — issuance of share     |       | 3,534                  | 5,407           |
| Cash dividends paid                                  |       | (104,900)              | (112,902)       |
| Transactions with non-controlling interests          |       | (1,165)                | (2,679)         |
| Capital contribution by non-controlling shareholders |       | —                      | 300             |
| Net cash generated from financing activities         |       | 1,139,031              | 209,102         |
| <b>Net decrease in cash and cash equivalents</b>     |       |                        |                 |
| Cash and cash equivalents at the beginning of year   | 24    | 563,165                | 914,495         |
| Exchange loss on cash and cash equivalents           |       | (13,536)               | (36,078)        |
| <b>Cash and cash equivalents at the end of year</b>  | 24    | <b>728,813</b>         | 563,165         |

The accompany notes form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 1 General information, reorganisation and basis presentation

### 1.1 General information

Prinx Chengshan Holdings Limited (formerly named as Prinx Chengshan (Cayman) Holding Limited, the “Company”), 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 Windward 3, Regatta Office Park, P.O. 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”), Thailand, Asia (except PRC and Thailand), America and other global markets.

The immediate holding company and ultimate controlling company of the Group is Chengshan Group Co., Ltd. (“Chengshan Group”), which was established in the PRC. The company is ultimately held as to 76.43% 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 consolidated financial statements are presented in thousands of Renminbi (“RMB’000”) and were approved for issue by the board of directors on 10 May 2022.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

#### (i) **Compliance with HKFRS and HKCO**

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) and disclosure requirements of Hong Kong Companies Ordinance Cap. 622.

#### (ii) **Historical cost convention**

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value through profit or loss.

## 2 Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

#### (iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the reporting period commencing 1 January 2021. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

- Interest Rate Benchmark Reform — Phase 2 — Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

The Group also elected to adopt the following amendments early:

- Covid-19-Related Rent Concessions — Amendments to HKFRS 16

The amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

#### (iv) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations that are relevant to the Group but not yet effective for the financial year beginning at 1 January 2020 and have not been early adopted by the Group are as follows:

| <u>Standards</u>     | <u>Key requirements</u>  | <u>Effective for annual periods beginning on or after</u> |
|----------------------|--|---|
| HKAS 16 (Amendments) | Property, Plant and Equipment: Proceeds before intended use                      | January 1, 2022   |
| HKAS 37 (Amendments) | Onerous Contracts — Cost of Fulfilling a Contract                                | January 1, 2022   |
| HKFRS 3 (Amendments) | Reference to the Conceptual Framework  | January 1, 2022   |
| AG 5 (Revised)       | Merger Accounting for Common Control Combinations                                | January 1, 2022   |
| HKAS 1 (Amendments)  | Classification of Liabilities as Current or Non-current                          | January 1, 2023   |
| HKAS 12 (Amendments) | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | January 1, 2023   |
| HKFRS 8 (Amendments) | Definition of Accounting Estimates   | January 1, 2023   |
| HKFRS 17             | Insurance contracts  | January 1, 2023   |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

#### (iv) New standards and interpretations not yet adopted (Continued)

| <u>Standards</u>                                   | <u>Key requirements</u>   | <u>Effective for annual periods beginning on or after</u> |
|--|---|---|
| HK Int 5 (2020)                                    | Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause | January 1, 2023   |
| HKAS 1 and HKFRS Practice Statement 2 (Amendments) | Disclosure of Accounting Policies   | January 1, 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   |   | January 1, 2022   |

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### 2.2 Principles of consolidation and equity accounting

#### 2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

## 2 Summary of significant accounting policies (Continued)

### 2.2 Principles of consolidation and equity accounting (Continued)

#### 2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see Note 2.2.3 below), after initially being recognised at cost.

#### 2.2.3 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.7.

#### 2.2.4 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with the shareholders of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to Shareholders of the Company.

## 2 Summary of significant accounting policies (Continued)

### 2.2 Principles of consolidation and equity accounting (Continued)

#### 2.2.4 Changes in ownership interests (Continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

#### 2.2.5 Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

## 2 Summary of significant accounting policies (Continued)

### 2.2 Principles of consolidation and equity accounting (Continued)

#### 2.2.5 Business combination (Continued)

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

#### 2.2.6 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 Summary of significant accounting policies (Continued)

### 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States Dollar ("USD"). The consolidated financial statements are presented in RMB, which is the Group's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance costs — net'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'other gains/(losses) — net'.

#### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

### 2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

## 2 Summary of significant accounting policies (Continued)

### 2.5 Property, plant and equipment (Continued)

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

Land is not depreciated. Other property and equipment, or each significant part of an item of property or equipment, are depreciated by the straight-line method over the following estimated useful lives:

|                                   |            |
|-----------------------------------|------------|
| — Buildings                       | 30 years   |
| — Machinery and factory equipment | 5–14 years |
| — Furniture and fixtures          | 5–10 years |
| — Vehicles                        | 5 years    |
| — Toolings                        | 5 years    |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within 'other gains/(losses) — net' in the consolidated statement of profit or loss.

Construction-in-progress ("CIP") mainly represents buildings, machinery and toolings under construction or pending installation and is stated at historical cost less accumulated impairment losses, if any. Historical cost includes the costs of construction, acquisition and borrowing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and available for intended use. When the assets concerned are ready for their intended use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

### 2.6 Intangible assets

#### (a) Goodwill

Goodwill is measured as described in Note 2.2.5 and Note 2.7. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.



## 2 Summary of significant accounting policies (Continued)

### 2.6 Intangible assets (Continued)

#### (a) Goodwill (Continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

#### (b) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of 5–10 years based on the expected use in future operating plan.

#### (c) Computer software

Acquired computer software is capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of 3–5 years.

#### (d) Unpatented and patented technology

Development costs that are directly attributable to the design and testing of unpatented and patented technology are recognised as intangible assets and amortised using the straight-line method over their estimated useful life of 5–10 years.

### 2.7 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 2 Summary of significant accounting policies (Continued)

### 2.8 Financial assets

#### (i) Classification

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 19a for details of each type of financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### (iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

## 2 Summary of significant accounting policies (Continued)

### 2.8 Financial assets (Continued)

#### (iii) Measurement (Continued)

##### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) — net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss. Interest income from these financial assets is included in finance income using the effective interest method.
- **Fair value through other comprehensive income ("FVOCI"):** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains/(losses) — net. Interest income from these financial assets is included in finance income or other income using the effective interest method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **Fair value through profit or loss ("FVPL"):** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and presented net in the consolidated statement of profit or loss within other gains/(losses) — net in the period in which it arises.

## 2 Summary of significant accounting policies (Continued)

### 2.8 Financial assets (Continued)

#### (iii) Measurement (Continued)

##### *Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gains/(losses) — net in the consolidated statement of profit or loss. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

#### (iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

### 2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### 2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 Summary of significant accounting policies (Continued)

### 2.11 Trade and notes receivables

Trade and notes receivables are amounts due from customers for merchandise and service provided in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and notes receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.8 for a description of the Group's impairment policies.

### 2.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### 2.13 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2 Summary of significant accounting policies (Continued)

### 2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated statements of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.



## 2 Summary of significant accounting policies (Continued)

### 2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

#### (b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

#### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2 Summary of significant accounting policies (Continued)

### 2.18 Employee benefits

#### (a) Pension obligations

The Group pays defined contribution plans for its employees to publicly or privately administered pension plans on mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

#### (b) Other employee benefits

In addition to pension obligation, certain employees of the Group participate in various employee social security plans, including medical, housing and other welfare benefits, organised and administered by the governmental authorities. According to the relevant regulations, the premiums and welfare benefit contributions borne by the Group are calculated based on percentages of the total salary of employees (or on other basis), subject to a certain ceiling. The Group has no further payment obligations once the contributions have been paid. The Group's contributions to these plans are charged to the consolidated statement of profit or loss as incurred.

### 2.19 Share-based payments

Share-based compensation benefits are provided to employees via the employee share option scheme. Information relating to this scheme is set out in Note 26.

#### Employee share options

The fair value of options granted under the employee share option scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price),
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

Non-market performance and service vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

## 2 Summary of significant accounting policies (Continued)

### 2.19 Share-based payments (Continued)

#### **Employee share options** (Continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

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.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

### 2.20 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2 Summary of significant accounting policies (Continued)

### 2.21 Government assistance and grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised as other income in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### 2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable, and represents amounts receivable for goods supplied or service performed, stated net of rebates and returns. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of returns on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

#### **Sales of products**

Revenue from the sale of good directly to the customers is recognized at the point that the control of the inventories have passed to the customers, which is primarily upon the acceptance of the products by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. The Group collects cash or bank acceptance notes from the customers before or upon deliveries of products through banks. Cash or bank acceptance notes collected from the customers before product delivery is recognized as contract liabilities (Note 5) when the Group receives consideration in advance of satisfying a performance obligation by transferring the control of promised products.

The Group's obligation to repair or replace faulty products under the standard warranty terms, which cannot be purchased separately and serve as an assurance that the products sold comply with agreed-upon specifications at the time of sale, is recognised as a provision.

## 2 Summary of significant accounting policies (Continued)

### 2.23 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the statement of profit or loss as part of other income for investment purpose.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### 2.24 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The Group leases various offices and apartments. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

## 2 Summary of significant accounting policies (Continued)

### 2.24 Leases (Continued)

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date. Depreciation on right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension options are included in the offices and apartments leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group had no assets held as lessor during the year ended 31 December 2021.

### 2.25 Research and development costs

Research costs are expensed as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique products are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development of the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 Summary of significant accounting policies (Continued)

### 2.25 Research and development costs (Continued)

Directly attributable costs that are capitalised as part of the product cost includes employee costs for new manufacture technology development and an appropriate portion of relevant overheads. Costs associated with maintaining new manufacture technology programmes are recognised as an expense as incurred.

Other development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### 2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's directors or shareholders, where appropriate.

### 2.27 Earnings per share

#### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year.

#### (b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## 3 Financial risk management

### 3.1 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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (a) Market risk

##### (i) Foreign exchange

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are dominated in a currency that is not the Group entities' functional currency. The Group mainly operates in the PRC and is therefore exposed to foreign currency risks arising from some currency exposures, mainly with respect to USD due to certain financial assets and liabilities that denominated in USD. The Group also operates in Thailand and is exposed to foreign currency exposures on assets and liabilities that are not denominated in USD, the functional currency of the Thailand operation. However, the financial exposure is not expected to be material for the Thailand operation as at 31 December 2020 and 2021.

As at 31 December 2020 and 2021, if USD had weakened/strengthened by 5% against RMB, with all other variables held constant, post-tax profit for each year would have changed mainly as a result of foreign exchange losses/gains on translation of USD denominated cash and cash equivalents, trade receivables, trade payables and bank borrowings in RMB functional currency subsidiaries. Details of the changes are as follows:

|                                     | <b>As at 31 December</b>      |                        |
|-------------------------------------|-------------------------------|------------------------|
|                                     | <b>2021</b><br><i>RMB'000</i> | 2020<br><i>RMB'000</i> |
| Year ended:                         |                               |                        |
| Post-tax profit (decrease)/increase |                               |                        |
| — Weakened 5% against RMB           | <b>(8,519)</b>                | (10,171)               |
| — Strengthened 5% against RMB       | <b>8,519</b>                  | 10,171                 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (a) Market risk (Continued)

##### (i) Foreign exchange (Continued)

As at 31 December 2020 and 2021, if USD had weakened/strengthened by 5% against RMB, with all other variables held constant, other comprehensive income for each year would have changed mainly as a result of the translation of financial statements of USD functional currency entities to RMB. Details of the changes are as follows:

|  | As at 31 December |                 |
|--|-------------------|-----------------|
|  | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Year ended:  |                   |                 |
| Other comprehensive income (decrease)/<br>increase |                   |                 |
| — Weakened 5% against RMB                          | (120,376)         | (91,874)        |
| — Strengthened 5% against RMB                      | 120,376           | 91,874          |

##### (ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank borrowings. Bank borrowings obtained at floating rates expose the Group to cash flow interest rate risk, and if at fixed rates expose the Group to fair value interest-rate risk. The interest rates and bank borrowings are disclosed in Note 28.

As at 31 December 2021 and 2020, the Group's cash flow interest rate risk is relatively low.

##### (b) Credit risk

The Group is exposed to credit risk in relation to its trade receivables, notes receivable, other receivables, amounts due from related parties and cash deposits at banks. The carrying amounts of trade receivables, notes receivable, other receivables, amounts due from related parties, cash and cash equivalents and restricted cash represent the Group's maximum exposure to credit risk in relation to financial assets.

Most of the notes receivable are issued from state-owned banks in the PRC. The credit quality of notes receivable has been assessed by reference to external credit ratings or to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

The Group has large number of customers and there was no concentration of credit risk. The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

##### (i) Notes receivable, cash and cash equivalents and restricted cash

As at 31 December 2021, the Group has assessed that the expected credit loss rates for notes receivables, cash and cash equivalents and restricted cash were immaterial. Thus no loss allowance for these financial assets was recognised.

##### (ii) Amounts due from related parties and other receivables

As at 31 December 2021, the Group has assessed that the expected credit loss rates for amounts due from related parties and other receivables were immaterial. Thus no loss allowance for these receivables was recognised.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (iii) Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics presented in Noted 19b and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 3 years before 31 December 2021 or 31 December 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information, including gross domestic products and retail sales of consumer goods, on factors affecting the ability of the customers to settle the receivables.

As at 31 December 2021 and 2020, the loss allowance for trade receivables was determined as follows.

|                                 | Up to<br>1 year | 1 to<br>2 years | 2 to<br>3 years | Over<br>3 years | Total     |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------|
| <b>31 December 2021</b>         |                 |                 |                 |                 |           |
| Expected loss rate              | 1.1%            | 36.3%           | 60.0%           | 100.0%          | —         |
| Gross carrying amount (RMB'000) | 1,127,189       | 3,883           | 1,080           | 3,025           | 1,135,177 |
| Loss allowance (RMB'000)        | (12,140)        | (1,410)         | (649)           | (3,025)         | (17,224)  |
| <b>31 December 2020</b>         |                 |                 |                 |                 |           |
| Expected loss rate              | 1.1%            | 20.0%           | 50.0%           | 100.0%          | —         |
| Gross carrying amount (RMB'000) | 980,754         | 6,308           | 1,839           | 2,505           | 991,406   |
| Loss allowance (RMB'000)        | (11,187)        | (1,262)         | (920)           | (2,505)         | (15,874)  |

In prior year, for trade receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances.

Note 22 also details the closing loss allowances for trade receivables as at 31 December 2021 reconciling to the opening loss allowances.

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group in and aggregated by the Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

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<br>1 year<br>RMB'000 | Between<br>1 and<br>2 years<br>RMB'000 | Between<br>2 and<br>5 years<br>RMB'000 | Over<br>5 years<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------------|--------------------------------|--|--|----------------------------|------------------|
| <b>At 31 December 2021</b>            |                                |  |  |                            |                  |
| Bank borrowings                       | 297,762                        | 398,859                                | 1,091,149                              | 110,254                    | 1,898,024        |
| Interest payables for bank borrowings | 50,519                         | 42,038                                 | 28,369                                 | 2,711                      | 123,637          |
| Amount due to related parties         | 18,279                         | —                                      | —                                      | —                          | 18,279           |
| Trade payables                        | 1,957,593                      | —                                      | —                                      | —                          | 1,957,593        |
| Other payables                        | 868,472                        | —                                      | —                                      | —                          | 868,472          |
| Lease liabilities                     | 10,349                         | 10,127                                 | 3,392                                  | —                          | 23,868           |
|                                       | <u>3,202,974</u>               | <u>451,024</u>                         | <u>1,122,910</u>                       | <u>112,965</u>             | <u>4,889,873</u> |
| <b>At 31 December 2020</b>            |                                |  |  |                            |                  |
| 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           |
| Amount 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                          | 9,216                                  | 12,589                                 | —                          | 31,013           |
|                                       | <u>2,589,284</u>               | <u>109,991</u>                         | <u>395,976</u>                         | <u>125,148</u>             | <u>3,220,399</u> |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 3 Financial risk management (Continued)

#### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The Group monitors on the basis of the gearing ratio. This ratio is calculated as net surplus/debt divided by total capital. Net surplus/debt is calculated as total borrowings (including "current and non-current borrowings" and lease liabilities as shown in the consolidated statements of financial position) less cash and cash equivalents and restricted cash. Total capital is calculated as total equity plus net surplus/debt.

The gearing ratios as at 31 December 2021 and 2020 were as follows:

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Bank borrowings (Note 28)                 | 1,898,024         | 665,157         |
| Total Lease liabilities (Note 17)         | 22,929            | 31,013          |
| Less: Cash and cash equivalents (Note 24) | (728,813)         | (563,165)       |
| Restricted cash (Note 24)                 | (125,679)         | (55,780)        |
| Net debt                                  | 1,066,461         | 77,225          |
| Total equity                              | 3,920,132         | 3,780,203       |
| Total capital                             | 4,986,593         | 3,857,428       |
| <b>Gearing ratio</b>                      | <b>21.4%</b>      | <b>2.0%</b>     |

The increase of gearing ratio was mainly due to the increase in bank borrowings for financing the construction of the production lines both in Thailand and Shandong, Mainland of China.

### 3 Financial risk management (Continued)

#### 3.3 Fair value estimation

The Group adopts the amendment to HKFRS 13 for financial instruments that are measured in the consolidated statements of financial position at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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 31 December 2021 and 2020.

|   | Level 1       | Level 2  | Level 3        | Total          |
|---|---------------|----------|----------------|----------------|
| <b>As at 31 December 2021</b>                         |               |          |                |                |
| <b>Assets</b>   |               |          |                |                |
| Financial assets at fair value through profit or loss |               |          |                |                |
| — Wealth management products (a)                      | —             | —        | 85,110         | 85,110         |
| — Listed equity securities                            | 22,045        | —        | —              | 22,045         |
|   | <u>22,045</u> | <u>—</u> | <u>85,110</u>  | <u>107,155</u> |
| <b>As at 31 December 2020</b>                         |               |          |                |                |
| <b>Assets</b>   |               |          |                |                |
| 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> |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 3 Financial risk management (Continued)

#### 3.3 Fair value estimation (Continued)

For the year ended 31 December 2021 and 2020, there were no transfers among levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no changes in the classification of financial assets as a result of a change in the purpose or use of those assets.

During the years, there were no additions and disposals occurred among level 1. The additions and disposals of level 3 are disclosed in Note 21.

#### (a) Financial instruments in level 3

See Note 21 for disclosures of the changes in level 3 instruments for the year ended 31 December 2021 and 2020.

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

|                            | Fair value at<br>31 December<br>2021<br>RMB'000 | Valuation<br>Technique | Unobservable<br>input | Range<br>(weighted<br>average) | Relationship of<br>unobservable<br>inputs to fair value  |
|----------------------------|---|------------------------|-----------------------|--------------------------------|--|
| Wealth management products | 85,110  | Discounted cash flow   | Expected yield rate   | 2.2%–2.9%<br>(2.6%)            | A change in the yield rate by 100 basis points would increase/decrease the fair value approximately RMB830,000   |
|                            | Fair value at<br>31 December<br>2020<br>RMB'000 | Valuation<br>Technique | Unobservable<br>input | Range<br>(weighted<br>average) | Relationship of<br>unobservable<br>inputs to fair value  |
| Wealth management products | 128,000   | Discounted cash flow   | Expected yield rate   | 1.15%–2.95%<br>(2%)            | A change in the yield rate by 100 basis points would increase/decrease the fair value approximately RMB1,254,000 |

## 4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management reassesses the useful lives on a regular basis. Management will increase the depreciation charge where useful lives are shorter than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

### (b) Income taxes and deferred tax assets/liabilities

The Group is subject to income taxes in several jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

### (c) Provision for impairment of trade receivables

For trade receivables (excluding non-financial assets), the Group applies the simplified approach to provide for expected credit losses as prescribed by HKFRS 9, which requires the use of the lifetime expected loss allowance for all trade receivables (excluding non-financial assets). The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selects the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management reassesses the provision at each balance sheet date.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 4 Critical accounting estimates and judgments (Continued)

#### (d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

#### (e) Warranty claims provision

The Group generally offers warranties with period of 48 months for its tires. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as product costs.

### 5 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 the 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.

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

|                                 | Year ended 31 December     |                            |
|---------------------------------|----------------------------|----------------------------|
|                                 | 2021<br>Revenue<br>RMB'000 | 2020<br>Revenue<br>RMB'000 |
| Mainland China                  | 3,201,826                  | 3,624,012                  |
| America                         | 2,240,164                  | 868,436                    |
| Asia (excluding Mainland China) | 573,157                    | 483,583                    |
| Africa                          | 702,147                    | 540,464                    |
| Middle East                     | 539,904                    | 495,596                    |
| Other countries                 | 279,963                    | 271,039                    |
|                                 | <b>7,537,161</b>           | <b>6,283,130</b>           |

## 5 Segment information (Continued)

The Group's non-current assets (excluding intangible assets, investment in associates and prepayments and other receivables) by geographical location, which is determined by the city/country in which the asset is located, is as follows:

|                | <b>As at 31 December</b>      |                        |
|----------------|-------------------------------|------------------------|
|                | <b>2021</b><br><i>RMB'000</i> | 2020<br><i>RMB'000</i> |
| Mainland China | <b>2,228,778</b>              | 1,964,515              |
| Thailand       | <b>2,544,084</b>              | 2,011,194              |
| Others         | <b>452</b>                    | 1,324                  |
|                | <b>4,773,314</b>              | 3,977,033              |

No customer contributes 10% or more to the Group's revenue for the year ended 31 December 2021 and 2020.

|                      | <b>As at<br/>31 December<br/>2021</b><br><i>RMB'000</i> | As at<br>31 December<br>2020<br><i>RMB'000</i> |
|----------------------|---|--|
| Contract liabilities | <b>59,285</b>   | 81,676   |

### (i) Significant change in contract liabilities

The Group receives payments from customers based on billing schedule as established in contracts. There was no significant change in contract liabilities.

### (ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised for the year ended 31 December 2021 and 2020 relates to carried-forward contract liabilities.

|   | <b>Year ended<br/>31 December<br/>2021</b><br><i>RMB'000</i> | Year ended<br>31 December<br>2020<br><i>RMB'000</i> |
|---|--|---|
| Revenue recognised that was included in the contract liabilities balance at the 1 January 2021 and 1 January 2020 |  |   |
| Sales of tire products  | <b>81,676</b>  | 46,431  |

### (iii) Unsatisfied contracts related to sales of tire products

The Group selects a practical expedient and omit disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 6 Revenue

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Revenue from customers and recognised at point in time |                        |                 |
| Sales of tire products:                                |                        |                 |
| — All steel radial tires                               | 4,888,933              | 4,724,563       |
| — Semi-steel radial tires                              | 2,511,046              | 1,380,601       |
| — Bias tires   | 137,182                | 177,966         |
|  | <b>7,537,161</b>       | 6,283,130       |

### 7 Other income

|                   | Year ended 31 December |                 |
|-------------------|------------------------|-----------------|
|                   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Sales of scraps   | 31,661                 | 20,934          |
| Government grants | 29,006                 | 21,486          |
|                   | <b>60,667</b>          | 42,420          |

### 8 Other gains/(losses) — net

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Gains on disposal of financial assets at fair value through profit or loss (Note 21)             | 4,052                  | 5,259           |
| Losses from fair value change of financial assets at fair value through profit or loss (Note 21) | (3,435)                | (2,528)         |
| Gains/(losses) on disposal of property, plant and equipment (Note 34(b))                         | 137                    | (31)            |
| Net foreign exchange losses  | (15,319)               | (24,216)        |
| Donations  | —                      | (7,042)         |
| Compensation received from lawsuit (a)   | 52,697                 | —               |
| Others   | 2,462                  | (1,001)         |
|  | <b>40,594</b>          | (29,559)        |



## 8 Other gains/(losses) — net (Continued)

- (a) On 23 December 2016, Prinx Chengshan (Shandong) Tire Co., Ltd. ("Prinx Shandong"), a subsidiary of the Group, sued Qingdao Xinhonglun Industry and Trade Co., Ltd. ("Qingdao Xinhonglun") for its failing to transfer the trademarks of ROAD SHINE and GOLD PARTNER to Prinx Shandong as stipulated in a contract, and required Qingdao Xinhonglun to compensate for the economic losses of Prinx Shandong for the breach. In the first and second instances of verdict, Qingdao Xinhonglun should compensate Prinx Shandong but it refused to accept. On 12 July 2021, Qingdao Xinhonglun filed an application to the Supreme People's Court of the PRC ("SPC") for retrial. On 18 November 2021, the SPC rejected such retrial application. Concurrent with the opinion of external legal advisor, the directors of the Company considered that the possibility of accepting further prosecutorial protest application from Qingdao Xinhonglun by the Supreme People's Procuratorate of the PRC is remote, and accordingly recognised all of the compensation received amounting to RMB52,697,000 during the year ended 31 December 2021.

## 9 Expenses by nature

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and research and development costs are analysed as follows:

|   | Year ended 31 December |                  |
|---|------------------------|------------------|
|   | 2021<br>RMB'000        | 2020<br>RMB'000  |
| Raw materials and consumables used  | 6,209,793              | 4,421,526        |
| Wages and salaries, social welfare and benefits,<br>including director's emoluments (Note 10) | 613,662                | 579,870          |
| Change in inventories of finished goods and<br>work in progress                               | (322,061)              | (151,261)        |
| Depreciation (Note 16)  | 279,959                | 204,564          |
| Transportation cost and storage expenses  | 188,924                | 193,151          |
| Export expenses   | 70,852                 | 50,039           |
| Maintenance and repair  | 59,731                 | 53,037           |
| Travel, conference and office expenses  | 46,893                 | 36,797           |
| Provision for warranties (Note 31)  | 44,786                 | 27,334           |
| Professional service fees   | 29,370                 | 10,890           |
| Advertising expenses  | 18,792                 | 25,603           |
| Property insurance premium  | 14,404                 | 10,046           |
| Levies  | 12,832                 | 28,183           |
| Depreciation of right-of-use assets (Note 17)   | 11,908                 | 13,947           |
| Rental and estate expenses  | 9,340                  | 7,850            |
| Write-downs of inventories (Note 20)  | 7,287                  | 12,484           |
| Amortisation (Note 18)  | 3,924                  | 2,645            |
| Auditors' remuneration  |                        |                  |
| — Audit services  | 3,129                  | 2,214            |
| — Non-audit services  | 657                    | 116              |
| Sales commission  | 1,815                  | 3,142            |
| Provision for impairment of financial assets  | 1,577                  | 4,441            |
| Technology service fees   | 1,477                  | 4,604            |
| Other expenses  | 58,333                 | 65,607           |
|   | <b>7,367,384</b>       | <b>5,606,829</b> |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 10 Employee benefit expenses, including director's emoluments

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Salaries, wages and bonuses   | 484,285                | 470,882         |
| Pension, housing fund, medical insurance and other welfare benefits | 117,299                | 99,002          |
| Share-based compensation benefits                                   | 12,078                 | 9,986           |
| <b>Total employee benefit expenses</b>                              | <b>613,662</b>         | <b>579,870</b>  |

#### (a) Pension costs — defined contribution plans

The employees of the Group's subsidiaries participate in defined contribution retirement plans organised by the relevant provincial governments under which these subsidiaries are required to make monthly contributions to these plans at certain percentages of the employees' monthly salaries and wages, subject to certain ceilings.

During the years ended 31 December 2021 and 2020, the Group had no forfeited contributions which may be used by the Group to reduce the existing level of contributions.

#### (b) Benefits and interests of directors

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2021

| Name of Director                           | Fees<br>RMB'000 | Salaries<br>RMB'000 | Discretionary<br>bonuses<br>RMB'000 | Allowances<br>and benefits<br>in kind (i)<br>RMB'000 | Employer's<br>contribution<br>to a<br>retirement<br>benefits<br>scheme<br>RMB'000 | Share-based<br>compensation<br>benefits<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------|---------------------|-------------------------------------|--|---|--|------------------|
| <b>Executive directors</b>                 |                 |                     |                                     |  |   |  |                  |
| Che Baozhen                                | 302             | 2,340               | —                                   | 36   | 44  | 966  | 3,688            |
| Shi Futao                                  | 174             | 2,136               | —                                   | 39   | 38  | 2,516  | 4,903            |
| Cao Xueyu                                  | 174             | 245                 | —                                   | —  | 15  | 542  | 976              |
| <b>Non-executive director</b>              |                 |                     |                                     |  |   |  |                  |
| Che Hongzhi                                | 232             | —                   | —                                   | —  | 12  | —  | 244              |
| <b>Independent non-executive directors</b> |                 |                     |                                     |  |   |  |                  |
| Zhang Xuehuo                               | 143             | —                   | —                                   | —  | —   | —  | 143              |
| Choi Tze Kit, Sammy                        | 186             | —                   | —                                   | —  | —   | —  | 186              |
| Wang Chuansheng                            | 135             | —                   | —                                   | —  | —   | —  | 135              |
|  | <u>1,346</u>    | <u>4,721</u>        | <u>—</u>                            | <u>75</u>  | <u>109</u>  | <u>4,024</u>                                       | <u>10,275</u>    |

(i) Includes housing allowances, medical and life insurance premium.

**10 Employee benefit expenses, including director's emoluments** (Continued)**(b) Benefits and interests of directors** (Continued)

For the year ended 31 December 2020

| Name of Director                           | Fees<br>RMB'000 | Salaries<br>RMB'000 | Discretionary<br>bonuses<br>RMB'000 | Allowances<br>and benefits<br>in kind (i)<br>RMB'000 | Employer's<br>contribution<br>to a          | Share-based<br>compensation<br>benefits<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------|---------------------|-------------------------------------|--|---|--|------------------|
|  |                 |                     |                                     |  | retirement<br>benefits<br>scheme<br>RMB'000 |  |                  |
| <b>Executive directors</b>                 |                 |                     |                                     |  |   |  |                  |
| Che Baozhen                                | 323             | 1,430               | 288                                 | 33   | 39  | 382  | 2,495            |
| Shi Futao                                  | 186             | 1,086               | 216                                 | 35   | 12  | 338  | 1,873            |
| Cao Xueyu                                  | 186             | 270                 | 130                                 | —  | 16  | 149  | 751              |
| <b>Non-executive director</b>              |                 |                     |                                     |  |   |  |                  |
| Che Hongzhi                                | 248             | —                   | —                                   | —  | 12  | —  | 260              |
| <b>Independent non-executive directors</b> |                 |                     |                                     |  |   |  |                  |
| Zhang Xuehuo                               | 133             | —                   | —                                   | —  | —   | —  | 133              |
| Choi Tze Kit, Sammy                        | 160             | —                   | —                                   | —  | —   | —  | 160              |
| Wang Chuansheng                            | 108             | —                   | —                                   | —  | —   | —  | 108              |
|  | <u>1,344</u>    | <u>2,786</u>        | <u>634</u>                          | <u>68</u>  | <u>79</u>                                   | <u>869</u>   | <u>5,780</u>     |

**(c) Directors' termination benefits**

There were no termination benefits paid to any director for the year ended 31 December 2021 (2020: nil).

**(d) Consideration provided to third parties for making available directors' services**

For the year ended 31 December 2021, the Company provided no consideration to third parties for making available director's services (2020: nil).

**(e) Information about loans, quasi-loans and other dealings in favour of directors**

There were no loans, quasi-loans and other dealings entered into between the Group and the directors in favour of the directors as at 31 December 2021, or at any time for the year ended 31 December 2021 (2020: nil).

**(f) Directors' material interests in transactions, arrangements or contracts**

Save as disclosed in Note 36, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2021, or at any time for the year ended 31 December 2021 (2020: nil).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 10 Employee benefit expenses, including director's emoluments (Continued)

#### (g) Five highest paid individuals

The five highest paid employees of the Group for the year ended 31 December 2021 include 2 (2020: 2) directors, details of whose emoluments are reflected in the analysis shown in Note 10(b). Details of the total emoluments paid to the remaining 3 (2020: 3) highest paid employees for the year were as follows:

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Salaries  | 4,274                  | 4,450           |
| Discretionary bonuses                                   | —                      | 499             |
| Allowances and benefits in kind                         | 193                    | 91              |
| Employer's contribution to a retirement benefits scheme | 173                    | 51              |
| Share-based compensation benefits                       | 4,632                  | 651             |
| Total employee benefit expenses                         | 9,272                  | 5,742           |

The emoluments fell within the following bands:

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Emolument bands   |                        |                 |
| HKD1,500,001 to HKD2,000,000<br>(approximately RMB1,226,401–RMB1,635,200) | —                      | 2               |
| HKD2,000,001 to HKD2,500,000<br>(approximately RMB1,635,201–RMB2,044,000) | 1                      | —               |
| HKD3,000,001 to HKD3,500,000<br>(approximately RMB2,452,801–RMB2,861,600) | —                      | 1               |
| HKD4,000,001 to HKD4,500,000<br>(approximately RMB3,279,401–RMB3,679,200) | 1                      | —               |
| HKD5,000,001 to HKD5,500,000<br>(approximately RMB4,088,001–RMB4,496,800) | 1                      | —               |
|   | 3                      | 3               |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 11 Finance costs — net

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Finance costs:  |                        |                 |
| — Interest expense on bank borrowings                           | (37,812)               | (19,422)        |
| — Interest expense on lease liabilities (Note 17)               | (888)                  | (1,247)         |
|   | (38,700)               | (20,669)        |
| Less: amounts capitalised on qualifying assets (Note 16)        | 26,320                 | 15,241          |
|   | (12,380)               | (5,428)         |
| Finance income:   |                        |                 |
| — Interest income derived from bank deposits                    | 4,757                  | 5,682           |
| — Net foreign exchange gains on borrowings and dividend payable | 2,787                  | 8,875           |
|   | 7,544                  | 14,557          |
| Finance costs — net   | (4,836)                | 9,129           |

### 12 Taxation

#### (a) Income tax expense

The amounts of income tax expense (credited)/charged to the consolidated statement of profit or loss represent:

|                                      | Year ended 31 December |                 |
|--------------------------------------|------------------------|-----------------|
|                                      | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Current income tax                   |                        |                 |
| — PRC corporate income tax           | 832                    | 77,663          |
| — Hong Kong and overseas profits tax | 8,912                  | 5,984           |
| Deferred income tax (Note 33)        | (20,144)               | 9,821           |
| Income tax expense                   | (10,400)               | 93,468          |

#### (i) Cayman Islands and British Virgin Islands profit tax

The Company and its subsidiary, Prinx Investment Holding Limited, are not subject to any taxation in the Cayman Islands and British Virgin Islands respectively. The Company has obtained the qualification of PRC tax residence enterprise. The applicable profits tax rate is 25% for the year ended 31 December 2021 (2020: 25%).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 12 Taxation (Continued)

#### (a) Income tax expense (Continued)

##### (ii) Hong Kong profits tax

The Company's subsidiaries, Prinx Chengshan (Hong Kong) Tire Limited and Prinx (Hong Kong) Rubber Co., Limited, are subject to Hong Kong profits tax. The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2021 (2020: 16.5%). Prinx Chengshan (Hong Kong) Tire Limited has obtained the qualification of PRC tax residence enterprise. The applicable profits tax rate is 25% for the year ended 31 December 2021 (2020: 25%).

##### (iii) PRC corporate income tax ("CIT")

CIT is provided on the assessable income of entities within the Group incorporated in the Mainland China. The applicable CIT tax rate is 25% except for a subsidiary which is qualified as High and New Technology Enterprises ("HNTE") and entitled to enjoy a beneficial tax rate of 15% from 2020 to 2022. As at 31 December 2021, the Group has recognized but unused tax losses of RMB11,415,000 (2020: RMB6,057,000) which can be carried forward against future taxable income for certain entities in the Mainland China and will expire within 5 years.

##### (iv) Other overseas profits tax

The Company's subsidiary, Prinx Chengshan Tire North America, Inc., incorporated in California USA, is subject to the federal tax rate of 21% and the state tax of 8.84% for the year ended 31 December 2021.

Prinx Chengshan Tire (Thailand) Co., Ltd. was established in Thailand and the applicable income tax rate in Thailand is 20%. As it is qualified as a key encouraged industry enterprise and approved by local tax authority in 2020, Prinx Chengshan Tire (Thailand) Co., Ltd. was entitled to an eight-year full tax exemption from 2020 to 2027.

Prinx Chengshan Tire Europe GmbH, incorporated in Germany, is subject to an overall tax rate of 31.72% set by the local authority for the year ended 31 December 2021.

No overseas profits tax of the Group's other subsidiaries have been provided since these subsidiaries do not have assessable taxable profits for the year ended 31 December 2021.

##### (v) Withholding tax ("WHT")

On 27 December 2019, the Company and its subsidiary, Prinx Chengshan (Hong Kong) Tire Limited has obtained the qualification of PRC tax residence enterprise, are also subject to CIT for the year ended 31 December 2021 and the distribution of dividends among Prinx Shandong, Prinx Chengshan (Hong Kong) Tire Limited and the Company is no longer subject to PRC WHT since 2019.

**12 Taxation** (Continued)**(a) Income tax expense** (Continued)**(v) Withholding tax (“WHT”)** (Continued)

According to the applicable Thailand tax regulations, dividends distributed by a company established in Thailand to a foreign investor with respect to profits are generally subject to a 10% WHT. The WHT for unremitted earnings of Prinx Chengshan Tire (Thailand) Co., Ltd. as at 31 December 2021 has not been recognised as the Director holds the view that the Group will not distribute the unremitted earnings in the foreseeable future.

The income tax on the Group’s profit before tax differs from the theoretical amount that would arise using the weighted average tax rate to profits of the consolidated entities as follows:

|   | <b>Year ended 31 December</b> |                        |
|---|-------------------------------|------------------------|
|   | <b>2021</b><br><i>RMB’000</i> | 2020<br><i>RMB’000</i> |
| Profit before income tax  | <b>265,902</b>                | 698,216                |
| Tax calculated at applicable tax rates                                  | <b>46,596</b>                 | 177,474                |
| Tax losses for which no deferred income tax asset was recognised        | <b>17,051</b>                 | 1,529                  |
| Expenses not deductible for tax purpose                                 | <b>4,035</b>                  | 3,816                  |
| Tax benefited from HNTE qualification                                   | <b>(8,747)</b>                | (70,918)               |
| Additional deduction of research and development cost and other expense | <b>(29,566)</b>               | (15,428)               |
| Tax exemption of a subsidiary   | <b>(39,769)</b>               | (3,005)                |
| Income tax (credit)/charge  | <b>(10,400)</b>               | 93,468                 |

**(b) Value-added tax (“VAT”)**

Sales of self-manufactured products of the Company’s subsidiaries in the Mainland China and Thailand are subject to VAT. The applicable tax rate for PRC domestic sales is 13%. The applicable tax rate for Thailand domestic sales is 7%.

Input VAT on purchases of raw materials, fuel, utilities, certain property, plant and equipment and other production materials (merchandise, transportation costs) are creditable against output VAT. VAT payable is the net difference between output VAT and creditable input VAT.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 13 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 year.

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Profit attributable to the shareholders of the Company             | 276,304                | 604,820         |
| Weighted average number of ordinary shares in issue<br>(thousands) | 636,321                | 635,178         |
| Basic earnings per share (RMB)                                     | 0.43                   | 0.95            |

#### (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.

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Profit attributable to the shareholders of the Company                       | 276,304                | 604,820         |
| Weighted average number of ordinary shares in issue<br>(thousands)           | 636,321                | 635,178         |
| Adjustments for share options  | 503                    | 1,025           |
| Weighted average number of ordinary shares for<br>diluted earnings per share | 636,824                | 636,203         |
| Diluted earnings per share (RMB)   | 0.43                   | 0.95            |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 14 Dividends

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Cash dividends paid by the Company (a)      | 106,708                | 115,989         |
| Final dividends proposed by the Company (b) | 104,561                | 107,107         |

- (a) Dividends during the year ended 31 December 2021 and 2020 represented interim and final cash dividends paid by the Company to its shareholders.
- (b) On 10 May 2022, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2021 of HK\$128 million (equivalent to approximately RMB105 million at year-end exchange rate), representing HK\$0.2 per ordinary share. Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company. These financial statements do not reflect this dividend payable.

### 15 Subsidiaries

The investments in subsidiaries are stated at cost, less impairment, if any. The following sets out the details of the principal subsidiaries of the Company as at 31 December 2021:

| Company name                             | Date of incorporation | Country/Place of incorporation, legal status and kind of legal entity | Registered share capital | Paid-in share capital | Directly and indirectly held |                  | Principal activities                            |
|--|-----------------------|---|--------------------------|-----------------------|------------------------------|------------------|---|
|  |                       |   |                          |                       | 31 December 2020             | 31 December 2021 |   |
| <b>Directly held by the Company</b>      |                       |   |                          |                       |                              |                  |   |
| Prinx Chengshan (Hong Kong) Tire Limited | 06 June 2014          | Hong Kong, limited liability company                                  | USD178,000,000           | USD178,000,000        | 100%                         | 100%             | Investment holding and trading of tire products |
| Prinx Investment Holding Limited         | 26 November 2018      | British Virgin Islands, limited liability company                     | USD500                   | USD0                  | 100%                         | 100%             | Investment holding                              |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 15 Subsidiaries (Continued)

| Company name   | Date of incorporation | Country/Place of incorporation, legal status and kind of legal entity | Registered share capital | Paid-in share capital | Directly and indirectly held |                  | Principal activities  |
|--|-----------------------|---|--------------------------|-----------------------|------------------------------|------------------|---|
|  |                       |   |                          |                       | 31 December 2020             | 31 December 2021 |   |
| <b>Indirectly held by the Company</b>                            |                       |   |                          |                       |                              |                  |   |
| Prinx Chengshan (Shandong) Tire Co., Ltd.                        | 29 December 2005      | Shandong China, wholly foreign owned enterprise                       | USD158,000,000           | USD158,000,000        | 100%                         | 100%             | Manufacturing and trading of tire products  |
| Prinx Chengshan Tire Europe GmbH                                 | 17 March 2020         | Darmstadt Germany, limited liability company                          | EUR 25,000               | EUR 25,000            | 100%                         | 100%             | The manufacturing, development, trading and distribution of all kinds of goods made of rubber, synthetic or similar |
| Prinx Chengshan (Qingdao) Industrial Research & Design Co., Ltd. | 12 January 2017       | Shandong China, limited liability company                             | RMB10,000,000            | RMB10,000,000         | 100%                         | 100%             | Technology Research and trading of tire products  |
| Shandong Prinx Chengshan Tire Technology Research Co., Ltd.      | 26 September 2017     | Shandong China, limited liability company                             | RMB10,000,000            | RMB9,250,000          | 92.5%                        | 92.5%            | Tire technology and equipment research and development, providing technical services                                |
| Qingdao Zhianda Investment Co., Ltd.                             | 8 March 2018          | Shandong China, limited liability company                             | RMB76,800,000            | RMB57,440,000         | 100%                         | 100%             | Investment holding and trading of tire products   |
| Prinx Chengshan Tire North America, Inc.                         | 1 November 2018       | California USA, corporation   | USD1,203,990             | USD1,203,990          | 100%                         | 100%             | Investment holding and trading of inflatable products and related products  |
| Prinx (Hong Kong) Rubber Co., Limited                            | 13 December 2018      | Hong Kong, limited liability company                                  | USD20,000                | USD0                  | 100%                         | 100%             | Investment holding and trading of tire products   |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 15 Subsidiaries (Continued)

| Company name  | Date of incorporation | Country/Place of incorporation, legal status and kind of legal entity | Registered share capital | Paid-in share capital | Directly and indirectly held |                  | Principal activities                                       |
|---|-----------------------|---|--------------------------|-----------------------|------------------------------|------------------|--|
|   |                       |   |                          |                       | 31 December 2020             | 31 December 2021 |  |
| <b>Indirectly held by the Company</b>               |                       |   |                          |                       |                              |                  |  |
| Prinx Chengshan Tire (Thailand) Co., Ltd.           | 20 December 2018      | Thailand, limited liability company                                   | THB 8,252,319,600        | THB 8,252,319,600     | 100%                         | 100%             | Manufacturing and trading of tire products                 |
| Shenzhen Zhianda Tire Technology Service Co., Ltd.  | 2 May 2018            | Guangdong China, limited liability company                            | RMB40,000,000            | RMB17,370,000         | 96.7%                        | 100%             | Providing tire rental service and trading of tire products |
| Jinan Zhianda Tire Service Co., Ltd.                | 7 June 2018           | Shandong China, limited liability company                             | RMB20,000,000            | RMB20,000,000         | 97.5%                        | 100%             | Providing tire rental service and trading of tire products |
| Shanghai Zhianda Rubber Technology Co., Ltd.        | 14 January 2019       | Shanghai China, limited liability company                             | RMB20,000,000            | RMB14,315,000         | 90%                          | 100%             | Providing tire rental service and trading of tire products |
| Prinx Chengshan (Anhui) Tire Co., Ltd. (i)          | 19 April 2021         | Anhui China, limited liability company                                | RMB378,000,000           | RMB4,000,000          | N/A                          | 100%             | Providing tire rental service and trading of tire products |
| Zhianda (Shanghai) Tire Service Co., Ltd. (i)       | 13 May 2021           | Shanghai China, limited liability company                             | RMB76,800,000            | RMB11,240,000         | N/A                          | 100%             | Providing tire rental service and trading of tire products |
| Prinx Chengshan (Shanghai) Tire Sales Co., Ltd. (i) | 9 March 2021          | Shanghai China, limited liability company                             | RMB10,000,000            | RMB9,000,000          | N/A                          | 100%             | Providing tire rental service and trading of tire products |
| Prinx Chengshan (Shanghai) Investment Co., Ltd. (i) | 9 February 2021       | Shanghai China, wholly foreign owned enterprise                       | USD12,800,000            | USD4,100,000          | N/A                          | 100%             | Investment holding and trading of tire products            |

- (i) Prinx Chengshan (Anhui) Tire Co., Ltd., Zhianda (Shanghai) Tire Service Co., Ltd., Prinx Chengshan (Shanghai) Tire Sales Co., Ltd. and Prinx Chengshan (Shanghai) Investment Co., Ltd. were incorporated by Prinx Chengshan (Hong Kong) Tire Limited on 19 April 2021, 13 May 2021, 09 March 2021 and 09 February 2021 respectively.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 16 Property, plant and equipment

|   | Land and<br>buildings<br>RMB'000 | Machinery<br>and factory<br>equipment<br>RMB'000 | Furniture<br>and fixtures<br>RMB'000 | Vehicles<br>RMB'000 | Toolings<br>RMB'000 | Construction<br>in progress<br>RMB'000 | Total<br>RMB'000 |
|---|----------------------------------|--|--------------------------------------|---------------------|---------------------|--|------------------|
| <b>Year ended 31 December 2020</b>              |                                  |  |                                      |                     |                     |  |                  |
| Opening net book amount                         | 500,562                          | 825,801  | 16,418                               | 10,975              | 89,479              | 1,020,780                              | 2,464,015        |
| Transferred in from construction<br>in progress | 446,785                          | 787,412  | 2,703                                | 1,203               | 77,711              | (1,315,814)                            | —                |
| Other additions                                 | —                                | —  | 1,021                                | —                   | —                   | 1,705,607                              | 1,706,628        |
| Disposals                                       | (276)                            | (672)  | (99)                                 | —                   | (277)               | —                                      | (1,324)          |
| Depreciation charges (Note 9)                   | (21,566)                         | (139,436)  | (4,228)                              | (2,935)             | (36,399)            | —                                      | (204,564)        |
| Exchange difference                             | (14,963)                         | (23,911)   | (257)                                | (150)               | (1,461)             | (71,989)                               | (112,731)        |
| <b>Closing net book amount</b>                  | <b>910,542</b>                   | <b>1,449,194</b>                                 | <b>15,558</b>                        | <b>9,093</b>        | <b>129,053</b>      | <b>1,338,584</b>                       | <b>3,852,024</b> |
| <b>At 31 December 2020</b>                      |                                  |  |                                      |                     |                     |  |                  |
| Cost  | 1,124,555                        | 3,309,976  | 44,029                               | 31,221              | 502,199             | 1,338,584                              | 6,350,564        |
| Accumulated depreciation                        | (214,013)                        | (1,860,782)                                      | (28,471)                             | (22,128)            | (373,146)           | —                                      | (2,498,540)      |
| <b>Net book amount</b>                          | <b>910,542</b>                   | <b>1,449,194</b>                                 | <b>15,558</b>                        | <b>9,093</b>        | <b>129,053</b>      | <b>1,338,584</b>                       | <b>3,852,024</b> |
| <b>Year ended 31 December 2021</b>              |                                  |  |                                      |                     |                     |  |                  |
| Opening net book amount                         | 910,542                          | 1,449,194  | 15,558                               | 9,093               | 129,053             | 1,338,584                              | 3,852,024        |
| Transferred in from construction<br>in progress | 116,291                          | 625,957  | 18,495                               | 2,001               | 122,203             | (884,947)                              | —                |
| Other additions                                 | —                                | —  | 4,566                                | —                   | —                   | 1,247,140                              | 1,251,706        |
| Disposals                                       | (5)                              | (267)  | —                                    | (100)               | (847)               | —                                      | (1,219)          |
| Depreciation charges (Note 9)                   | (40,360)                         | (178,471)  | (5,038)                              | (2,860)             | (53,230)            | —                                      | (279,959)        |
| Exchange difference                             | (27,170)                         | (34,871)   | (272)                                | (190)               | (2,138)             | (100,890)                              | (165,531)        |
| <b>Closing net book amount</b>                  | <b>959,298</b>                   | <b>1,861,542</b>                                 | <b>33,309</b>                        | <b>7,944</b>        | <b>195,041</b>      | <b>1,599,887</b>                       | <b>4,657,021</b> |
| <b>At 31 December 2021</b>                      |                                  |  |                                      |                     |                     |  |                  |
| Cost  | 1,213,655                        | 3,882,900  | 66,115                               | 32,401              | 608,698             | 1,599,887                              | 7,403,656        |
| Accumulated depreciation                        | (254,357)                        | (2,021,358)                                      | (32,806)                             | (24,457)            | (413,657)           | —                                      | (2,746,635)      |
| <b>Net book amount</b>                          | <b>959,298</b>                   | <b>1,861,542</b>                                 | <b>33,309</b>                        | <b>7,944</b>        | <b>195,041</b>      | <b>1,599,887</b>                       | <b>4,657,021</b> |

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

For the year ended 31 December 2021 and 2020, the amounts of depreciation expense charged to cost of sales, selling and distribution expenses, administrative expenses and research and development costs are as follows:

|                                   | <b>Year ended 31 December</b> |                        |
|-----------------------------------|-------------------------------|------------------------|
|                                   | <b>2021</b><br><i>RMB'000</i> | 2020<br><i>RMB'000</i> |
| Cost of sales                     | <b>250,563</b>                | 181,449                |
| Selling and distribution expenses | <b>209</b>                    | 133                    |
| Administrative expenses           | <b>5,784</b>                  | 4,549                  |
| Research and development costs    | <b>23,403</b>                 | 18,433                 |
| Total                             | <b>279,959</b>                | 204,564                |

As at 31 December 2021, the net book value of property, plant and equipment pledged as security for the Group's borrowings and undrawn borrowing facilities amounted to approximately RMB3,338,195,000 (2020: RMB2,380,424,000) (Note 28).

For the year ended 31 December 2021, the Group has capitalized borrowing costs amounting to RMB26,320,000 (2020: RMB15,241,000) (Note 11) on qualifying assets. Borrowing costs were capitalized at the actual rate of interest.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 17 Right-of-use assets

|                            | As at 31 December |                 |
|----------------------------|-------------------|-----------------|
|                            | 2021<br>RMB'000   | 2020<br>RMB'000 |
| <b>Right-of-use assets</b> |                   |                 |
| — Land use rights          | 94,030            | 96,261          |
| — Buildings                | 22,263            | 28,748          |
|                            | <b>116,293</b>    | 125,009         |
| <b>Lease liabilities</b>   |                   |                 |
| Current                    |                   |                 |
| — Lease liabilities        | 9,775             | 9,208           |
| Non-Current                |                   |                 |
| — Lease liabilities        | 13,154            | 21,805          |
|                            | <b>22,929</b>     | 31,013          |

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

The current and non-current portion of lease liabilities amounting to RMB7,439,000 and RMB7,673,000 (2020: RMB7,212,000 and RMB15,113,000) represent amounts due to related parties (Note 36(b)(iii)) respectively.

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

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| <b>Depreciation of right-of-use assets</b> (Note 9) |                        |                 |
| — Land use rights                                   | 3,856                  | 3,836           |
| — Buildings   | 8,052                  | 10,111          |
|   | <b>11,908</b>          | 13,947          |
| Interest expense (Note 11)                          | 888                    | 1,247           |
| Expense relating to short term leases               | 14,446                 | 15,329          |

The total cash payment for leases in 2021 was RMB24,985,000 (2020: RMB25,138,000).



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 18 Intangible assets

|                                    | Goodwill<br>RMB'000 | Trademarks<br>RMB'000 | Computer<br>software<br>RMB'000 | Unpatented<br>and patented<br>technology<br>RMB'000 | Total<br>RMB'000 |
|------------------------------------|---------------------|-----------------------|---------------------------------|---|------------------|
| <b>Year ended 31 December 2020</b> |                     |                       |                                 |   |                  |
| Opening net book amount            | 43,436              | 54                    | 4,069                           | 1,391   | 48,950           |
| Additions                          | —                   | —                     | 4,650                           | 1,125   | 5,775            |
| Amortisation charge (Note 9)       | —                   | (15)                  | (2,292)                         | (338)   | (2,645)          |
| <b>Closing net book amount</b>     | <b>43,436</b>       | <b>39</b>             | <b>6,427</b>                    | <b>2,178</b>  | <b>52,080</b>    |
| <b>At 31 December 2020</b>         |                     |                       |                                 |   |                  |
| Cost                               | 43,436              | 1,572                 | 26,260                          | 3,497   | 74,765           |
| Accumulated amortisation           | —                   | (1,533)               | (19,833)                        | (1,319)   | (22,685)         |
| <b>Net book amount</b>             | <b>43,436</b>       | <b>39</b>             | <b>6,427</b>                    | <b>2,178</b>  | <b>52,080</b>    |
| <b>Year ended 31 December 2021</b> |                     |                       |                                 |   |                  |
| Opening net book amount            | 43,436              | 39                    | 6,427                           | 2,178   | 52,080           |
| Additions                          | —                   | —                     | 24,984                          | 220   | 25,204           |
| Amortisation charge (Note 9)       | —                   | (14)                  | (3,449)                         | (461)   | (3,924)          |
| <b>Closing net book amount</b>     | <b>43,436</b>       | <b>25</b>             | <b>27,962</b>                   | <b>1,937</b>  | <b>73,360</b>    |
| <b>At 31 December 2021</b>         |                     |                       |                                 |   |                  |
| Cost                               | 43,436              | 1,572                 | 51,244                          | 3,717   | 99,969           |
| Accumulated amortisation           | —                   | (1,547)               | (23,282)                        | (1,780)   | (26,609)         |
| <b>Net book amount</b>             | <b>43,436</b>       | <b>25</b>             | <b>27,962</b>                   | <b>1,937</b>  | <b>73,360</b>    |

During the year ended 31 December 2021, amortisation of the Group's intangible assets has been charged to cost of sales and administrative expenses in the consolidated statement of profit or loss.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 18 Intangible assets (Continued)

#### Impairment test for goodwill

Management reviews the business performance based on a measure of operating results. It has identified one operating segment — manufacturing and selling of tire products. Goodwill is monitored by the management at the operating segment level. The following is a summary of goodwill for operating segment:

|                             | Opening<br>RMB'000 | Addition<br>RMB'000 | Impairment<br>RMB'000 | Other<br>adjustment<br>RMB'000 | Total<br>RMB'000 |
|-----------------------------|--------------------|---------------------|-----------------------|--------------------------------|------------------|
| Year ended 31 December 2021 | 43,436             | —                   | —                     | —                              | 43,436           |
|                             | Opening<br>RMB'000 | Addition<br>RMB'000 | Impairment<br>RMB'000 | Other<br>adjustment<br>RMB'000 | Total<br>RMB'000 |
| Year ended 31 December 2020 | 43,436             | —                   | —                     | —                              | 43,436           |

The recoverable amount of a cash-generating unit (“CGU”) is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

For the CGU, the key assumptions, long term growth rate and discount rate used in the value-in-use calculations are as follows.

|                                     | As at 31 December |         |
|-------------------------------------|-------------------|---------|
|                                     | 2021              | 2020    |
| Sales volume (% annual growth rate) | 3%–14%            | 5%–16%  |
| Sales price (% annual growth rate)  | 1%–3%             | 1%–3%   |
| Gross margin (% of revenue)         | 15%–18%           | 20%–23% |
| Long term growth rate               | 3%                | 3%      |
| Pre-tax discount rate               | 18%               | 18%     |

These assumptions have been used for the analysis of CGU within the operating segment.

Sales volume is the average annual growth rate over the five-year forecast period. It is based on past performance and management’s expectations of market development.

Sales price is the average annual growth rate over the five-year forecast period. It is based on current industry trends and includes long term inflation forecasts for each territory.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix, with adjustments made to reflect the expected future price rises in rubber, a key raw material, which management does not expect to be able to pass on to customers through price increases.

**18 Intangible assets** (Continued)**Impairment test for goodwill** (Continued)

The long term growth rates used are pre-tax and reflect specific risks relating to the relevant operating segment.

As at 31 December 2020 and 2021, the directors of the Company assessed that there was no impairment of goodwill.

The directors of the Company have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the CGU to exceed its recoverable amounts.

**19a Financial instruments by category**

|   | <b>Financial<br/>assets at<br/>amortised cost<br/>RMB'000</b> | <b>Financial<br/>assets at fair<br/>value through<br/>profit or loss<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
|---|---|--|--------------------------|
| <b>As at 31 December 2021</b>                         |   |  |                          |
| <b>Financial assets</b>                               |   |  |                          |
| Financial assets at fair value through profit or loss | —   | 107,155  | 107,155                  |
| Amounts due from related parties                      | 78,820  | —  | 78,820                   |
| Trade and notes receivables                           | 1,383,717   | —  | 1,383,717                |
| Other receivables                                     | 49,764  | —  | 49,764                   |
| Cash and cash equivalents                             | 728,813   | —  | 728,813                  |
| Restricted cash                                       | 125,679   | —  | 125,679                  |
| <b>Total</b>  | <b>2,366,793</b>  | <b>107,155</b>   | <b>2,473,948</b>         |

**Financial  
liabilities at  
amortised cost  
RMB'000**

**As at 31 December 2021****Financial liabilities**

|                                |                  |
|--------------------------------|------------------|
| Lease liabilities              | 22,929           |
| Borrowings                     | 1,898,024        |
| Trade payables                 | 1,957,593        |
| Other payables                 | 868,472          |
| Amounts due to related parties | 18,279           |
| <b>Total</b>                   | <b>4,765,297</b> |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 19a Financial instruments by category (Continued)

|  | Financial<br>assets at<br>amortised cost<br><i>RMB'000</i> | Financial<br>assets at fair<br>value through<br>profit or loss<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|--|--|--|-------------------------|
| <b>As at 31 December 2020</b>                            |  |  |                         |
| <b>Financial assets</b>                                  |  |  |                         |
| Financial assets at fair value through<br>profit or loss | —  | 153,479  | 153,479                 |
| Amounts due from related parties                         | 215,370  | —  | 215,370                 |
| Trade receivables  | 1,331,037  | —  | 1,331,037               |
| Other receivables  | 20,928   | —  | 20,928                  |
| Cash and cash equivalents                                | 563,165  | —  | 563,165                 |
| Restricted cash  | 55,780   | —  | 55,780                  |
| <b>Total</b>   | <b>2,186,280</b>   | <b>153,479</b>   | <b>2,339,759</b>        |

**Financial  
liabilities at  
amortised cost  
*RMB'000***

|                                |  |  |                  |
|--------------------------------|--|--|------------------|
| <b>As at 31 December 2020</b>  |  |  |                  |
| <b>Financial liabilities</b>   |  |  |                  |
| Lease liabilities              |  |  | 31,013           |
| Borrowings                     |  |  | 665,157          |
| Trade payables                 |  |  | 1,434,152        |
| Other payables                 |  |  | 1,030,330        |
| Amounts due to related parties |  |  | 6,231            |
| <b>Total</b>                   |  |  | <b>3,166,883</b> |

### 19b Credit quality of financial assets

#### Trade and notes receivables

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. The credit quality of trade and notes receivables that are neither past due nor further impaired, are being assessed by reference to the reputation, credit history and management judgement about counterparty. The Group categorised the trade and notes receivables as follows:

- Group 1 — Notes receivable.
- Group 2 — Trade receivables due from customers.

**19b Credit quality of financial assets** (Continued)**Trade and notes receivables** (Continued)

|              | <b>As at 31 December</b> |                |
|--------------|--------------------------|----------------|
|              | <b>2021</b>              | 2020           |
|              | <b>RMB'000</b>           | <i>RMB'000</i> |
| Group 1      | <b>265,764</b>           | 355,505        |
| Group 2      | <b>1,135,177</b>         | 991,406        |
| <b>Total</b> | <b>1,400,941</b>         | 1,346,911      |

**Bank deposits**

The management considers the credit risks in respect of bank deposits are relatively minimal. The majority of the Group's bank deposits are held with major financial institutions (e.g. the Group's principal bankers) with strong investment grade credit ratings.

**20 Inventories**

|                  | <b>As at 31 December</b> |                |
|------------------|--------------------------|----------------|
|                  | <b>2021</b>              | 2020           |
|                  | <b>RMB'000</b>           | <i>RMB'000</i> |
| Raw materials    | <b>426,117</b>           | 229,544        |
| Work-in-progress | <b>84,242</b>            | 72,385         |
| Finished goods   | <b>974,505</b>           | 671,588        |
|                  | <b>1,484,864</b>         | 973,517        |

During the year ended 31 December 2021, the cost of inventories recognised as an expense and included in 'cost of sales' was RMB5,874,228,000 (2020: RMB4,245,879,000). Write-downs of inventories amounting to RMB7,287,000 were made for the year ended 31 December 2021 (2020: RMB12,484,000).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 21 Financial assets at fair value through profit or loss

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| At beginning of the year  | 153,479                | 180,885         |
| Additions   | 2,624,390              | 3,319,400       |
| Disposals   | (2,671,331)            | (3,349,537)     |
| Gains on disposal of financial assets at fair value through profit or loss (Note 8) | 4,052                  | 5,259           |
| Fair value losses on financial assets at fair value through profit or loss (Note 8) | (3,435)                | (2,528)         |
| At the end of the year  | 107,155                | 153,479         |
|   | As at 31 December      |                 |
|   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Financial assets at fair value through profit or loss                               |                        |                 |
| — Wealth management products (a)  | 85,110                 | 128,000         |
| — Listed equity securities (b)  | 22,045                 | 25,479          |
|   | 107,155                | 153,479         |

- (a) The wealth management products are stated at fair value 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 3.3).
- (b) The listed equity securities are fair valued based on the quoted market price.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 22 Trade and notes receivables

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Trade receivables                                   | 1,135,177         | 991,406         |
| Less: provision for impairment of trade receivables | (17,224)          | (15,874)        |
| Trade receivables — net                             | 1,117,953         | 975,532         |
| Notes receivable                                    | 265,764           | 355,505         |
| Trade and notes receivables — net                   | 1,383,717         | 1,331,037       |

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

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

|                | As at 31 December |                 |
|----------------|-------------------|-----------------|
|                | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Up to 3 months | 1,227,739         | 1,205,817       |
| 4 to 6 months  | 152,247           | 126,191         |
| 7 to 12 months | 12,967            | 4,251           |
| 1 to 2 years   | 3,883             | 6,308           |
| 2 to 3 years   | 1,080             | 1,839           |
| Over 3 years   | 3,025             | 2,505           |
|                | 1,400,941         | 1,346,911       |

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

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2021<br>RMB'000        | 2020<br>RMB'000 |
| At beginning of the year                                       | 15,874                 | 11,963          |
| Provision for impairment of trade receivables (Note 9)         | 1,577                  | 4,188           |
| Trade receivables written off during the year as uncollectible | (227)                  | (277)           |
| At the end of the year   | 17,224                 | 15,874          |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 22 Trade and notes receivables (Continued)

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The carrying amounts of the Group's trade and notes receivables are denominated in the following currencies:

|     | As at 31 December |                  |
|-----|-------------------|------------------|
|     | 2021<br>RMB'000   | 2020<br>RMB'000  |
| RMB | 626,418           | 790,635          |
| USD | 759,846           | 543,461          |
| EUR | 14,677            | 12,815           |
|     | <b>1,400,941</b>  | <b>1,346,911</b> |

### 23 Prepayments, other receivables and other current assets

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2021<br>RMB'000   | 2020<br>RMB'000 |
| <b>Non-current</b>  |                   |                 |
| Prepayments for purchase of property, plant and equipment | 79,069            | 8,467           |
| <b>Current</b>  |                   |                 |
| Prepayments for inventory                                 | 56,631            | 54,679          |
| Other receivables   |                   |                 |
| — Deposits in Customs Office                              | 19,295            | 225             |
| — Others  | 30,469            | 20,703          |
| Other current assets — value added tax to be deducted     | 153,216           | 78,035          |
|   | <b>259,611</b>    | <b>153,642</b>  |
|   | <b>338,680</b>    | <b>162,109</b>  |

The maximum exposure to credit risk at the reporting dates is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 24 Cash and cash equivalents

|                           | As at 31 December |                 |
|---------------------------|-------------------|-----------------|
|                           | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Cash on hand              | 6                 | 26              |
| Cash at banks (Note 19b)  | 854,486           | 618,919         |
|                           | 854,492           | 618,945         |
| Less: Restricted cash (a) | (125,679)         | (55,780)        |
|                           | 728,813           | 563,165         |

- (a) As at 31 December 2021, the restricted cash balances amounting to RMB105,451,000 (2020: RMB53,241,000) were pledged as security for issuing notes payable of the Group, and RMB20,228,000 were pledged as bank guarantees for issuing letter of credit (2020: RMB2,539,000).

Cash at bank and on hand are denominated in the following currencies:

|     | As at 31 December |                 |
|-----|-------------------|-----------------|
|     | 2021<br>RMB'000   | 2020<br>RMB'000 |
| RMB | 215,926           | 111,413         |
| USD | 582,415           | 475,759         |
| HKD | 8,469             | 6,300           |
| EUR | 38,479            | 19,367          |
| THB | 9,203             | 6,106           |
|     | 854,492           | 618,945         |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 25 Share capital and Share premium

|  |                         |  |                       | Number of authorised shares |
|--|-------------------------|--|-----------------------|-----------------------------|
| Authorised share capital:  |                         |  |                       |                             |
| As at 1 January 2020 and 31 December 2020 and 2021               |                         |  |                       | 1,000,000,000               |
|  | Number of issued shares | Nominal value of Ordinary shares RMB'000 | Share premium RMB'000 | Total RMB'000               |
| As at 31 December 2019   | 635,000,000             | 199                                      | 2,171,942             | 2,172,141                   |
| Employee share option schemes<br>— Exercise of options (Note 26) | 861,500                 | 1  | 8,265                 | 8,266                       |
| As at 31 December 2020   | 635,861,500             | 200                                      | 2,180,207             | 2,180,407                   |
| Employee share option schemes<br>— Exercise of options (Note 26) | 578,500                 | 1  | 5,391                 | 5,392                       |
| As at 31 December 2021   | 636,440,000             | 201                                      | 2,185,598             | 2,185,799                   |

### 26 Share options

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 5 July 2019 (the “2019 Adoption Date”), the share option scheme (the “2019 Share Option Scheme”) was adopted by the Company. The number of shares issuable pursuant to the 2019 Share Option Scheme was 16,000,000 shares, being approximately 2.5% of the total number of shares in issue on the 2019 Adoption Date.

On 9 July 2019 (the “2019 Grant Date”), the board of directors resolved to grant 14,400,000 shares of options to certain eligible employees under the 2019 Share Option Scheme, the exercise price is HKD7.24 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 2019 Share Option Scheme, the proportion of 1/3, 1/3 and 1/3 of the share options may be exercised after the 12 months, 24 months, 36 months from the date of grant. Subject to the vesting schedule, options granted in 2019 under the 2019 Share Option Scheme are exercisable within a period of six years commencing from the grant date. Total fair value of options as at the 2019 Grant Date was determined to be HKD25,709,438, assuming the Company’s annual performance objectives and personal performance objectives can be fulfilled.

### 26 Share options (Continued)

On 9 July 2020 (the “2020 Grant Date”), the board of directors resolved to grant 835,500 shares of options to certain eligible employees under the 2019 Share Option Scheme, the exercise price is HKD7.96 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 2019 Share Option Scheme, the proportion of 1/2 and 1/2 of the share options may be exercised after the 12 months and 24 months from the date of grant. 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, the deferred vesting conditions are considered satisfied and the options granted may be exercised at any time after the third exercise period (i.e., after 36 months from the 2020 Grant Date), and the vesting proportion is the remaining unvested options after excluding the lapsed Options. Subject to the vesting schedule, options granted in 2020 under the 2019 Share Option Scheme are exercisable within a period of five years commencing from the grant date. Total fair value of options as at the 2020 Grant Date granted during year ended 31 December 2020 were determined to be HKD1,707,728, assuming the Company’s annual performance objectives and personal performance objectives can be fulfilled.

Pursuant to an ordinary resolution passed at annual general meeting of the Company held on 17 May 2021 (the “2021 Adoption Date”), the current share option scheme (the “2021 Share Option Scheme”) was adopted by the Company and replaced 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 2021 Adoption Date.

On 28 June 2021 (the “2021 Grant Date”), the board of directors resolved to grant 35,050,000 shares of options to certain eligible employees under the 2021 Share Option Scheme, the exercise price is HKD8.57 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 2021 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 2021 Share Option Scheme are exercisable within a period of eight years commencing from the grant date.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 26 Share options (Continued)

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

|                                       | 2021                                    |                   | 2020                                    |                   |
|---------------------------------------|---|-------------------|---|-------------------|
|                                       | Average exercise price per share option | Number of options | Average exercise price per share option | Number of options |
| As at 1 January                       | HKD7.28                                 | 13,539,800        | HKD7.24                                 | 14,400,000        |
| Granted during the year               | HKD8.57                                 | 35,050,000        | HKD7.96                                 | 835,500           |
| Exercised during the year             | HKD7.24                                 | (578,500)         | HKD7.24                                 | (861,500)         |
| Lapsed during the year                | HKD7.97                                 | (1,466,000)       | HKD7.24                                 | (647,000)         |
| Forfeited during the year             | HKD7.28                                 | (394,800)         | HKD7.24                                 | (187,200)         |
| As at 31 December                     | HKD8.24                                 | 46,150,500        | HKD7.28                                 | 13,539,800        |
| Vested and exercisable at 31 December | HKD7.28                                 | 7,320,457         | HKD7.24                                 | 3,660,388         |

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| Grant Date  | Expiry Date  | Exercise price | Share options 31 December 2021 | Share options 31 December 2020 |
|---|--------------|----------------|--------------------------------|--------------------------------|
| 9 July 2019   | 9 July 2025  | HKD7.244       | 11,134,300                     | 12,704,300                     |
| 9 July 2020   | 9 July 2025  | HKD7.960       | 716,200                        | 835,500                        |
| 28 June 2021  | 28 June 2029 | HKD8.568       | 34,300,000                     | —                              |
| Total   |              |                | 46,150,500                     | 13,539,800                     |
| Weighted average remaining contractual life of options outstanding at end of period |              |                | 6.97 years                     | 5.00 years                     |

**26 Share options** (Continued)

Total fair value of options as at the 2021 Grant Date was 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 was assessed 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.

The key valuation inputs for options granted during the year ended 31 December 2021 included:

|                                       | <b>2021 Share<br/>Option Scheme</b> | 2019 Share<br>Option Scheme |
|---------------------------------------|-------------------------------------|-----------------------------|
| Exercise price                        | <b>HKD8.568</b>                     | HKD7.960                    |
| Spot price on Grant Date              | <b>HKD8.510</b>                     | HKD7.960                    |
| Expected volatility                   | <b>36.88%</b>                       | 37.52%                      |
| Expected dividend yield               | <b>2.35%</b>                        | 2.75%                       |
| Risk-free interest rate               | <b>1.07%</b>                        | 0.374%                      |
| Expiry date                           | <b>28 June 2029</b>                 | 9 July 2025                 |
| Expected post-vesting Forfeiture Rate | <b>3%</b>                           | 5%                          |

As at 31 December 2021, the share option grantees satisfied the above mentioned exercise conditions in accordance with the 2021 Share Option Scheme. Employee benefit expense of amounting to RMB12,078,000 (2020: RMB9,986,000) for the above 2 share option scheme with a corresponding increase in equity is recognized in profit or loss.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 27 Reserves

|  | Capital<br>reserve<br>RMB'000 | Statutory<br>reserve (i)<br>RMB'000 | Translation<br>reserve<br>RMB'000 | Retained<br>earnings (i)<br>RMB'000 | Share<br>option<br>reserves<br>RMB'000 | Total<br>RMB'000 |
|--|-------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|--|------------------|
| <b>Balance at 31 December 2019</b>               | (70,715)                      | 200,918                             | (66,352)                          | 1,170,971                           | 6,966                                  | 1,241,788        |
| Profit for the year                              | —                             | —                                   | —                                 | 604,820                             | —                                      | 604,820          |
| Cash dividends (Note 14)                         | —                             | —                                   | —                                 | (115,989)                           | —                                      | (115,989)        |
| Profit appropriation to statutory reserves       | —                             | 61,850                              | —                                 | (61,850)                            | —                                      | —                |
| Currency translation differences                 | —                             | —                                   | (135,887)                         | —                                   | —                                      | (135,887)        |
| Employee share option schemes                    |                               |                                     |                                   |                                     |  |                  |
| — issue of shares                                | —                             | —                                   | —                                 | —                                   | (2,860)                                | (2,860)          |
| — value of employee services (Note 26)           | —                             | —                                   | —                                 | —                                   | 9,986                                  | 9,986            |
| Transactions with non-controlling interests      | —                             | —                                   | —                                 | (2,679)                             | —                                      | (2,679)          |
| <b>Balance at 31 December 2020</b>               | (70,715)                      | 262,768                             | (202,239)                         | 1,595,273                           | 14,092                                 | 1,599,179        |
| Profit for the year                              | —                             | —                                   | —                                 | 276,304                             | —                                      | 276,304          |
| Cash dividends (Note 14)                         | —                             | —                                   | —                                 | (106,708)                           | —                                      | (106,708)        |
| Profit appropriation to statutory reserves       | —                             | 31,935                              | —                                 | (31,935)                            | —                                      | —                |
| Currency translation differences                 | —                             | —                                   | (44,112)                          | —                                   | —                                      | (44,112)         |
| Employee share option schemes                    |                               |                                     |                                   |                                     |  |                  |
| — issue of shares                                | —                             | —                                   | —                                 | —                                   | (1,858)                                | (1,858)          |
| — value of employee services (Note 26)           | —                             | —                                   | —                                 | —                                   | 12,078                                 | 12,078           |
| Transactions with non-controlling interests (ii) | —                             | —                                   | —                                 | (350)                               | —                                      | (350)            |
| <b>Balance at 31 December 2021</b>               | (70,715)                      | 294,703                             | (246,351)                         | 1,732,584                           | 24,312                                 | 1,734,533        |

- (i) In accordance with the PRC Company Law and the articles of association of the PRC subsidiaries of the Group (the "PRC subsidiaries"), the PRC subsidiaries are required to allocate 10% of their profits attributable to the respective owners of the PRC subsidiaries after offsetting accumulated losses of previous years as set out in their statutory financial statements, to the statutory reserve until such reserve reaches 50% of the registered capital of the respective PRC subsidiary.

Under the Thailand Provision of Civil and Commerce Code, the Thai company is required to set aside as a legal reserve at least 5% of its profits arising from the business of the Company at each dividend distribution until the reserve is not less than 10% of the registered share capital. The legal reserve is non-distributable.

These reserves shall only be used to make up for previous years' losses or to increase the capital. The entities in the PRC may transfer their respective statutory reserves into paid-in capital, provided that the balance of the statutory reserve after such transfer is not less than 25% of the registered capital.

- (ii) Qingdao Zhianda Investment Co., Ltd. acquired 3.3% equity interests of Shenzhen Zhianda Tire Technology Service Co., Ltd. from Guangzhou Lunting Co., Ltd. during the year ended 31 December 2021. The difference amounting to RMB350,000 between the consideration and the carrying amount of the non-controlling interest was recorded in reserves.



## 28 Bank borrowings

|  | As at 31 December |                 |
|--|-------------------|-----------------|
|  | 2021<br>RMB'000   | 2020<br>RMB'000 |
| <b>Non-current</b>                             |                   |                 |
| Bank borrowings                                |                   |                 |
| — Secured                                      | 1,138,154         | 570,970         |
| — Unsecured                                    | 462,108           | —               |
|  | <b>1,600,262</b>  | 570,970         |
| <b>Current</b>                                 |                   |                 |
| Current portion of non-current bank borrowings |                   |                 |
| — Secured                                      | 85,582            | —               |
| — Unsecured                                    | 32,980            | —               |
|  | <b>118,562</b>    | —               |
| <b>Short-term bank borrowings</b>              |                   |                 |
| — Unsecured                                    | 179,200           | 94,187          |
|  | <b>297,762</b>    | 94,187          |
| Total borrowings                               | <b>1,898,024</b>  | 665,157         |

As at 31 December 2021, the weighted average effective interest rates on borrowings from banks were 3.21% (2020: 3.15%).

As at 31 December 2021, the secured bank borrowings of RMB1,223,736,000 (2020: RMB570,970,000) and undrawn borrowing facilities of RMB191,271,000 (2020: RMB352,345,000) were secured by certain property, plant and equipment amounting to RMB3,338,195,000 (2020: RMB2,380,424,000) (Note 16).

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

|     | As at 31 December |                 |
|-----|-------------------|-----------------|
|     | 2021<br>RMB'000   | 2020<br>RMB'000 |
| RMB | 884,288           | 240,000         |
| USD | 1,013,736         | 425,157         |
|     | <b>1,898,024</b>  | 665,157         |

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### 28 Bank borrowings (Continued)

The Group has the following undrawn borrowing facilities:

|                            | As at 31 December |                 |
|----------------------------|-------------------|-----------------|
|                            | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Fixed rate:                |                   |                 |
| — Expiring within one year | 1,879,691         | 2,131,407       |
| — Expiring over one year   | 276,030           | 42,874          |
| Floating rate:             |                   |                 |
| — Expiring within one year | 309,400           | 863,621         |
| — Expiring over one year   | 191,271           | —               |

The exposure of the Group's borrowings to the interest rate changes and the contractual repricing dates of the borrowings at the end of the reporting period are as follows:

|                                | As at 31 December |                     |                 |                     |
|--------------------------------|-------------------|---------------------|-----------------|---------------------|
|                                | 2021<br>RMB'000   | % of total<br>loans | 2020<br>RMB'000 | % of total<br>loans |
| Variable rate borrowings       | 331,138           | 18%                 | 277,350         | 42%                 |
| Fixed rate borrowings          |                   |                     |                 |                     |
| — repricing or maturity dates: |                   |                     |                 |                     |
| Less than 1 year               | 269,561           | 14%                 | 94,187          | 14%                 |
| 1–2 years                      | 360,195           | 19%                 | 58,724          | 9%                  |
| 2–5 years                      | 937,130           | 49%                 | 234,896         | 35%                 |
|                                | 1,898,024         | 100%                | 665,157         | 100%                |

The maturity of bank borrowings as of the balance sheet dates is as follows:

|                            | As at 31 December |                 |
|----------------------------|-------------------|-----------------|
|                            | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Within 1 year              | 297,762           | 94,187          |
| Between one and two years  | 398,859           | 87,500          |
| Between two and five years | 1,091,149         | 362,735         |
| Over five years            | 110,254           | 120,735         |
|                            | 1,898,024         | 665,157         |

**28 Bank borrowings** (Continued)

The effective interest rates at the balance sheet date were as follows:

|                 | 2021       |             | 2020  |             |
|-----------------|------------|-------------|-------|-------------|
|                 | RMB        | USD         | RMB   | USD         |
| Bank borrowings | 2.64%–4.3% | 2.05%–3.68% | 2.64% | 2.07%–3.68% |

The carrying amounts and fair value of the non-current bank borrowings are as follows:

|                 | Carrying amount |                 | Fair value      |                 |
|-----------------|-----------------|-----------------|-----------------|-----------------|
|                 | 2021<br>RMB'000 | 2020<br>RMB'000 | 2021<br>RMB'000 | 2020<br>RMB'000 |
| Bank borrowings | 1,600,262       | 570,970         | 1,599,183       | 569,505         |

The fair values of non-current bank borrowings are based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial institution with substantially the same terms and characteristics at the respective balance sheet dates.

**29 Trade payables**

|                   | As at 31 December |                 |
|-------------------|-------------------|-----------------|
|                   | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Accounts payable  | 1,089,372         | 923,572         |
| Notes payable (a) | 868,221           | 510,580         |
|                   | <b>1,957,593</b>  | 1,434,152       |

(a) As at 31 December 2021, notes payable of RMB848,333,000 (2020: RMB417,560,000) represented bank acceptance notes secured by certain restricted bank balances and RMB19,888,000 (2020: nil) secured by certain notes receivable.

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 29 Trade payables (Continued)

The Group's trade payables were denominated in the following currencies:

|     | As at 31 December |                 |
|-----|-------------------|-----------------|
|     | 2021<br>RMB'000   | 2020<br>RMB'000 |
| RMB | 1,515,055         | 1,050,242       |
| USD | 272,054           | 335,080         |
| EUR | 2,176             | 536             |
| JPY | 2,339             | —               |
| THB | 165,969           | 48,294          |
|     | <b>1,957,593</b>  | 1,434,152       |

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

|                 | As at 31 December |                 |
|-----------------|-------------------|-----------------|
|                 | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Within 3 months | 1,475,529         | 1,043,498       |
| 4 to 6 months   | 469,319           | 321,674         |
| 7 to 12 months  | 3,315             | 37,849          |
| Above 1 year    | 9,430             | 31,131          |
|                 | <b>1,957,593</b>  | 1,434,152       |

**30 Other payables and accruals**

|  | <b>As at 31 December</b> |           |
|--|--------------------------|-----------|
|  | <b>2021</b>              | 2020      |
|  | <b>RMB'000</b>           | RMB'000   |
| Payroll and employee benefit payables                  | <b>150,695</b>           | 192,182   |
| Accrued sales rebates and commission                   | <b>120,557</b>           | 145,365   |
| Payables for purchase of property, plant and equipment | <b>396,754</b>           | 583,118   |
| Accrued expenses                                       | <b>114,751</b>           | 125,849   |
| Freights payable                                       | <b>116,180</b>           | 70,074    |
| Deposit from customers                                 | <b>60,470</b>            | 46,291    |
| Other tax payables                                     | <b>11,733</b>            | 10,425    |
| Interest payables                                      | <b>5,571</b>             | 2,301     |
| Other payables   | <b>54,189</b>            | 57,332    |
|  | <b>1,030,900</b>         | 1,232,937 |

**31 Provision for warranties**

|                               | <b>Products<br/>warranties<br/>RMB'000</b> |
|-------------------------------|--|
| <b>As at 31 December 2019</b> | <u>76,221</u>                              |
| Additional provision (Note 9) | 27,334                                     |
| Utilised during the year      | <u>(34,073)</u>                            |
| <b>As at 31 December 2020</b> | <u>69,482</u>                              |
| Additional provision (Note 9) | 44,786                                     |
| Utilised during the year      | <u>(47,515)</u>                            |
| <b>As at 31 December 2021</b> | <u>66,753</u>                              |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 32 Deferred income

|  | <b>Deferred<br/>government<br/>grants<br/>RMB'000</b> |
|--|---|
| <b>As at 31 December 2019</b>                            | 42,098  |
| Addition   | 19,105  |
| Credited to the consolidated statement of profit or loss | (5,983)   |
| <b>As at 31 December 2020</b>                            | 55,220  |
| Addition   | 9,576   |
| Credited to the consolidated statement of profit or loss | (4,945)   |
| <b>As at 31 December 2021</b>                            | 59,851  |

### 33 Deferred income tax

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

|  | <b>As at 31 December</b> |          |
|--|--------------------------|----------|
|  | <b>2021</b>              | 2020     |
|  | <b>RMB'000</b>           | RMB'000  |
| Deferred tax assets:   |                          |          |
| — Deferred tax assets to be recovered within 12 months             | <b>54,715</b>            | 31,171   |
| — Deferred tax assets to be recovered after more than 12 months    | <b>1,909</b>             | 3,233    |
|  | <b>56,624</b>            | 34,404   |
| Deferred tax liabilities:  |                          |          |
| — Deferred tax liabilities to be settled within 12 months          | <b>(7,772)</b>           | (22,164) |
| — Deferred tax liabilities to be settled after more than 12 months | <b>(86,474)</b>          | (70,006) |
|  | <b>(94,246)</b>          | (92,170) |
| Deferred tax liabilities, net                                      | <b>(37,622)</b>          | (57,766) |

**33 Deferred income tax** (Continued)

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

|                               | <b>Year ended 31 December</b> |                        |
|-------------------------------|-------------------------------|------------------------|
|                               | <b>2021</b><br><b>RMB'000</b> | 2020<br><b>RMB'000</b> |
| At beginning of year          | <b>(57,766)</b>               | (47,945)               |
| Charge for the year (Note 12) | <b>20,144</b>                 | (9,821)                |
| At end of year                | <b>(37,622)</b>               | (57,766)               |

The movement in deferred tax assets and liabilities during the year, without taking consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred tax assets**

|  | <b>Tax losses</b><br><b>RMB'000</b> | <b>Impairment</b><br><b>RMB'000</b> | <b>Accruals</b><br><b>RMB'000</b> | <b>Warranties</b><br><b>RMB'000</b> | <b>Government grants</b><br><b>RMB'000</b> | <b>Others</b><br><b>RMB'000</b> | <b>Total</b><br><b>RMB'000</b> |
|--|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|--|---------------------------------|--------------------------------|
| At 31 December 2019  | —                                   | 2,255                               | 10,357                            | 7,951                               | 6,299                                      | 1,295                           | 28,157                         |
| (Charged)/credited to the consolidated statement of profit or loss | —                                   | 943                                 | 3,461                             | (2,416)                             | 2,659                                      | 1,600                           | 6,247                          |
| At 31 December 2020  | —                                   | 3,198                               | 13,818                            | 5,535                               | 8,958                                      | 2,895                           | 34,404                         |
| (Charged)/credited to the consolidated statement of profit or loss | 13,847                              | 1,087                               | 1,573                             | 1,047                               | 1,375                                      | 3,291                           | 22,220                         |
| At 31 December 2021  | 13,847                              | 4,285                               | 15,391                            | 6,582                               | 10,333                                     | 6,186                           | 56,624                         |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 33 Deferred income tax (Continued)

#### Deferred tax liabilities

|   | Fair value<br>gains arising<br>from business<br>combination<br><i>RMB'000</i> | Depreciation<br>difference<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|---|---|--|-------------------------|
| At 31 December 2019   | 21,044  | 55,058                                       | 76,102                  |
| (Credited)/charged to the consolidated<br>statement of profit or loss | (3,185)   | 19,253                                       | 16,068                  |
| At 31 December 2020   | 17,859  | 74,311                                       | 92,170                  |
| (Credited)/charged to the consolidated<br>statement of profit or loss | (3,185)   | 5,261  | 2,076                   |
| At 31 December 2021   | 14,674  | 79,572                                       | 94,246                  |

### 34 Cash generated from operations

#### (a) Reconciliation of profit before income tax to cash generated from operations

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Profit before income tax   | 265,902                | 698,216         |
| Adjustments for:   |                        |                 |
| — Share of result of associates  | 300                    | (75)            |
| — Depreciation of property, plant and equipment<br>(Note 16)   | 279,959                | 204,564         |
| — Depreciation of right-of-use assets (Note 17)  | 11,908                 | 13,947          |
| — Amortisation of intangible assets (Note 18)  | 3,924                  | 2,645           |
| — Gains on disposal of financial assets at fair value<br>through profit or loss (Note 8)             | (4,052)                | (5,259)         |
| — Losses from fair value change of financial assets<br>at fair value through profit or loss (Note 8) | 3,435                  | 2,528           |
| — Deferred income related to property, plant and<br>equipment  | (4,945)                | (5,323)         |
| — Share based payment (Note 26)  | 12,078                 | 9,986           |
| — (Gains)/losses on disposal of property, plant and<br>equipment (Note 8)                            | (137)                  | 31              |
| — Provision for impairment of financial assets   | 1,577                  | 4,441           |
| — Write-downs of inventories (Note 20)   | 7,287                  | 12,484          |
| — Finance costs — net (Note 11)  | 4,836                  | (9,129)         |
| <b>Changes in working capital (excluding currency<br/>translation differences on consolidation):</b> |                        |                 |
| — (Increase)/decrease in pledged bank deposits   | (69,899)               | 68,124          |
| — Increase in inventories  | (518,515)              | (230,658)       |
| — Increase in trade and notes receivables  | (41,480)               | (352,328)       |
| — Increase in prepayments, other receivables and other<br>current assets                             | (104,674)              | (9,453)         |
| — Decrease/(increase) in amounts due from related<br>parties   | 136,550                | (142,630)       |
| — Increase in trade payables   | 523,444                | 235,436         |
| — Increase/(decrease) in amounts due to related parties  | 12,048                 | (13,584)        |
| — Decrease in provision for warranties   | (2,729)                | (6,739)         |
| — (Decrease)/increase in other payables and accruals   | (21,110)               | 180,155         |
| — (Decrease)/increase in contract liabilities  | (22,391)               | 35,245          |
| <b>Cash generated from operations</b>  | <b>473,316</b>         | <b>692,624</b>  |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 34 Cash generated from operations (Continued)

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2021<br>RMB'000        | 2020<br>RMB'000 |
| Net book value (Note 16)   | 1,219                  | 1,324           |
| Gains/(losses) on disposal of property, plant and equipment (Note 8) | 137                    | (31)            |
| Proceeds from disposal of property, plant and equipment              | 1,356                  | 1,293           |

The reconciliation of liabilities arising from financial activities is as follows:

|                                      | Bank borrowings<br>RMB'000 | Lease Liabilities<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------------|----------------------------|------------------------------|------------------|
| <b>As of 31 December 2019 (Note)</b> | 357,359                    | 10,681                       | 368,040          |
| Cash flows                           |                            |                              |                  |
| — inflow from financing activities   | 762,284                    | —                            | 762,284          |
| — outflow from operating activities  | (17,481)                   | —                            | (17,481)         |
| — outflow from financing activities  | (434,124)                  | (9,184)                      | (443,308)        |
| Non-cash changes                     |                            |                              |                  |
| — increase of right-of-use assets    | —                          | 28,269                       | 28,269           |
| — interest expense                   | 19,422                     | 1,247                        | 20,669           |
| — currency translations              | (20,002)                   | —                            | (20,002)         |
| <b>As of 31 December 2020 (Note)</b> | 667,458                    | 31,013                       | 698,471          |
| Cash flows                           |                            |                              |                  |
| — inflow from financing activities   | 1,646,578                  | —                            | 1,646,578        |
| — outflow from operating activities  | (34,542)                   | —                            | (34,542)         |
| — outflow from financing activities  | (394,477)                  | (10,539)                     | (405,016)        |
| Non-cash changes                     |                            |                              |                  |
| — increase of right-of-use assets    | —                          | 1,567                        | 1,567            |
| — interest expense                   | 37,812                     | 888                          | 38,700           |
| — currency translations              | (19,232)                   | —                            | (19,232)         |
| <b>As of 31 December 2021 (Note)</b> | 1,903,597                  | 22,929                       | 1,926,526        |

Note: The balance of these financial liabilities comprises "bank borrowings", "lease liabilities", respective interest payable and "other payables and accruals".

### 35 Commitments

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

|  | <b>As at 31 December</b> |         |
|--|--------------------------|---------|
|  | <b>2021</b>              | 2020    |
|  | <b>RMB'000</b>           | RMB'000 |
| Purchase of property, plant and equipment<br>— Contracted but not provided for | <b>228,479</b>           | 774,816 |

### 36 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 consolidated financial statements, 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 year ended 31 December 2021 and 2020, and balances arising from related party transactions as at the respective balance sheet dates.

Name and relationship with related parties are set out below:

| <b>Related party</b>  | <b>Relationship</b>   |
|---|---|
| Chengshan Group   | Immediate holding company   |
| China National Heavy Duty Truck Group Co., Ltd. and its subsidiaries (referred as "Sinotruk") | Ultimate parent company of Sinotruk (Hong Kong) Capital Holding Limited, a shareholder of the Company             |
| 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 consolidated financial statements represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 36 Related party transactions (Continued)

#### (a) Transactions with related parties

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2021<br>RMB'000        | 2020<br>RMB'000 |
| <b>Continuing transactions</b>                                  |                        |                 |
| (i) Purchase of utilities<br>— Chengshan Group                  | <b>172,320</b>         | 165,153         |
| (ii) Sale of goods  |                        |                 |
| — Sinotruk  | <b>371,932</b>         | 552,305         |
| — Yunnan Prinx Chengshan Tire Co., Ltd.                         | <b>51,153</b>          | 35,681          |
| — Hebei Prinx Chengshan Tire Co., Ltd.                          | <b>27,429</b>          | 35,986          |
|   | <b>450,514</b>         | 623,972         |
| (iii) Rental and estate management expenses paid<br>and payable |                        |                 |
| — Rongcheng Chengshan Properties Co., Ltd.                      | <b>5,964</b>           | 5,009           |
| — Chengshan Group   | <b>7,213</b>           | 7,825           |
|   | <b>13,177</b>          | 12,834          |

The total depreciation and finance charges for the leases from related parties recorded in the consolidated statement of profit or loss amounted to RMB7,814,430 for the year ended 31 December 2021 (2020: RMB7,924,000).

|   |              |       |
|---|--------------|-------|
| (iv) Services received<br>— Rongcheng Chengshan Energy-Saving<br>Services Co., Ltd. | <b>2,602</b> | 2,745 |
| (v) Key management compensation   |              |       |

Key management includes directors and senior managements. The compensation paid or payable to key management for employee services is shown below:

|   |               |        |
|---|---------------|--------|
| — Salaries, director fees, bonus, pension, housing<br>fund, medical insurance and other welfare<br>benefits | <b>14,643</b> | 13,800 |
| — Share-based compensation benefits   | <b>9,810</b>  | 2,271  |
|   | <b>24,453</b> | 16,071 |

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

|  | <b>As at 31 December</b> |                |
|--|--------------------------|----------------|
|  | <b>2021</b>              | 2020           |
|  | <b>RMB'000</b>           | <i>RMB'000</i> |
| <b>Current</b>   |                          |                |
| Contract liabilities                                   |                          |                |
| — Yunnan Prinx Chengshan Tire Co., Ltd.                | <b>1</b>                 | 3,319          |
| — Hebei Prinx Chengshan Tire Co., Ltd.                 | <b>1</b>                 | 1,314          |
|  | <b>2</b>                 | 4,633          |
| Trade payables   |                          |                |
| — Chengshan Group                                      | <b>17,650</b>            | 716            |
| — Rongcheng Chengshan Energy-Saving Services Co., Ltd. | <b>627</b>               | 882            |
|  | <b>18,277</b>            | 1,598          |
|  | <b>18,279</b>            | 6,231          |

The carrying amounts of the Group's amount due to related parties are denominated in the following currencies:

|     | <b>As at 31 December</b> |                |
|-----|--------------------------|----------------|
|     | <b>2021</b>              | 2020           |
|     | <b>RMB'000</b>           | <i>RMB'000</i> |
| RMB | <b>18,279</b>            | 6,231          |

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

|                    | <b>As at 31 December</b> |                |
|--------------------|--------------------------|----------------|
|                    | <b>2021</b>              | 2020           |
|                    | <b>RMB'000</b>           | <i>RMB'000</i> |
| Less than 3 months | <b>18,277</b>            | 1,598          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 36 Related party transactions (Continued)

#### (b) Balances with related parties (Continued)

##### (ii) Amounts due from related parties

|  | As at 31 December |                 |
|--|-------------------|-----------------|
|  | 2021<br>RMB'000   | 2020<br>RMB'000 |
| <b>Current</b>                         |                   |                 |
| Trade receivables                      |                   |                 |
| — Sinotruk                             | 74,558            | 211,507         |
| — Hebei Prinx Chengshan Tire Co., Ltd. | 4,262             | 3,863           |
|  | <b>78,820</b>     | <b>215,370</b>  |

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

|                    | As at 31 December |                 |
|--------------------|-------------------|-----------------|
|                    | 2021<br>RMB'000   | 2020<br>RMB'000 |
| Less than 3 months | 78,820            | 215,370         |

##### (iii) Lease liabilities

|                    | As at 31 December |                 |
|--------------------|-------------------|-----------------|
|                    | 2021<br>RMB'000   | 2020<br>RMB'000 |
| <b>Non-current</b> |                   |                 |
| — Chengshan Group  | 7,673             | 15,113          |
| <b>Current</b>     |                   |                 |
| — Chengshan Group  | 7,439             | 7,212           |
|                    | <b>15,112</b>     | <b>22,325</b>   |

### 37 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.



**38 Balance sheet and reserve movement of the Company**

|   | Note | As at 31 December |                  |
|---|------|-------------------|------------------|
|   |      | 2021<br>RMB'000   | 2020<br>RMB'000  |
| <b>Assets</b>   |      |                   |                  |
| <b>Non-current assets</b>                             |      |                   |                  |
| Property, plant and equipment                         |      | 1                 | 1                |
| Interests in subsidiaries                             |      | 2,229,022         | 2,233,189        |
| Deferred tax assets                                   |      | 1,237             | 525              |
|   |      | <b>2,230,260</b>  | <b>2,233,715</b> |
| <b>Current assets</b>                                 |      |                   |                  |
| Financial assets at fair value through profit or loss |      | 22,044            | 25,479           |
| Cash and cash equivalents                             |      | 7,545             | 5,090            |
|   |      | <b>29,589</b>     | <b>30,569</b>    |
| <b>Total assets</b>                                   |      | <b>2,259,849</b>  | <b>2,264,284</b> |
| <b>Equity</b>   |      |                   |                  |
| Share capital   | 25   | 201               | 200              |
| Share premium   | 25   | 2,185,598         | 2,180,207        |
| Reserves  | a    | 64,956            | 76,814           |
| <b>Total equity</b>                                   |      | <b>2,250,755</b>  | <b>2,257,221</b> |
| <b>Liabilities</b>                                    |      |                   |                  |
| <b>Current liabilities</b>                            |      |                   |                  |
| Other payables and accruals                           |      | 2,337             | 435              |
| Amounts due to related parties                        |      | 6,757             | 6,628            |
|   |      | <b>9,094</b>      | <b>7,063</b>     |
| <b>Total liabilities</b>                              |      | <b>9,094</b>      | <b>7,063</b>     |
| <b>Total equity and liabilities</b>                   |      | <b>2,259,849</b>  | <b>2,264,284</b> |

The balance sheet of the Company was approved by the Board of Directors on 10 May 2022 and were signed on its behalf.

**Che Baozhen**  
Director

**Shi Futao**  
Director

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 38 Balance sheet and reserve movement of the Company (Continued)

Note (a) Reserve movement of the Company

|  | Translation<br>reserve<br>RMB'000 | Retained<br>earnings/<br>(accumulated<br>losses)<br>RMB'000 | Reserves<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------------------------|---|---------------------|------------------|
| <b>Balance at 31 December 2019</b>         | 130,845                           | 3,169   | 6,966               | 140,980          |
| Profit for the year                        | —                                 | 113,041   | —                   | 113,041          |
| Cash dividends (Note 14)                   | —                                 | (115,989)   | —                   | (115,989)        |
| Currency translation differences (i)       | (68,344)                          | —   | —                   | (68,344)         |
| Employee share option schemes              |                                   |   |                     |                  |
| — issue of shares (Note 25, 27)            | —                                 | —   | (2,860)             | (2,860)          |
| — value of employee services (Note 26, 27) | —                                 | —   | 9,986               | 9,986            |
| <b>Balance at 31 December 2020</b>         | 62,501                            | 221   | 14,092              | 76,814           |
| Profit for the year                        | —                                 | 107,419   | —                   | 107,419          |
| Cash dividends (Note 14)                   | —                                 | (106,708)   | —                   | (106,708)        |
| Currency translation differences (i)       | (22,789)                          | —   | —                   | (22,789)         |
| Employee share option schemes              |                                   |   |                     |                  |
| — issue of shares (Note 25, 27)            | —                                 | —   | (1,858)             | (1,858)          |
| — value of employee services (Note 26, 27) | —                                 | —   | 12,078              | 12,078           |
| <b>Balance at 31 December 2021</b>         | 39,712                            | 932   | 24,312              | 64,956           |

(i) The Company's functional currency is USD.