

2023 Annual Report



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

Contents

CORPORATE INFORMATION	2	INDEPENDENT AUDITOR'S REPORT	117
FINANCIAL HIGHLIGHTS	4	CONSOLIDATED STATEMENT OF PROFIT OR LOSS	122
OVERVIEW OF THE GROUP	7	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	123
CHAIRMAN'S STATEMENT	9	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	124
MANAGEMENT DISCUSSION AND ANALYSIS	12	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	126
DIRECTORS AND SENIOR MANAGEMENT	52	CONSOLIDATED STATEMENT OF CASH FLOWS	128
REPORT OF THE DIRECTORS	61	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	130
CORPORATE GOVERNANCE REPORT	94		

路無界限 行馳有道

Corporate Information

THE BOARD

Executive Directors

Mr. Che Baozhen (*Chief Executive Officer*)
Mr. Shi Futao
Ms. Cao Xueyu (resigned on March 28, 2024)
Mr. Jiang Xizhou (appointed on March 28, 2024)

Non-executive Directors

Mr. Che Hongzhi (*Chairman*)
Mr. Wang Lei (resigned on March 28, 2024)
Mr. Shao Quanfeng
Ms. Wang Ning (appointed on March 28, 2024)

Independent Non-executive Directors

Mr. Jin Qingjun
Mr. Choi Tze Kit Sammy
Mr. Wang Chuansheng

AUDIT COMMITTEE

Mr. Choi Tze Kit Sammy (*Chairman*)
Mr. Wang Chuansheng
Mr. Zhang Xuehuo
(resigned on September 9, 2023)
Mr. Jin Qingjun
(appointed on September 9, 2023)

NOMINATION AND REMUNERATION COMMITTEE

Mr. Jin Qingjun (*Chairman*)
(appointed on September 9, 2023)
Mr. Zhang Xuehuo (*Chairman*)
(resigned on September 9, 2023)
Mr. Che Baozhen
Mr. Choi Tze Kit Sammy

DEVELOPMENT STRATEGY AND RISK MANAGEMENT COMMITTEE

Mr. Che Hongzhi (*Chairman*)
Mr. Wang Chuansheng
Mr. Zhang Xuehuo
(resigned on September 9, 2023)
Mr. Jin Qingjun
(appointed on September 9, 2023)

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

路無界限 行馳有道

Corporate Information

AUTHORISED REPRESENTATIVES

Ms. Cao Xueyu
Mr. Shi Futao

COMPANY SECRETARY

Ms. Cao Xueyu (CPA (Aust.), ACMA)

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

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

HONG KONG SHARE REGISTRAR

Link Market Services (Hong Kong) Pty Limited
Suite 1601, 16/F, Central Tower
28 Queen's Road Central, Hong Kong

COMPANY WEBSITE

www.prinxchengshan.com

STOCK CODE

1809

DATE OF LISTING

October 9, 2018

路無限界 行馳有道

Financial Highlights

Summarised Consolidated Statement of Profit or Loss

	Year ended December 31,				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
REVENUE	9,948,983	8,151,952	7,537,161	6,283,130	5,588,988
Gross profit	2,121,708	1,169,790	1,039,148	1,401,363	1,075,274
Finance (costs)/income	(72,499)	(71,499)	(4,836)	9,129	10,429
Profit before income tax	1,130,545	354,739	265,902	698,216	550,004
Income tax expense	(97,105)	39,083	10,400	(93,468)	(70,287)
Profit for the year	1,033,440	393,822	276,302	604,748	479,717
Profit attributable to					
— Shareholders of the Company	1,033,391	393,783	276,304	604,820	479,717
— Non-controlling interests	49	39	(2)	(72)	—
	1,033,440	393,822	276,302	604,748	479,717
Earnings per share attributable to shareholders of the Company during the year					
— Basic (RMB)	1.62	0.62	0.43	0.95	0.76
— Diluted (RMB)	1.62	0.62	0.43	0.95	0.76

路無限界 行馳有道

Financial Highlights

Consolidated Assets, Liabilities and Non-controlling Interests

	As at December 31,				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Assets and liabilities					
Non-current assets	5,482,125	5,498,636	4,931,751	4,043,888	2,673,996
Current assets	5,120,323	4,487,107	4,168,659	3,445,990	3,154,252
Total assets	10,602,448	9,985,743	9,100,410	7,489,878	5,828,248
Non-current liabilities	481,324	1,537,342	1,710,889	705,761	91,916
Current liabilities	4,687,381	3,996,532	3,469,389	3,003,914	2,322,014
Total liabilities	5,168,705	5,533,874	5,180,278	3,709,675	2,413,930
Net assets	5,433,743	4,451,869	3,920,132	3,780,203	3,414,318
Equity attributable to shareholders of the Company	5,433,855	4,452,030	3,920,332	3,779,586	3,413,929
Non-controlling interests	(112)	(161)	(200)	617	389

Key Financial Indicators

	2023	2022	2021	2020	2019
Gross profit margin	21.3%	14.3%	13.8%	22.3%	19.2%
Net profit margin	10.4%	4.8%	3.7%	9.6%	8.6%
Return on total assets	10.0%	4.1%	3.3%	9.1%	8.7%
Return on equity	20.9%	9.4%	7.2%	16.8%	14.9%
Asset to liability ratio	48.8%	55.4%	56.9%	49.5%	41.4%

路無限界 行馳有道

Financial Highlights

Key Financial Indicators for the Year Ended December 31, 2023



Revenue

9,949.0

RMB in million

+22.0% YoY



Net Profit

1,033.4

RMB in million

+162.4% YoY



Gross Profit Margin

21.3%

+7.0ppt YoY



Net Profit Margin

10.4%

+5.6ppt YoY



Net Assets

5,433.7

RMB in million

+22.1% YoY

Earnings per Share -
Basic

1.62

RMB

+161.3% YoY

路無限界 行馳有道

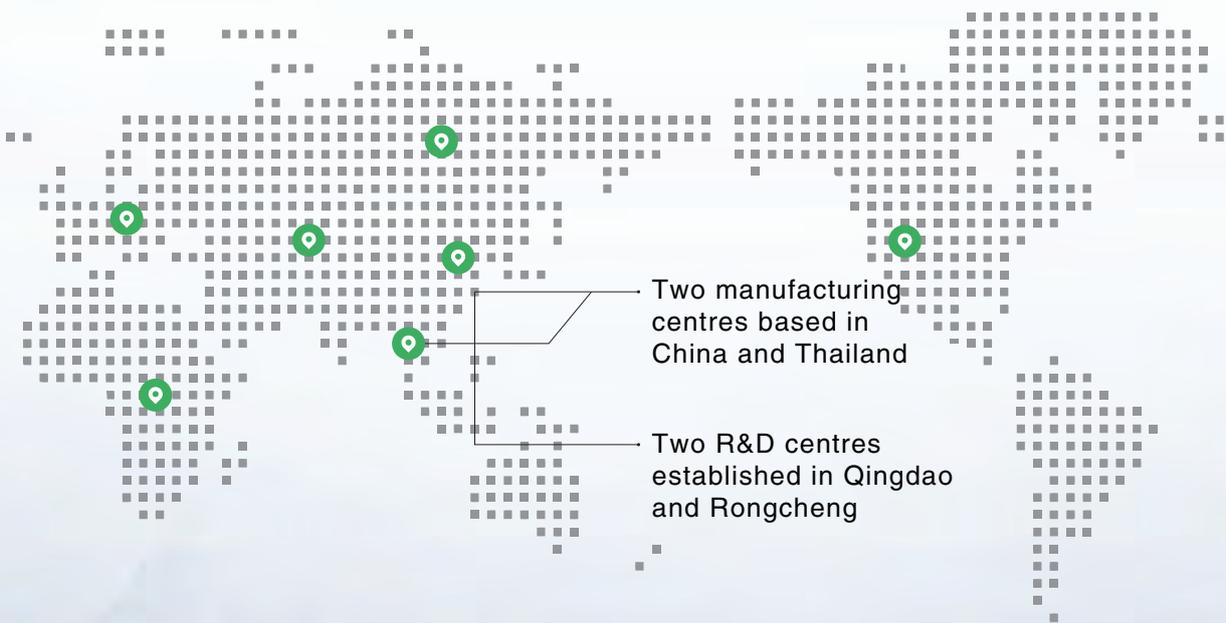
Overview of the Group

The business of Prinx Chengshan Holdings Limited” (the “**Company**” or “**Prinx Chengshan**”) started in 1976 and is headquartered in Rongcheng City, Shandong Province, the PRC. It is a modern enterprise focusing on tire research and development, manufacturing, sales and provision of tire life-cycle services. It is a leading domestic manufacturer in the commercial all steel radial tire replacement market 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 centres in China, North America and Europe to develop a global business operation.



Core strategies

Cost leadership, efficiency driven, competitive differentiation, and global operation



Three major sales centres in China, North America and Europe to develop a global business operation

路無界限 行馳有道

Overview of the Group



The three major products of the Company and its subsidiaries (the “**Group**”) are all steel radial tires (“**All Steel Radial Tires**”), semi-steel radial tires (“**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 Department of Transportation of the USA (“**DOT**”), Economic Commission of Europe (“**ECE**”) 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.

路無界限 行馳有道

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, 2023 (the “**Reporting Period**”) and the prospect of the Company for your review.

Performance

In 2023, Prinx Chengshan grasped the important demand recovery opportunity in the tire industry, and strived to create a record performance. The Group reached RMB9.95 billion in operating income for the first time (up 22.0% year-on-year), RMB1.03 billion in the net profit (up 162.4% year-on-year), RMB1.62 in earnings per share (up 161.3% year-on-year), and RMB1.71 billion in EBITDA (Note 1) (up 102.4% year-on-year).

Note 1: EBITDA is earnings before interest, taxes, depreciation and amortization.

Chairman's Statement

Riding the trend and enhancing the core competitive advantage

Looking back on 2023, Prinx Chengshan unwaveringly implemented the globalization strategy and continuously enhanced its core competitive advantage through intelligent manufacturing, technological innovation and lean management. Thanks to the early presence in the field of passenger car tires, the Group achieved 42.7% year-on-year increase in the sales volume of semi steel radial tires. Under the fierce market competition, the Group achieved 20.5% year-on-year increase in the sales volume of all steel radial tires, and further improved the market share. With high-performance products, differentiated brand strategy and in-depth two-way marketing channel development, the Group has achieved double-digit growth in all international and domestic marketing channels, which is encouraging.

Facing the complicated domestic and international situation and profound industry changes in 2023, all directors diligently and conscientiously fulfilled their duties. The Board paid close attention to the structural changes of domestic and international markets and constantly adjusted its strategies. Focusing on promoting intelligent, digital and green development, the Company has implemented a number of key projects, including Phase III project (with production capacity of 2 million Semi Steel Radial Tires per year) of the tire production base in Thailand ("**Tire Production Base in Thailand**") and capacity optimization project of the tire production base in Shandong ("**Tire Production Base in Shandong**"), which strengthened the industrial base and constantly adjusted and optimized the product structure. The Company actively explored sales channels and strengthened service concepts, and significantly improved the market brand expansion ability. The Group deepened Industry-University-Research cooperation, intensified new product development and technical research, and achieved fruitful research and innovation results. In addition, the Company increased effective cost control and management, and reached a new level in lean management.

Win new honors from all walks of life

During the Reporting Period, Prinx Chengshan was awarded "Shandong Digital Economy", "Morningstar Factory" and "Shandong Intelligent Manufacturing Benchmark Enterprise". The Company received the title of "Energy Efficiency Leader" for eight consecutive years and "Shandong Water Saving Benchmark Company". On the other hand, Prinx Chengshan is committed to providing consumers with ultimate products and services. The Company won the "2023 China Top 100 Automobile Supply Chain Enterprise", Prinx passenger car tires were approved as "Shandong Famous Brand", and all steel radial truck tires passed the "Mount Tai Quality" certification by China Automobile Tires. Recently, TÜV SÜD, an internationally renowned third-party testing and certification institution, awarded Prinx Chengshan three (EU) 2017/2400 carbon dioxide emission and fuel consumption certificates, which indicates that Prinx Chengshan has been affirmed for a series of its green high-performance tire products by international authoritative regulatory agencies, and reached the international leading level.

Chairman's Statement

Outlook

The year of 2024 is still full of difficulties and challenges, with profound adjustments in the global economic system and governance structure, and complicated international relations. Deeply aware of the coexistence of difficulties and hopes, and challenges and opportunities, the Group continues to adhere to the principle of “seeking progress while maintaining stability and prioritising efficiency” and constantly enhances its new high-quality development advantages in the face of challenges. First, the Company unswervingly promotes internationalization, strengthens the internationalization management concept, optimizes the whole process of production, R&D and sales through global resources integration and utilization, and continuously improves product quality and innovation ability to meet the high-end tires demand in the international market. Secondly, the Group enhances the culture soft power, improves service awareness and has a high-quality development strategy of “building prosperity and strength with culture”. Third, the Company prioritizes sales, guarantees innovation driven and project construction, and accelerates the transformation of R&D strength into product competitive advantages and industry leading edges, so as to maintain the Company's core competitiveness and market leading position.

In the face of profound industry changes and fierce market competition, I, together with the members of the Board, firmly believe that the Group, with its keen market insight and excellent execution, will continuously enhance its core competitiveness and market influence, provide customers with better products and services, make greater contributions to society and bring greater value and returns to shareholders!

Finally, I would like to express my sincere gratitude to 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, the PRC, March 28, 2024



Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

Industry dynamics

In 2023, benefiting from the recovery of China's economy and the increase in overseas market demand, the demand for tire industry recovered significantly. Both the production and export volume of tires in China witnessed substantial growth. According to the National Bureau of Statistics, the output of rubber tires in China was 990 million in 2023, representing a year-on-year increase of 15.3%. According to the value of China's key export commodities from January to December 2023 released by the General Administration of Customs of the PRC, a total of 620 million new inflatable rubber tires were exported in 2023, representing a year-on-year increase of 11.8%. The tire industry demonstrated robust production and sales performance, leading to improved capacity utilisation rates for tire enterprises in 2023 compared to 2022. According to the data from SCI99.COM, the production volume of Semi-Steel Radial Tires in China was 590 million in 2023 representing a year-on-year increase of 22%, with an average capacity utilisation rate of 69%, marking a 9.4% increase year-on-year. The production volume of All Steel Radial Tires in China amounted to 140 million in 2023, representing a year-on-year increase of 14%, with an average capacity utilisation rate of 60.2%, representing a year-on-year increase of 8.2%. At the same time, the cost of raw materials and marine transportation fees dropped significantly, and the exchange rate of RMB against US dollar continued to decline. Within this favorable context, the advanced tire industry in China, in which the Group operates achieved significant growth in revenue and net profit.

The prosperity of the tire industry is highly related to the automobile industry, and the demand mainly depends on the production volume of new vehicles and vehicle ownership. During the Reporting Period, Production and sales of domestic automobile manufacturers pulled up tire OE. According to the statistical analysis of China Association of Automobile Manufacturers, in 2023, the production and sales volume of China's vehicles reached 30.161 million and 30.094 million, representing a year-on-year increase of 11.6% and 12.0%, respectively, reaching historical highs. Among them, the production and sales volume of passenger vehicles reached 26.124 million and 26.063 million, representing a year-on-year increase of 9.6% and 10.6%, respectively; while the production and sales volume of commercial vehicles reached 4.037 million and 4.031 million, representing a year-on-year increase of 26.8% and 22.1%, respectively. The production and sales volume of NEVs in China reached 9.587 million and 9.495 million, respectively, representing a year-on-year increase of 35.8% and 37.9%, respectively, with a market share of 31.6%. The increased production and sales by domestic OEMs and the significant increase in the export volume of NEVs and passenger vehicles have provided favourable market opportunities for domestic tire companies. The advanced tire industry in China attaches great importance to market demand, and actively seizes the OE market share of commercial vehicles and passenger vehicles, including the NEVs market, by virtue of its cost-effective products and the advantage of being close to the demand market.

Management Discussion and Analysis

In the domestic replacement market, the recovery of passenger vehicle tires was better than that of truck and bus tires. Although the replacement demand for truck and bus tires recovered steadily, the demand was still weak due to the sluggishness in the general environment such as real estate, major infrastructure and social retail consumption. However, with foreign players exiting China's truck and bus tire market, domestic tire enterprises gained a larger market share. The steady growth in ownership of domestic passenger vehicle tires, coupled with the retaliatory growth in travel and tourism in the post-epidemic era, has led to a surge in the replacement demand for passenger vehicle tires.

In the international market, benefiting from the stable expansion of the global vehicle ownership scale and the rigid replacement consumption brought by travel, the demand of the tire industry has been strongly supported. The demand for Chinese domestic brand tires with outstanding cost-performance experienced significant growth in recent years amid global economic recessions, high inflation and consumer downgrading.

Since September 2020, after China proposed the policy of striving to achieve carbon peak by 2030 and carbon neutrality by 2060, energy conservation, emission reduction and green and low carbon have become focal points for the tire industry's development. The "Dual Carbon Policy" has led to accelerated the integration of the tire industry. Outdated production capacity has been swiftly eliminated, creating room for market expansion, while the industry concentration continued to rise.

In recent years, under the background of the escalation of international trade barriers and the disruption of China's tires export, China's tire enterprises have adhered to the international strategic layout, established overseas production bases, and optimised their production capacity with diversified production capacity layout, intelligent equipment and excellent operational management systems, to strengthen their international competitive advantages, while avoiding the risks brought about by fluctuations in trade policies.



Management Discussion and Analysis

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, R&D, manufacturing and sales for forty-seven 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 provides 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 25.0 million tires, representing a year-on-year increase of 35.1%. Among them, the sales of All Steel Radial Tires amounted to approximately 8.1 million sets, representing a year-on-year increase of approximately 20.5%; the sales of Semi-Steel Radial Tires amounted to approximately 16.4 million sets, representing a year-on-year increase of 42.7%; the sales of Bias Tires amounted to approximately 0.48 million sets, representing a year-on-year increase of approximately 76.4%. During the year, the Group recorded a total sales revenue of approximately RMB9,949 million, representing a year-on-year increase of approximately 22.0%; gross profit of approximately RMB2,122 million, representing a year-on-year increase of approximately 81.4%. Profit attributable to owners of the Company for the year ended December 31, 2023 amounted to approximately RMB1,033 million, representing a year-on-year increase of approximately 162.4%.

Management Discussion and Analysis

The Group mainly supplies replacement market through distributors. For the year ended December 31, 2023, the Group's revenue from domestic and international distributor channels amounted to approximately RMB2,381.1 million (2022: approximately RMB1,879.6 million) and RMB6,326.2 million (2022: RMB5,653.3 million), respectively, accounting for approximately 24.5% and 65.0% of the total revenue, respectively. Revenue from direct sales to automobile manufacturers amounted to approximately RMB1,020.0 million (2022: approximately RMB619.1 million), accounting for approximately 10.5% 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 62.3%, 36.1% and approximately 1.6% of the Group's revenue from tires respectively.



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.

Management Discussion and Analysis

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

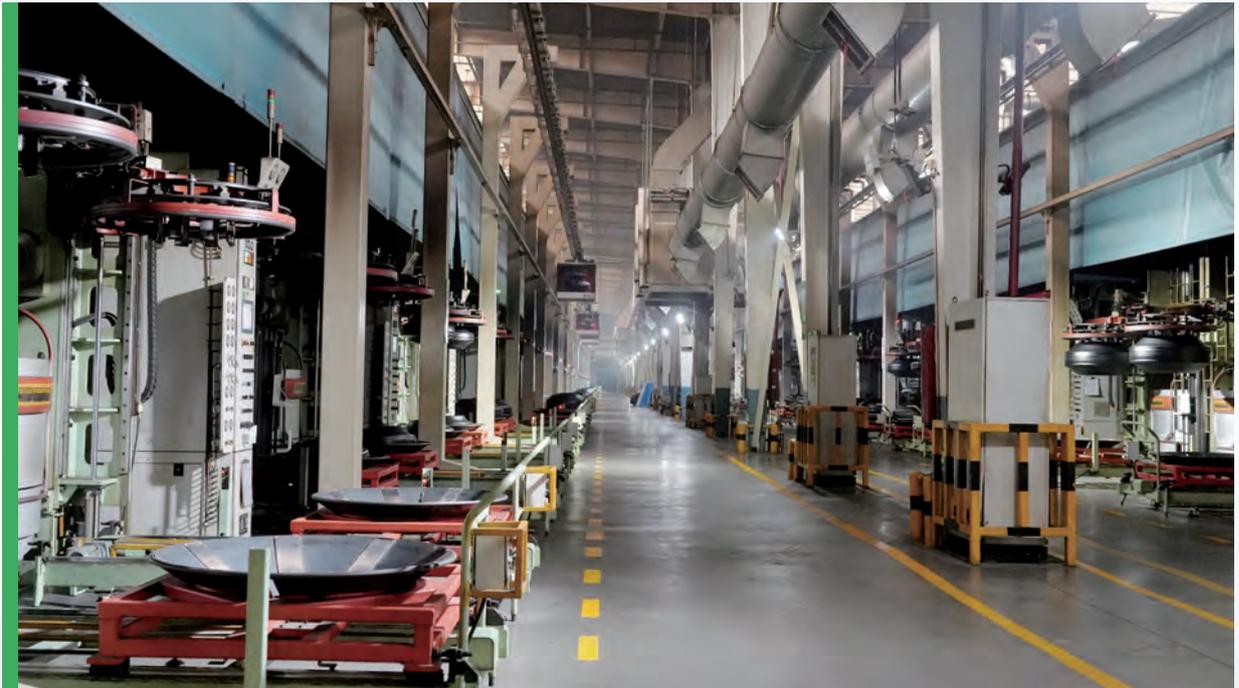
The Group adheres to the development driven by technological innovation. During the Reporting Period, the Group continued to strengthen technological research, innovate R&D methods, and continuously improve R&D capabilities. The Group improved the product qualification rate through the intelligent production system and improved the performance and quality of products by introducing new processes and technologies.

The Group implements a comprehensive and stringent quality control and production management system. During the Reporting Period, the Group actively carried out lean training covering middle-level, grassroots and technical backbones, continued to promote lean production, and carried out experience learning and improvement promotion activities among factories to improve internal operational efficiency. The Group achieved good results through the implementation of 358 cost-saving projects such as energy saving and consumption reduction and operation optimization. The Group encouraged all employees to participate in improvement activities through cash or souvenir rewards, implemented 4,638 reasonable suggestions, and improved the on-site management level of workshops. The Group continued to increase automation, reduce manual labor and improve production efficiency, with a year-on-year increase of 5.8% and 21.3% and 12.5% and 47.7%, respectively, in working hour efficiency of All Steel Radial Tires/Semi-Steel Radial Tires products at the Tire Production Base in Shandong and the tire production base in Thailand, building a long-term sustainable competitive advantage for the Group.



Management Discussion and Analysis

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. In 2022, the Group further completed the construction of the Phase II of the Tire Production Base in Thailand and formed production capacity. At present, the Tire Production Base in Thailand has obtained IATF16949 (quality system certification), ISO 9001 (quality system certification), ISO 14001 (environmental management system), ISO 45001 (occupational health management system) certification and Thailand Green Factory Level III certification, as well as certifications in 8 regions, including Thailand TISI certification, DOT certification, Smartway certification, ECE and R117 certification.



Management Discussion and Analysis

(2) Establishing a green and low-carbon supply chain

The Group continued to optimize the supply chain system. Through big data analysis, the Group predicted and formulated production plans and managed inventory to forms a collaborative management of production, sales and storage and full-chain monitoring and development integrating procurement, production, logistics and sales, so as to provide customers with more valuable products, services and information, while minimising the cost of the supply chain.

Prinx Chengshan places great emphasis on product safety, reliability and environmental sustainability. With the aim of improving quality and efficiency and risk control, Prinx Chengshan implements a comprehensive life cycle management of suppliers based on the green indicators from sourcing and development, certification introduction, supplier performance management and improvement, risk control to withdrawal, and establishes a green and low-carbon supply chain of Prinx Chengshan. During the Reporting Period, while putting forward social responsibility requirements for suppliers, the Group was actively committed to supplier communication and training to achieve sustainable value creation. Since 2020, Prinx Chengshan has continued to carry out green supply chain activities, promoted the concept of green factory in the supplier system, and tracked suppliers in all aspects from product design, manufacturing, resource utilization, product recycling, packaging and transportation, and safety.

(3) Actively expanding markets and optimising channel layout

During the Reporting Period, the Group experienced a significant year-on-year increase in revenue and profit, mainly driven by the recovery of domestic economy and the increased demand in overseas markets. The tire industry has demonstrated a notable recovery in demand, and through seizing market opportunities, the Group continuously adjusted its product and business structures, resulting in substantial growth in product sales.



Management Discussion and Analysis

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. In 2023, the Group focused on both products and services in the commercial vehicle tire replacement market, maintaining a steady and innovative approach. With brand strength as the foundation, product quality as the basis, and solution capabilities as the means, we comprehensively improved the operational capabilities of commercial vehicle tire distributors and optimised the fundamentals of sales. In addition, the Group conducted regular assessments to channel distributors' capabilities, and utilised the Roadside Assistance APP platform to connect branch points and provide integrated services. In 2023, the Group held 38 branch-vendor associations, 135 new product launches, 419 regional retailers' business seminars and 1,025 roadshows in the commercial vehicle tire replacement channel.

The Group fully leveraged the capabilities of "lighthouse e-station" to empower its retail sales network, and support the promotion of new products and the implementation of strategic objectives through policy guidance and sales structure optimisation. The commercial vehicle tire replacement channel shifted from the original offline star-level store sales model to an online membership model, introducing four membership levels, namely platinum card, gold card, silver card and general card. Through digital transformation, the Group's classification of commercial vehicle tire replacement customers became more refined and precise, increasing the stickiness of distributors and strengthening their loyalty to the Company. This new business model assists distributors in better managing retail stores and establishing a seamless sales and service chain from factories to distributors to stores. As of December 31, 2023, there were more than 6,400 "lighthouse e-station" nationwide (including 1,235 platinum card member stores, 223 gold card member stores and 209 silver card member stores), with cumulative customer contributions from "lighthouse e-station" accounting for over 82% of the total sales volume in the domestic all-steel replacement market.

Passenger vehicle tire replacement channel

In 2023, the Group expanded the passenger vehicle tire replacement channel and implemented precise channel management through the utilization of the sales management software Xiaopu "Visit Pass" feature. During the Reporting Period, the Group achieved a 41% year-on-year increase in sales volume in the passenger vehicle tire replacement market compared with the full year of 2022, with significant growth in sales of 17 inches and above sizes.

Management Discussion and Analysis

The Group actively empowered the sales business through digitization. During the Reporting Period, the Group continued to optimize the “Xiaopu Cloud Store”, a full channel digital management system for the passenger vehicle tire replacement business. As of the end of December 2023, a total of 19,464 stores were registered on the Group’s “Xiaopu Cloud Store”, including 1,055 new stores. The platform witnessed tire purchases exceeding 430,000 units, generating a transaction value exceeding RMB118,180,000 and attracting over 640,000 clicks.

During the Reporting Period, the Group’s revenue from domestic distributor channels amounted to RMB2,381.1 million, representing a year-on-year increase of approximately 26.7% from RMB1,879.6 million for the same period of 2022.

International Marketing

Despite factors such as localized conflicts, trade barriers and inflation affecting the global trade landscape and reshaping the international trade chain, most overseas markets experienced sustained high demand and favorable conditions due to low raw material prices, low marine transportation fees, and strong market demand in 2023. As a result, the profitability of overseas markets in 2023 reached its highest level in recent years.

During the Reporting Period, the Group comprehensively expanded international marketing channels and further strengthened the global coverage of the Company’s products. During the Reporting Period, the Group launched 121 new overseas distributors, leading to significant year-on-year growth in sales volume, revenue, and profit in international marketing business. In particular, The sales volume reached 17.36 million units, representing a year-on-year increase of 32.8%, and the revenue amounted to approximately RMB6,326.2 million, representing a year-on-year increase of approximately 11.9%, among which, approximately 49.1% of the revenue was generated from the Tire Production Base in Thailand (2022: 54%), and approximately 50.9% of the revenue was generated from the Tire Production Base in Shandong (2022: 46%).

In 2023, the Group launched the strategy of diversifying international marketing channels, and at the same time tried to penetrate into lower-tier channels by extending sales management to second-tier distributors and retailers. During the Reporting Period, the Group successfully launched and sold the Prinx brand in the European market. Building on this achievement, the Group introduced the Prinx Partners project, aimed at strengthen end-to-end control of the Prinx brand from wholesalers to retailers. This initiative allows sales policies to be directly communicated from the factory to second-tier distributors and retailers, laying the foundation for comprehensive channel management.

Management Discussion and Analysis



In October 2023, Prinx Chengshan participated in the SEMA Show in Las Vegas, the United States



In October 2023, Fortune, a passenger car tyre (“PCR”) brand of Prinx Chengshan, held a distributor conference in Thailand

Direct sales to automobile manufacturers

During the Reporting Period, the Group seized market opportunities and continued to strengthen cooperation with mid-to-high-end original equipment manufacturers, and established cooperative relationships with a number of new energy automobile manufacturers to demonstrate its development potential in the field of new energy. For commercial vehicle tire OE, Prinx Chengshan has actively developed new customers, launched more than 18 new projects, and successfully secured OE projects from the joint venture brand, namely “JMC Ford Transit (江鈴福特全順)”. We also accessed to the OE system of FAW Qingdao Jiefang (一汽青島解放). For passenger vehicle tire OE, the Company officially entered the Great Wall ORA main tire supply system. As at the end of the Reporting Period, the Group had entered the supplier system of 63 automobile manufacturers.

With the further expansion of the brand and product influence of Chengshan, from 2022, the Group targeted at the domestic mid-to-high-end logistics segment market, and reached strategic cooperation with the leading domestic express delivery and freight transportation companies, and became a high-capacity tire supplier of JD Logistics, KUAYUE-EXPRESS and Dishangtie, for continuously conducting more in-depth cooperation in 2024.

During the Reporting Period, the Group’s revenue from direct sales to automobile manufacturers amounted to RMB1,020.3 million, representing an increase of 64.8% compared to RMB619.1 million in the same period of 2022, mainly due to the growth in domestic commercial vehicle market and export market.

Management Discussion and Analysis

(4) Implementation of multi-brand and differentiated development strategy

In 2023, the Group continued to enhance its brand awareness and influence through the building of product power, brand power and market power, delivering material value to customers with its products and spiritual value to customers with its culture and services.

Empowering channels with brand expansion, emphasizing a combination of “product + service” to drive growth

Launch of two new commercial tire product lines, namely “PRO” premium series and “H” heavy-load series

On December 16, 2023, during the 2023 Prinx Chengshan Commercial Vehicle Tire Distributor Conference in Chongqing, the Company proudly launched the “PRO” premium series commercial tires and “H” heavy-load series tires. We positioned the “PRO” premium series as high-end commercial tires, incorporating three key technologies and two core technologies from Prinx Chengshan, with an aim to establish ourselves as a “leader in the high-end commercial tire segment”. It included eight patterns and a total of 12 products, such as XFENDER PRO for engineering heavy-duty tires, XSTANCE PRO for long-distance transportation tires, XATOM PRO for ultra-low rolling resistance tires and XLOAD PRO for high-end light truck tires.

The “H” heavy-load series commercial tires are designed for the complex domestic transportation environment. It utilized the “BWC-New Bead Wire Composite Reinforcement Technology” and the “MT-Cap Ply Infinite Winding Technology” as its core technologies, which enhanced the product’s performance in multiple dimensions, providing drivers with a better use experience.

*Official launch of Chengshan “Hua Yue” SUV tire (“**Hua Yue**”), our flagship high-performance product*

Hua Yue made significant improvements in product quality and performance, meeting the comprehensive demands of SUV consumers for high maneuverability, high load-bearing capacity, high strength, high wear resistance and high comfort, and providing new choices for SUV consumers in tire selection. Hua Yue introduced the “stable driving and dual control” core technology, ensuring drivers safety and comfort through “stable control” and “noise control”. Beyond performance, it featured a cutting-edge Chinese-style design with the entire sidewall engraved with the auspicious mythical creature, the Kirin, symbolizing prosperity and blessings. This design showcased ethnic characteristics and reflected the personalized aesthetics of SUV users.

Management Discussion and Analysis*Comprehensive application of digital tools to empower channel development*

Since 2023, Prinx Chengshan's wall-mounted intelligent screens have been deployed in 33 stores nationwide, enhancing product information display and customer interaction, thereby refreshing the shopping experience and strengthening the brand image. The "lighthouse e-station" for domestic commercial vehicle replacement channels was launched, assisting retail stores in their digital transformation and improving overall operational capabilities. The commercial vehicle tire replacement channel shifted from the original offline star-level store sales model to an online membership model, through which, the customer classification became more refined and precise, increasing the stickiness of distributors and strengthening their loyalty to the Company. This new business model assists distributors in better managing retail stores and establishing a seamless sales and service chain from factories to distributors to stores.

Management Discussion and Analysis

Launching “Chengshan Road Assistance Directory” APP



Based on market demand and the public welfare value of its brand, the Group developed the “Chengshan Road Assistance Directory” APP. It serves as a communication platform connecting truck drivers in need of tire rescue with stores that can provide rescue services, so as to improve the road rescue experience of truck owners, enabling them to quickly find stores that offer high-quality and standardized services. Simultaneously, it helps distributors and stores increase business, enhance brand awareness, and attract more customers.

WeChat mini-program featuring product inquiries and market trend analysis

The Group developed a mini-program for product inquiries and market trend analysis, accessible through the WeChat mobile platform. This mini-program allows users to stay updated with the latest product information and market dynamics. The product inquiry mini-program provides a streamlined platform for viewing all product information, ensuring smooth communication between the group and customers regarding the latest products. The market trend analysis mini-program optimizes sales structure, identifies new market opportunities, enhances distributor stickiness, and assists distributor in understanding and predicting market trends, empowering sales efforts.

Management Discussion and Analysis

Dual emphasis on internal and external development, continuously enhancing international brand influence

Prinx Chengshan continuously strengthens global brand building, deepens cooperation with customers, and promotes the implementation of the “internationalization” strategy through brand marketing activities in the global market. In the new era of sustainable mobility, we are embarking on the “new journey” for Chinese tires.

In May 2023, PRINX (浦林), the Group’s high-end brand, held a three-day grand launch event in Milan, the fashion capital of Italy, officially announcing its first entry into the European market. Through multidimensional innovations, PRINX redefined the performance and design standards of domestic tires, garnering favorable reputation within the industry. The brand’s exploration and co-creation with users set PRINX apart in the domestic tire market. PRINX’s entry into Europe is a significant step in the Group’s pursuit of brand internationalization and differentiation, aiming to provide European users with high-quality and diversified products and service experiences.

During the Reporting Period, Prinx Chengshan also participated in international and domestic exhibitions such as Tyrexpo Asia in Singapore, AutoZum in Austria, Automechanika South Africa, Qingdao International Tire Exhibition, Shanghai International Tire Exhibition, Automechanika Dubai in Middle East, and Las Vegas SEMA Show in the United States, continuously enhancing its brand influence in various global markets.



Management Discussion and Analysis

In 2023, Prinx Chengshan's North America Branch entered into a cooperation with USA Pickleball, a pickleball league in the United States. Fortune Tire, a tire brand under Prinx Chengshan, became the official exclusive tire sponsor of USA Pickleball. Since its entry into the U.S. market in 2019, Prinx Chengshan Fortune Tire has continuously advanced its technological innovations to provide high-quality tire solutions with comprehensive performance for North American users, leading to a sustained increase in brand influence in North America. With Prinx Chengshan's accelerated global market layout the introduction of a new international product portfolio, and the unveiling of its brand image, Fortune Tires' brand concept of "Driving Forward" is also establishing a deeper connection with North American users. In addition to providing users with safe, high-quality and high-performance tire solutions, Fortune Tire has also become a promoter of an active lifestyle.



Fortune Tire became the official exclusive tire sponsor of USA Pickleball in March 2023

Management Discussion and Analysis

Strong brand strength winning multi-dimensional recognition

In 2023, the Group, as a representative of Chinese intelligent tire manufacturers, made an appearance on CCTV-2's flagship financial program "Consumption Proposition" with a special segment titled "Focusing on Double 11 • Exploring China's Leading Intelligent Manufacturing", which explored the "black technology" in China that makes life better through technology.

With its rich brand connotation and strength, the Group has received a number of recognitions. At the second "Golden Bee Awards (金蜂盛典)" sponsored by China Automobile Brothers (中汽兄弟) and guided by China Automotive News under the People's Daily and CAERI (中國汽研), the Group was recognized as the "2022 Prosperity Pioneer Enterprise (創富先鋒企業)", "Public Welfare Pioneer (公益先鋒)" and Chengshan Tire FH123 was recognized as the "Truck Brothers' Trustworthy Product" (卡車兄弟信賴產品). In the "GGA Awards (金物獎)" sponsored by Wu Xiaobo, a well-known commercial media, Hua Ren Tire won the "Best Popular Product Award (最佳人氣產品大獎)". In the 2023 China Brand Value Evaluation Information sponsored by Xinhua News, China Council for Brand Development and China Appraisal Society, the Group's brand value reached RMB2,898 million, ranking 48th in the Energy and Chemical Group. The Group was also selected as one of the "Top 100 Automobile Supply Chains in China in 2023" by China Automotive News under People's Daily.



Management Discussion and Analysis

(5) Tire leasing and services — “Zhianda”

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”. The “Zhianda Model” takes truck and bus tire leasing as the entry point, through the effective application of RFID (radio frequency identification technology), TPMS (tire pressure monitoring system) and other intelligent technologies, can effectively improve the tire safety and operation efficiency of fleet customers, reduce the comprehensive use cost of customers, and ultimately realize the management of the whole life cycle of tires. During the Reporting Period, the Group established on-site service standards based on the characteristics of tire products and vehicles to extend the service life of tires. Through the establishment of a digital service platform and the process control driven by digitalization and standardization, the Group has continuously increased the core capabilities of products and services, improved the execution efficiency, and greatly enhanced the customer service stickiness. “Zhianda” is committed to becoming a fleet service expert, creating value for fleet customers with standardized and digitized tire solutions, and leading fleet services with the intelligent application innovations of tires.

During the Reporting Period, the Group achieved the continuous growth of “Zhianda” customers and serviced wheels, established and fully promoted the application of external repair service platform. The service network has covered nearly 1,500 service providers in the PRC (Liaoning, Beijing, Tianjin, Hebei, Shanxi, Shandong, Henan, Jiangsu, Jiangxi, Anhui, Hubei, Shanghai, Zhejiang, Fujian, Guangdong, etc.). “Zhianda” serves hundreds of large-scale logistics companies/group customers in various sectors, including express delivery, general cargo transportation, hazardous chemicals transportation, public transportation and container transportation, providing guarantee for the transportation timeliness of customers. The project was awarded titles such as “High-Performance Green Full Lifecycle” demonstration project and “Two Industries Integration Demonstration Project (兩業融合示範項目)” by the Ministry of Industry and Information Technology of the PRC.



Management Discussion and Analysis

(6) Capacity layout

The Group's the Tire Production Base in Shandong currently has a production capacity of 7.4 million sets/year of All Steel Radial Tires and 11.2 million sets/year of Semi-Steel Radial Tires, and the Tire Production Base in Thailand currently has a production capacity of 2 million sets/year of All Steel Radial Tires and 8 million sets/year of Semi-Steel Radial Tires. During the Reporting Period, the capacity utilization rate of All Steel Radial Tires and Semi-Steel Radial Tires at the Group's Tire Production Base in Shandong was 90.0%/96.8%, respectively, and the capacity utilization rate of All Steel Radial Tires and Semi-Steel Radial Tires at the Tire Production Base in Thailand was 81.0%/90.1%, respectively.

On August 31, 2023, the board of directors of the Group considered and approved the resolution in relation to the capacity optimisation of the Tire Production Base in Shandong. The capability of producing high-performance semi-steel radial tires will be improved through technological transformation, equipment upgrading and process optimisation. Upon completion, the production capacity of semi-steel radial tires will increase to 11.53 million units per year. The total investment of the project is expected to be approximately RMB120.0 million. On the same day, the Board also considered and approved the proposal of the Phase III project of the Tire Production Base in Thailand (with production capacity of 2.0 million sets of Semi Steel Radial Tire per year). The total investment of the project is expected to be approximately RMB200.8 million.

The above projects was launched in the third quarter of 2023, and it is expected that the production capacity will be gradually utilised in the first half of 2024 and will reach the designed production capacity in the second half of 2024.



Management Discussion and Analysis

(7) R&D and innovation

During the Reporting Period, the Company made new progress in the applications of R&D technologies such as tire modeling and simulation, sustainable technology, intelligent manufacturing, closely focusing on green, low-carbon, environmental protection, product lifecycle and “carbon footprint” research. We completed the evaluation of 13 scientific and technological achievements such as the “development of tires for high-endurance and comfortable electric vehicle”, the “development of coating and self-healing HEALTECK technology tires for new energy vehicles”, and the achievements reached the international advanced and domestic leading level. We successfully applied for the registration of 11 national scientific and technological achievements such as “key technology research and application of tire tread performance prediction”, “research on tire wear mechanism and development and application of bias wear prediction technology”. In 2023, the Company developed a total of 463 new products, of which 70 products were All Steel Radial Tires and 393 products were Semi-Steel Radial Tires.

During the Reporting Period, the Company made breakthroughs in core technologies such as the application technology of biodegradable bio-based PA56 new material, bead nylon wrapped fabric reinforcement technology, unlimited winding technology of tire crown belt ply, high wear-resistant technology — HWR anti-bias wear technology, quiet cotton + self-repairing composite technology, and pure black sidewall technology. In 2023, the Group was granted 52 new patents, including 3 invention patents and 43 utility model patents, and was cumulatively granted 382 intellectual property rights.

(8) Organizational management upgrade and corporate culture construction

The Group is committed to upgrading its organizational management level and strengthening its corporate culture construction with a view to enhancing its operational efficiency, strengthening team cohesion and laying a solid foundation for sustainable development of the enterprise. In order to cope with market changes and business expansion needs, the Group has optimized and adjusted its organizational structure and clarified the responsibilities and division of work of various departments to ensure efficient and coordinated operation of the Company. At the same time, through formulation and implementation of a series of standardized processes, we have enhanced the standardization of internal management and reduced operational risks. In addition, with the aid of advanced information technology, we have launched the E-HR system to enhance the efficiency of human resources management and the level of data management.

Management Discussion and Analysis

The Group emphasizes the important role of corporate culture in promoting corporate development and actively creates a healthy and upward cultural atmosphere. Through organizing various cultural activities, staff training and team building, we have strengthened the sense of belonging and loyalty of our staff. At the same time, the Company promotes the core values of “customer first, being responsible, devotion and professionalism, innovation and opening up”, encourages employees to be responsible, pursue excellence and contribute their wisdom and strength to the development of the enterprise. During the Reporting Period, the Group established a system of regular study meetings, reading books and watching movies, and initiated all-staff learning through internal and external teaching and replacing chairman in rotation to comprehensively enhance competence. Around “one person with many posts, one post with many functions”, we organized the implementation of the “AB” role working mechanism for key positions. In order to ensure the effective promotion of corporate culture construction, the Group has also established a perfect communication mechanism to widely listen to the opinions and suggestions of employees and motivate the enthusiasm of all employees to participate in culture construction.

(9) Intelligent manufacturing and information construction

During the Reporting Period, the Group continued to promote the construction of smart factories, insisted on strengthening digitalization construction driven by business objectives, and digitally deposited at the group level. In terms of production management, the Group completed the launch of stereoscopic warehouses for semi-steel components, the integration of automatic logistics lines, semi-steel curing expansion equipment and sales information management. Through the establishment of environment monitoring system of production system and remote distribution system of programs, the Group realized the optimization of its IT operation and maintenance management and completed the APS (Advanced Planning and Scheduling) automatic scheduling for key processes of all steel radial tire production. The Group carried out a comprehensive and practical renovation of the Company’s cockpit system. Through integrating the data of the systems such as MES (Manufacturing Execution System), EMS (Energy Management System) and EAM (Enterprise Asset Management), we further realized the functions of early warning and alarm and enhanced the operational efficiency of production-related links. By creating a new benchmark of “intelligent manufacturing”, the Group accelerated intelligent production, continued to promote the implementation of RFID (Radio Frequency Identification) projects, completed the implementation of RFID for enclosed smelting and processes of semi-finished products to enhance the efficiency and accuracy of data uploading. In 2023, based on the needs of local production and operation, the tire production base in Thailand completed the implementation and delivery of informatization projects such as the stereoscopic warehouse of rubber films, the No. 2 automated stereoscopic warehouse of finished products and Phase II of the green tires logistics line, and further improved the transshipment efficiency of materials and finished products.

Management Discussion and Analysis

New products

During the Reporting Period, the Group actively researched and 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 463 products, including 70 All Steel Radial Tires and 393 Semi-Steel Radial Tires, further improving its market competitiveness and market share. At the same time, the Group developed 26 All Steel Radial Tires and 181 new patterns 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.

During the Reporting Period, the Group strived to build a high-value and high-connotative product matrix according to the market competition situation to enhance product competitiveness. In particular, in terms of All Steel Radial Tires, we focused on global markets, and created a new generation of green products with low rolling resistance and high wear resistance, in order to pursue global environmental protection and sustainable development and timely adjust the product lines according to the competitive demands of various segment markets around the world. During the Reporting Period, the Group developed “FH130/PLS1” products for steering wheel position of long-haul vehicles and “TH102/PTL1” products for spread-axle trailers for the North American market; we focused on perfecting the “TH135 wide-base series” product line for the European market; we focused on building the “PRO” boutique series of commercial vehicle tire and the products of “H” heavy-duty series for the domestic market. In terms of Semi-Steel Radial Tires, the Group created a new generation of high-performance tires for summer, all-season and winter based on advanced tire design and manufacturing concept, in line with the market trends, closely following the customers’ demand for gradually improved performance and cooperating with the new brand renewal strategy in terms of safety, low rolling resistance, quietness and comfort. The Group launched the Chengshan series of comfortable SUV products — “Hua Yue” and VAN series of all-season tires in China and Europe respectively, and launched four new products under the new Prinx brand in Europe: the all-season tire — QUATTURA 4S, the snow tire — WINTER EXCELIA, the high-performance tire — AQUILA PRO, and the light-weight and heavy-duty all-season tire — VANE 4S new product. At the same time, the Group also actively expanded its presence in segment markets and developed the North American all-season tire, the European Prinx ultra-high-performance tire — AQUILA REV, Prinx series of new products including snow tire, ice tire, and studded tire for winter, and the “Hua” series of ultra-high-performance tires — “Hua Ren” PLUS.

*Management Discussion and Analysis***Total sales volume of the Group's products and sales volume of new products developed during the Reporting Period**

Product category	Sales volume of new products (10,000 sets)	Total sales volume (10,000 sets)	Proportion of sales of new products in total sales volume
All Steel Radial Tires	290.8	811.6	35.8%
Semi-steel Radial Tires	530.3	1,643.1	32.3%
Bias Tires	2.5	48.2	5.2%
Total	823.6	2,502.9	32.9%

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

Corporate business sustainability is a continuing concern of the Group. Currently, the Group's environmental, social and governance matters have been included in the scope of duties of the Group's Development Strategy and Risk Management Committee. The Board is fully responsible for and leads the Group's sustainable development management. Adhering to the vision and mission of “leading tire innovation, contributing to smart travel and sustainable development, and achieving a better life” and the core values of “customer first, being responsible, devotion and professionalism, innovation and opening up”, the Group takes sustainable development as its development strategy and the foundation of daily operations and abides by the concept of people-oriented, research and development of innovation products and green sustainable development. In 2023, Prinx Chengshan (Shandong) Tire Co., Ltd. (“**Shandong Company**”) has been awarded the title of “Green and Low-Carbon Enterprise in Shandong Province”, and in September of the same year, Shandong Company has been awarded the title of “Energy Efficiency Leader Benchmarking Enterprise” for eight consecutive years.

Management Discussion and Analysis



During the Reporting Period, the Group established a friendly relationship with the local government authorities and the public in Thailand. In September 2023, a refrigerator was donated to the local Nongsecang Kindergarten. In June 2023, the plant of the Company in Thailand (“**Thailand Plant**”) participated in the “Planting Activity” jointly organized by the Nongsecang Town Government and the Industry Department of Thailand and donated 10 pieces of mineral water. In June 2023, the Thailand Plant organized Corporate Social Responsibility (CSR) activities and donated plastic water tanks and daily necessities for children and etc. to Nongsecang Kindergarten. In August and October 2023, the Shandong Plant and the Thailand Plant of the Group organized their employees to participate in unpaid blood donation activities in the community, so as to spread love with blood and refuel life with love!



Thailand Plant participated in unpaid blood donation activities in community in 2023



Shandong Plant participated in unpaid blood donation activities in community in 2023

Management Discussion and Analysis

BUSINESS STRATEGIES AND PROSPECTS

As at the date of this report, the orders received by the Group has increased steadily. Looking forward to 2024, the global economy will continue to maintain a trend of growth, but maybe at a relatively slow pace. Meanwhile, the Russia-Ukraine war, geopolitical conflicts and tensions in the Red Sea are likely to impact the global supply chain. According to the World Economic Situation and Prospects for 2024 recently issued by United Nations Department of Economic and Social Affairs, high interest rates, further escalated conflicts, weak international trade and increasing climate disasters will bring great challenges to global growth. Technological innovation will become an important driving force. Emerging technologies such as artificial intelligence, Internet of Things and blockchain will further penetrate into various industries and promote the industrial upgrading and transformation. The Group will actively seize the opportunities of technological innovation to enhance its own competitiveness.

In the face of the complex and ever-changing market environment, Prinix Chengshan will persevere in promoting the implementation of strategies and solidly improve the work at the primary level, improving the business level of each module and boosting sales growth.

- (1) Adhere to the “cost leadership” strategy, deepen the cost consciousness of all employees and build an efficient operation system.
- (2) Continue to deepen tire technology innovation and R&D, open to the market and customers, and create value through technology application.
- (3) Firmly promote the strategy of “product + service” and enhance the market expansion and sales capabilities of all channels and categories.
 - In the domestic commercial vehicle tire replacement market, the Group will continue to optimise the sales structure, use the “lighthouse e-station” to empower our retail sales network and promote new products; as well as use the road assistance APP platform to connect branch points and provide joint services.
 - In the passenger vehicle tire replacement market, the Group will further improve the quality of the dealer network and continue to promote consumer marketing, with a view to achieving synergistic development of “online + offline”.

Management Discussion and Analysis

- In terms of commercial vehicle tire and passenger vehicle tire OE market, the Group will strengthen cooperation with existing OEMs, continue to increase the proportion of OE, while actively developing further cooperation on new vehicle models and projects. At the same time, the Group will further strengthen its team building so that the commercial vehicle and passenger vehicle businesses will enjoy mutually reinforcing progress.
 - In the international markets, the Group will continue to promote the internationalization of talents, brands, products and cooperation within channels; continue to implement the strategy of “product-driven, channel-driven, brand-driven”; and consolidate the team’s business fundamentals and improve its business skills through team management and empowerment.
- (4) Expand business scope and contribute to smart travel solutions: With the service brand of “Zhianda”, the Group will continue to deepen the refined management of its main business of tire services, and will also provide customers with one-stop senseless commercial vehicle after-sales servicesolutions through the functional integration of vehicle maintenance and other related fields to create value for customers in multiple dimensions.
- (5) Pursue green and sustainable development. The Group promotes the use of new environmentally friendly materials, strengthens the research on tire renovation technology, recycling of rubber materials, and the application of bio-based materials, and increases efforts in energy conservation and consumption reduction, builds a green and low-carbon supply chain, and promotes the green manufacturing technology, so as to make its due contributions to carbon peak and carbon neutrality in China.
- (6) Focus on the construction of talent team and facilitate the comprehensive development of enterprises. Based on the strategic development needs of the Company, the Group continues to optimise the organisational structure and process management, while actively attracting talents, cultivating and improving the comprehensive capabilities of the Group’s employees, and further improving the team cohesion and business professional capabilities to meet the needs of the Company’s high-quality and long-term development.



Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended December 31, 2023, the revenue of the Group amounted to approximately RMB9,949.0 million, representing an increase of approximately RMB1,797.0 million compared to approximately RMB8,152.0 million for the year ended December 31, 2022.

Sales by product type

	2023 (RMB'000)	2022 (RMB'000)
All Steel Radial Tires	6,062,183	5,503,324
Semi-steel Radial Tires	3,511,486	2,564,976
Bias Tires	153,894	83,652
Trade of raw material related to tire products	221,420	—
Total	9,948,983	8,151,952

For the year ended December 31, 2023, revenue from sales of All Steel Radial Tires increased from approximately RMB5,503.3 million for the year ended December 31, 2022 to approximately RMB6,062.2 million, representing an increase of approximately 10.2%, mainly due to a year-on-year increase of 20.5% in sales volume. Revenue from sales of Semi-steel Radial Tires increased from approximately RMB2,565.0 million for the year ended December 31, 2022 to approximately RMB3,511.5 million for the year ended December 31, 2023, representing an increase of approximately 36.9%, mainly due to a year-on-year increase of 42.7% in sales volume. Revenue from sales of Bias Tires increased from approximately RMB83.7 million for the year ended December 31, 2022 to approximately RMB153.9 million, representing an increase of approximately 84.0%, mainly due to a year-on-year increase of 76.4% in sales volume, and the sales of raw materials to domestic customers, which generated revenue of approximately RMB221.4 million.

Management Discussion and Analysis

Sales by channel

	2023 (RMB'000)	2022 (RMB'000)
Distributors		
Domestic	2,381,065	1,879,559
International	6,326,199	5,653,270
	8,707,264	7,532,829
Direct sales to automobile manufacturers	1,020,299	619,123
Trade of raw material related to tire products	221,420	—
Total	9,948,983	8,151,952

For the year ended December 31, 2023, revenue from sales to distributors (including private label customers) increased from approximately RMB7,532.8 million for the year ended December 31, 2022 to approximately RMB8,707.3 million, representing an increase of approximately 15.6%, which was mainly due to the increase in domestic and overseas sales as a result of economic recovery, among which, revenue from domestic distributors increased by 26.7% year-on-year, and revenue from foreign distributors increased by 11.9% year-on-year.

For the year ended December 31, 2023, revenue from sales to automobile manufacturers increased from approximately RMB619.1 million for the year ended December 31, 2022 to approximately RMB1,020.3 million, which was mainly due to the increase in demand from automobile manufacturers as a result of the recovery of the overall vehicle market.

Cost of sales

The Group's cost of sales increased from approximately RMB6,982.2 million for the year ended December 31, 2022 to approximately RMB7,827.3 million for the year ended December 31, 2023, representing an increase of approximately 12.1%. The increase was mainly due to the increase in sales volume.

Gross profit and gross profit margin

The Group's gross profit for the year ended December 31, 2023 amounted to approximately RMB2,121.7 million, representing an increase of approximately 81.4% compared to approximately RMB1,169.8 million for the year ended December 31, 2022. The Group's gross profit margin for 2023 was approximately 21.3% (2022: 14.3%). The increase in gross profit and gross profit margin was mainly due to the increase in sales volume and the decrease in raw material prices.

Management Discussion and Analysis

Other income

The Group's other income for the year ended December 31, 2023 was approximately RMB48.6 million, representing an increase of approximately RMB13.6 million from approximately RMB35.0 million for the year ended December 31, 2022. The increase was mainly due to a year-on-year increase of RMB3.3 million in government grants, and a year-on-year increase of RMB10.3 million in the revenue from sales of scrap materials.

Selling and distribution expenses

The Group's selling and distribution expenses increased from approximately RMB497.5 million for the year ended December 31, 2022 to approximately RMB526.2 million for the year ended December 31, 2023, representing an increase of approximately 5.8%. The increase was mainly due to the corresponding increase in variable selling expenses (transportation fees, external storage fees) as a result of the increase in sales.

R&D expenses

The Group's R&D expenses increased from approximately RMB229.2 million for the year ended December 31, 2022 to approximately RMB240.0 million for the year ended December 31, 2023, representing a increase of approximately 4.7%. The increase was mainly due to the increase in R&D projects.

Administrative expenses

For the years ended December 31, 2023 and 2022, the Group's administrative expenses amounted to approximately RMB213.8 million and RMB184.6 million, respectively, representing an increase of approximately 15.8%. The increase was mainly due to the increase in salary.

Other gains

For the year ended December 31, 2023, the Group's other gains decreased by approximately RMB123.2 million from approximately RMB136.7 million for the year ended December 31, 2022 to approximately RMB13.5 million in 2023, mainly due to the significant lower foreign exchange gains on net operating foreign currency assets and gains on changes in fair value of financial assets for the current period resulting from exchange rate changes than the previous period.

Finance income

For the years ended December 31, 2023 and 2022, the Group's finance income amounted to approximately RMB20.6 million and RMB8.6 million, respectively. The increase in finance income was due to the increase in interest income on bank deposits.

Management Discussion and Analysis

Finance costs

The Group's finance costs amounted to approximately RMB93.1 million and RMB80.1 million for the years ended December 31, 2023 and 2022, respectively. The increase in finance costs was mainly due to the increase in interest on loans due to the increase in expense amount in interest expenses.

Income tax expense

For the years ended December 31, 2023 and 2022, the Group's income tax gains amounted to approximately RMB97.1 million and RMB39.1 million, representing an increase of approximately RMB136.2 million, which was due to the increase in income tax expense as a result of the increase in net profit.

Profit for the year

The Group's profit for the year increased by approximately RMB639.6 million from approximately RMB393.8 million for the year ended December 31, 2022 to approximately RMB1,033.4 million for the year ended December 31, 2023. The increase was mainly due to the increase in revenue and the increase in gross profit resulting from the decrease in raw material prices.

Profit attributable to the Shareholders

As a result of the foregoing factors, profit attributable to the Shareholders for the year ended December 31, 2023 amounted to approximately RMB1,033.4 million (2022: approximately RMB393.8 million).

Dividend distribution

For the years ended December 31, 2023 and 2022, the Group's total dividend distribution amounted to approximately RMB114.2 million and RMB108.8 million, representing an increase of approximately 5.0%, which was 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 increased by approximately RMB456.8 million from approximately RMB629.9 million for the year ended December 31, 2022 to approximately RMB1,086.7 million for the year ended December 31, 2023. The increase was primarily due to an increase in net profit.

Management Discussion and Analysis

Liquidity and financial resources

The Group maintained a sound financial position. The Group's borrowing demand was not seasonal. As at December 31, 2023, the Group's cash and cash equivalents (including restricted cash) amounted to approximately RMB726.0 million, representing a decrease of approximately RMB446.7 million as compared to approximately RMB1,172.7 million as at December 31, 2022, which was mainly due to the repayment of bank borrowings. Of which, RMB445.2 million was denominated in RMB, RMB254.1 million was denominated in USD, and the remaining was denominated in HK\$, EUR and THB. For currencies of the Group cash and cash equivalents, see Note 24 to the consolidated financial statements.

As at December 31, 2023, the Group had bank borrowings of approximately RMB1,211.3 million (2022: approximately RMB2,203.3 million), of which RMB647.2 million was denominated in RMB and the remaining was denominated in USD. Borrowings at floating interest rates accounted for 27% and borrowings at fixed interest rates accounted for 73%. Approximately RMB878.9 million is due within one year, approximately RMB51.6 million is due within one to two years and approximately RMB280.8 million is due within two to five years. During the Reporting Period, the borrowings were mainly used for the daily operation and project construction of the Company. For details of the Group's bank loans, please refer to note 28 to the consolidated financial statements.

The current ratio as at December 31, 2023 was approximately 1.1 (2022: 1.1). During the Reporting Period, the Company purchased low-and medium-risk bank wealth management products to hedge risks and increase wealth management income. As of December 31, 2023, the balance of such wealth management products amounted to RMB151.0 million.

Inventories

As at December 31, 2023, the Group's inventories amounted to RMB1,637.5 million, representing an increase of RMB360.1 million from RMB1,277.4 million as at December 31, 2022. The increase was due to the increase in production and sales volume and the reserve of raw materials at the end of the year.

Trade receivables

As at December 31, 2023, the Group's trade receivables amounted to RMB1,860.4 million, representing an increase of approximately RMB547.9 million as compared with RMB1,312.5 million as at December 31, 2022. The increase was mainly due to the increase in revenue.

Management Discussion and Analysis

Prepayments, other receivables and other current assets

As at December 31, 2023 and 2022, the Group's prepayments, other receivables and other current assets included in current assets were approximately RMB474.1 million and RMB337.1 million, representing an increase of approximately RMB137.0 million. The increase was mainly due to the increase in prepayments for stocking at the end of the period.

Amounts due from related parties

As at December 31, 2023 and 2022, the Group had amounts due from related parties of RMB244.1 million and RMB126.4 million, respectively, representing an increase of approximately RMB117.7 million. The increase was mainly due to the increase in sales volume from related parties.

Trade payables

As at December 31, 2023 and 2022, the Group's trade payables amounted to RMB2,391.7 million and RMB2,000.3 million, respectively, representing an increase of approximately RMB391.4 million, which was mainly due to the increase in production-to-sales ratio and stocking at the end of the period.

Other payables and accruals

As at December 31, 2023 and 2022, the Group's other payables and accruals were RMB1,218.5 million and RMB1,071.3 million, respectively, representing an increase of approximately RMB147.2 million, which was mainly due to the corresponding increase in accrued sales rebates and commission and freight payable as a result of the increase in sales.

Gearing ratio

As at December 31, 2023, the gearing ratio was 8.7% (2022: 19.1%). The ratios were 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 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, 2023. 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.

Management Discussion and Analysis

Charges on Assets

As at December 31, 2023, the Group's restricted cash balance of approximately RMB178.0 million (2022: approximately RMB190.6 million) was pledged as security for bills payable issued by the Group and for letter of credit. The Group's property, plant and equipment of approximately RMB3,793.1 million (2022: approximately RMB3,757.0 million) were pledged as security for bank borrowings of RMB732.1 million and undrawn loan facilities of RMB323.0 million. Save for the above, the Group did not have any charges on its assets.

Investments

The construction of the Tire Production Base in Thailand began in 2019, of which the construction of the phase I project with an annual production capacity of 0.8 million sets of All Steel Radial Tires and 4.0 million sets of Semi-Steel Radial Tires had been completed in 2020 and entered the stage of stable operation; the phase II project with an annual capacity of 1.2 million sets of All Steel Radial Tires and 4.0 million sets of Semi-Steel Radial Tires have gradually reached production in the first quarter of 2022.

The Group initiated the expansion plan of Prinx Shandong in the second half of 2020. The total investment of the project is expected to be approximately RMB666.0 million, with an additional annual production capacity of 1.05 million sets of All Steel Radial Tires and 2.8 million sets of Semi-Steel Radial Tires, which have reached full production capacity in the first quarter of 2022.

On August 31, 2023, the Board considered and approved the resolution in relation to the capacity optimisation of the Tire Production Base in Shandong. The capability of producing high-performance semi-steel radial tires will be improved through technological transformation, equipment upgrading and process optimisation. Upon completion, the production capacity of semi-steel radial tires will increase to 11.53 million units per year. The total investment of the project is expected to be approximately RMB120.0 million. On the same day, the Board also considered and approved the proposal of the Phase III project of the Tire Production Base in Thailand (with production capacity of 2 million sets of Semi-Steel Radial tires per year). The total investment of the project is expected to be approximately RMB200.8 million. The capital source for the above projects would be the Group's own capital.

The above projects have been launched in the third quarter of 2023, and it is expected that the production capacity will be gradually utilised in the first half of 2024 and will reach the designed production capacity in the second half of 2024.

Save as disclosed above, the Group had no other significant investments during the Reporting Period.

Management Discussion and Analysis

RISKS AND UNCERTAINTIES

(1) Macro Environment Risks

In 2024, as geopolitical conflicts persist and the global economy remains in a recovery phase, the road to global economic recovery is winding and long. The International Monetary Fund (IMF) released an update to its World Economic Outlook Report on January 30, 2024, which revised upward the global economic growth forecast for 2024 to 3.1%, representing 0.2 percentage higher than the forecast for October 2023 and stated that it reflected an upward revision of economic growth expectations for China, the United States and a number of large emerging markets and developing countries. Global inflation will remain stubborn in 2024, the global economic development outlook is still subject to downside risks, inflationary pressures may become more persistent, and global economic growth will remain highly dependent on Asian economies.

(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 the risk of exchange rate fluctuations. For the year ended December 31, 2023, the Group's revenue denominated in USD from overseas operations accounted for approximately 63.8% (2022: 67.2%) of the total revenue, which was mainly used for the procurement of overseas raw materials, and the operating expenses of Prinx Chengshan Tire (Thailand) Co., Ltd. ("**Prinx Thailand**") were mainly settled in THB. Therefore, the Group is 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. During the Reporting Period, the Company reduced the impact of exchange rate fluctuations on the Company's overseas business by entering into forward foreign exchange contracts.

Management Discussion and Analysis

(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 February 15, 2019, the U.S. Department of Commerce issued an AD/CVD order on China's truck and bus tires, that is, anti-dumping duty (AD) and countervailing duty (CVD) will be imposed on truck and bus tires from the same date. Prinix Chengshan was ordered to pay a combined security rate of 42.16% of the anti-dumping and countervailing duty. On February 3, 2020, the U.S. Department of Commerce issued a notice to initiate the first administrative review process for anti-dumping and countervailing duty on imported truck and bus tires from China. The investigation period of the anti-dumping review is from February 15, 2019 to January 31, 2020, and the investigation period of 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 for 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 a tax rate of 17.47%. The above changes in tax rates have greatly reduced the tax rate of 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 launched by the U.S. Department of Commerce on April 1, 2021, the investigation period of which is from January 1, 2020 to December 31, 2020. On June 27, 2022, the U.S. Department of Commerce announced the final-determination duty rate for the second administrative review on the countervailing duty against truck and bus tires from China. From June 30, 2022, the Group's Shandong Company will pay countervailing duty deposits for truck and bus tires exported to the U.S. at a tax rate of 17.85%. On December 8, 2021, the U.S. Department of Commerce announced the list of compulsory respondents to the countervailing investigation of the sixth administrative review of the semi-steel tire in China. Sumitomo rubber was selected as the compulsory respondent, and the Group also actively participated in the review. On March 8, 2023, the U.S. Department of Commerce announced the final-determination duty rate for this review on the countervailing duty. From March 13, 2023, the Group's Shandong Company will pay countervailing duty deposits for truck and bus tires exported to the U.S. at a tax rate of 11.05%.

Management Discussion and Analysis

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 for an anti-dumping investigation against tires for passenger vehicles and light trucks from Thailand, Vietnam, South Korea and Taiwan, China, and a countervailing investigation against tires for passenger vehicles and light trucks from Vietnam. On July 19, 2021, the U.S. Department of Commerce issued an anti-dumping duty order on tires for passenger vehicles and light trucks in Thailand. As the Tire Production Base in Thailand has not yet exported the concerned tires to the United States during the investigation period, an average anti-dumping duty rate of 17.06% is applicable. This will have a certain negative impact on the sales of the Group's Tire Production Base in Thailand. On September 6, 2022, the U.S. Department of Commerce issued a notice to commence the first administrative review process of anti-dumping against imported passenger vehicles and light truck tires from Thailand, the investigation period of which is from January 6, 2021 to June 30, 2022. The Group has also actively participated in this review. The U.S. Department of Commerce announced the preliminary ruling results of the first administrative review in August 2023 and the final results in January 2024. And an average duty rate of 4.52% shall be applicable to the Group. The U.S. Department of Commerce issued a notice on September 11, 2023 to initiate the second administrative review procedures against anti-dumping of passenger car and light truck tires imported from Thailand. The investigation period of this anti-dumping review shall be from July 1, 2022 to June 30, 2023. The Group participated in this review and filed a reply as a supplementary mandatory respondent. A preliminary ruling is expected to be issued for this administrative review in June 2024.

On November 7, 2023 (U.S. time), in response to a petition filed by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union and AFL-CIO, CLC on October 17, 2023, the U.S. Department of Commerce announced to initiate an anti-dumping investigation against Truck and Bus Tires imported from Thailand. The investigation period of this anti-dumping review shall be from October 1, 2022 to September 30, 2023. The Group participated in this anti-dumping investigation and filed a reply as a mandatory respondent. A preliminary ruling is expected to be issued for this administrative review in June 2024.

Management Discussion and Analysis

(4) IMPACT OF THE IMPOSITION OF TARIFFS AND DOUBLE REVERSE MARGIN DUTY BY THE MEXICAN GOVERNMENT ON PRODUCTS IMPORTED FROM THE PRC

On April 5, 2023 (Mexico time), at the request by Bridgestone de México, S.A. de C.V., Compañía Hulera Tornel, S.A. de C.V., Continental Tire de México, S.A. de C.V. and Industrias Michelin, S.A. de C.V., and Cámara Nacional de la Industria Hulera on November 30, 2022, the Ministry of Economy of Mexico announced the initiation of an anti-dumping investigation on the 13 to 22 inch passenger car and light truck tires imported from China. The investigation period for the anti-dumping investigation was from July 1, 2021 to June 30, 2022. The Group's Shandong Company participated in this anti-dumping investigation and filed a reply as a respondent company. Currently, the investigation is ongoing.

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 situation by adopting the following measures to mitigate 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.

(5) Risks in relation to Overseas Investments

During the Reporting Period, the construction and operation of the Company's overseas production bases progressed steadily. At present, the construction of the phase III of the Tire Production Base in Thailand is in progress, and the proportion of the Group's overseas business will increase. 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.

In view of this, the Group will keep abreast of the changes in the investment environment of the Thai authorities in real time, and make arrangements for construction progress, product certification, personnel protection, etc. in advance, as well as make strategic planning for sales in Thailand.



Management Discussion and Analysis

(6) Risks in relation to climate change

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company strictly complied with the following laws and regulations which may have a significant impact on its production and operation: (a) the laws and regulations relating to compulsory product certification for tire products; (b) the laws, regulations and policies relating to the access to and supervision of the tire industry; (c) the laws and regulations relating to environmental protection and safety responsibility; (d) the laws and regulations relating to foreign investment; (e) the laws and regulations relating to foreign exchange control and taxation; (f) the laws and regulations relating to labor 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 regarding legal restrictions under the laws of the relevant jurisdictions 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.

Management Discussion and Analysis

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, 2023, the Group had capital commitment of approximately RMB70.0 million (2022: approximately RMB18.7 million). The Group had no contingent liability that would result in a significant impact during the Reporting Period (2022: nil).

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

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 at the date of this report, save as disclosed in the section headed “Investments”, there was no plan authorized by the Board for other substantial investment or additions of capital assets.

HUMAN RESOURCES MANAGEMENT

As at December 31, 2023, the Group had a total of 6,532 employees (as at December 31, 2022: 6,144). For the year ended December 31, 2023, the Group’s employee benefit expenses amounted to approximately RMB725.5 million (for the year ended December 31, 2022: approximately RMB636.8 million).

During the Reporting Period, the Group continuously promoted and optimized the rank assessment for each position, improved the performance appraisal system for all staff, established the salary standards based on the value of the position, and used the grading of rank assessment and the results of individual performance appraisals as the basis for salary adjustments, promotions and bonus payments. We maintained a benchmark with our peers and the market in terms of salary levels, and attracted outstanding talents from neighboring regions to join us. At the same time, we have strengthened the internal analysis of data relating to labor cost inputs and outputs. Through data analysis, we identified problems, explored reasons and proposed solutions to provide management support to the business departments and help reduce costs and increase efficiency.

Management Discussion and Analysis

The Group attaches great importance to human resources management and talent cultivation and training, and is committed to building an efficient, professional and competitive talent team to promote the sustainable development of the enterprise. In order to adapt to the needs of the digital era, the Company has strengthened the construction of digital learning platforms to break the time and space constraints by introducing advanced digital learning platforms, so as to provide employees with multiple learning channels. The Group emphasizes the accumulation and transmission of knowledge and has established a comprehensive knowledge management system. Through the establishment of the digital learning platforms, employees are encouraged to share their working experience and skills through the digital learning platforms, which facilitates the dissemination and application of knowledge. In order to improve the comprehensive quality and professional ability of our employees, the Company has further improved our training system. Through cooperation with universities and training organizations, we have launched various professional competency enhancement courses and leadership development training.

In addition, the Group also has formulated customized training plans for the needs of different positions and levels to help employees at all levels to continuously improve their abilities. In order to promote the implementation of the corporate development strategy, the Group has implemented a number of specialized empowerment plans. Customized training and counseling projects have been carried out for the needs of different groups of people, such as reserve managers, sales representatives, production managers and new employees. Through these plans, the Company has not only improved the professional skills and overall quality of its employees, but also provided a strong talent guarantee for the sustainable development of the enterprise. In order to stimulate the learning enthusiasm of employees and strengthen the construction of professional and technical talent team, the Group continued to deepen the construction of professional channels, achieving over 90% coverage rate of professional skills assessment for fourteen major sequences and over 90% coverage rate of technician level certification. The Group also further strengthened the result-oriented employee ability evaluation mechanism, injected vitality into the grassroots talent team and promoted the selection and training of outstanding talents. Through continuously strengthening talent cultivation, we have created an efficient, professional and competitive talent team to promote the continuous development of the enterprise.

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**”).

Management Discussion and Analysis

The Company adopted its current 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, 3,080,000 and 960,000 Options to certain Grantees on June 28, 2021 (the “**2021 Grant Date**”), September 28, 2022 (the “**2022 Grant Date**”), and September 28, 2023 (the “**2023 Grant Date**”), respectively. All Options granted and accepted and remaining unexpired 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. For details, please refer to the circular of the Company dated April 16, 2021 and the announcements dated May 17, 2021, June 28, 2021, September 28, 2022 and September 28, 2023, respectively. Details about the changes in Options for the year ended December 31, 2023 are set out in the section headed “Share Option Scheme” in this annual report.



Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Che Baozhen, aged 41, was appointed as a Director on May 22, 2015 and was appointed as a member of the Nomination and Remuneration Committee. He also served as the general manager of Prinx Chengshan (Shandong) Tire Co., Ltd. ("**Prinx (Shandong) Tire**"), one of the subsidiaries of the Company, from April 2017 to January 2021. Mr. Che joined the Group in December 2005. He is a director of all subsidiaries of the Company (excluding Prinx Chengshan (Qingdao) Industrial Research and Design Co., Ltd. ("**Prinx (Qingdao)**"), Shenzhen Zhianda Tire Technology Service Co., Ltd., Prinx Chengshan Europe GmbH ("**Prinx (Europe)**") and Prinx Chengshan Tire North America LLC.). Mr. Che is also a Chief Executive Officer. He has over 18 years of experience in the automotive tire industry and is responsible for the day-to-day operations, overall management, administration and strategic planning of the Group. Prior to joining the 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 a bachelor's degree in computer science and technology from University of Science and Technology Beijing 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 54, was appointed as a Director on October 28, 2015. Mr. Shi joined the Group in December 2005 as a financial director and was promoted to a director in November 2014 and vice-general manager of Prinx (Shandong) Tire 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., Anhui Prinx Chengshan Tire Company Limited 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 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-practising certified accountant by the Chinese Institute of Certified Public Accountants in 1995. Mr. Shi was recognised as a Senior International Finance Manager 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 Organisation 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

Mr. Jiang Xizhou, aged 52, was appointed as a Director on March 28, 2024. He was also appointed as a director of Prinx (Shandong) Tire and Prinx Thailand (each being a subsidiary of the Company), respectively. He 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 vice president of the Company and the director of the production and operation centre of the Company, the general manager and the director of the technology centre of Shandong Company since January 2021. Since November 2022, he has been serving as the executive vice president of the Company. Prior to joining the Group, Mr. Jiang held various technical and management positions in Anhui Giti Tire Co., Ltd. from July 1995 to May 2013; he served as the general manager of Fujian Giti Tire Co., Ltd. and the general manager of Giti Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600182), from June 2013 to June 2015; he served as the general manager of Anhui Giti Tire Co., Ltd. from July 2015 to August 2017; and he served as the manufacturing director of Giti 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. He graduated from the Wisconsin International University in the United States in December 2002 with a master's degree in Executive Master of Business Administration (EMBA).

NON-EXECUTIVE DIRECTORS

Mr. Che Hongzhi, aged 67, 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 over 20 years of experience in tire production industry. Prior to establishing the Group, Mr. Che was the chairman of Shandong Chengshan Tire 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, an executive Director.

Directors and Senior Management

Ms. Wang Ning, aged 37, was appointed as a non-executive director on March 28, 2024. Ms. Wang has been serving as the assistant to the general manager at Founder Digital Publishing Technology (Shanghai) Co., Ltd. from June 2011. From May 2014, she has been serving as assistant to the chief financial officer, assistant to the president, and securities affairs commissioner of InfoTM Micro-Electronics Co., Ltd, a company listed on the Shenzhen Stock Exchange (stock code: 000670). She has been serving as the senior consultant and the senior consulting manager of Shanghai InFaith Group Co., Ltd from May 2020 and December 2020 respectively. Since February 2022, she has been working in the board office of Red Avenue New Materials Group Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 603650), and was appointed as the securities affairs representative by the board of directors of the company in April 2022.

Ms. Wang graduated from Qingdao University of Science and Technology in July 2009 with a bachelor's degree in business administration. She obtained the securities practitioner qualification certificate in June 2015. In March 2017, she obtained the qualification certificate of board secretary issued by the Shenzhen Stock Exchange. She obtained the certificate of certified public accountant in March 2021 and became a non-practicing member of the Chinese Institute of Certified Public Accountants. In November 2022, she attended the 1st pre-appointment training for the board secretary of the Shanghai Stock Exchange in 2022 and successfully passed the test. In February 2023, she obtained the board secretary pre-appointment training certificate. In March 2024, she obtained the legal professional qualification certificate of the People's Republic of China.

Mr. Shao Quanfeng, aged 40, was appointed as a non-executive Director on February 24, 2020. In July 2007, Mr. Shao served as a general accountant of group finance department of China National Heavy Duty Truck Group Co., Ltd.. In May and November 2012, he served as a trainee assistant to the general manager of sales department of China Heavy Truck Group Ji'ning Commercial Truck Co., Ltd. and a trainee assistant to the general manager of specialised vehicles segment of China Heavy Truck Group, respectively. In July 2014, he was appointed as the finance manager of Sinotruk (Hong Kong) Capital Holding Limited. In August 2018, he became the first level business supervisor of finance department of China Heavy Truck Group International Co., Ltd.. In December 2018, he served as the managing director of Sinotruk (Hong Kong) International Investment Limited. In February 2022, he served as the financial controller of China National Heavy Duty Group Jinan Axle & Transmission Co., Ltd.. In April 2022, he served as the financial controller of SINOTRUK International Co., Ltd. In February 2023, he served as the financial controller of light truck sales department and light truck manufacturing factory of China National Heavy Duty TRUCK Group Jinan Commercial VEHICLE Co., Ltd.

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.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jin Qingjun, aged 67, 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 on September 9, 2023. He is currently a senior partner of King & Wood Mallesons. His major areas of practice include securities, finance, investment, financing, real estate, corporate, maritime commerce, insolvency, litigation as well as foreign-related legal affairs. He has a solid legal theory foundation and extensive legal practise experience. In the past 30 years, he has been adhering to the front line of project hosting work, enjoying a high reputation in the industry and among peers. Mr. Jin is one of the first lawyers who were granted Security Qualification Certificate in the PRC, focusing on securities-related legal affairs for more than 30 years. He was the general legal counsel of the Shenzhen Stock Exchange and a member of the Listing Regulatory Council. He is currently a legal counsel of various financial institutions, securities companies and listed companies at home and abroad.

Mr. Jin is currently an independent non-executive director of Times China Holdings Limited (a company listed on the Stock Exchange, stock code: 1233), Sino-Ocean Group Holding Limited (a company listed on the Stock Exchange, stock code: 3377), Bank of Tianjin Co., Ltd. (a company listed on the Stock Exchange, stock code: 1578), Central Development Holdings Limited (a company listed on the Stock Exchange, stock code: 475) and Goldstream Investment Limited (a company listed on the Stock Exchange, stock code: 1328); a director of Shenzhen Kingkey Smart Agriculture Times Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000048) and an independent director of Invesco Great Wall Fund Management Co., Ltd. Mr. Jin ceased to act as an independent director of Shenzhen Cheng Chung Design Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002811) since 23 February 2024. From September 2014 to June 2021, Mr. Jin served as an independent director of Guotai Junan Securities Co., Ltd. (a company listed on the Stock Exchange, stock code: 2611 and the Shanghai Stock Exchange, stock code: 601211).

Mr. Jin is also a part-time professor of the Chinese Academy of Governance, a part-time professor of the Law School of Renmin University of China, an arbitrator of the Shenzhen Court of International Arbitration, a mediator of the Shenzhen Securities and Futures Dispute Resolution Centre, an arbitrator of the South Africa International Commercial Arbitration Centre, a member of the Inter-Pacific Bar Association, a PRC legal counsel of the US Court of Appeals for the Washington D.C. Circuit and a member of the National Equities Exchange and Quotations Review Committee.

Mr. Jin graduated from the Foreign Language Department of Anhui University with a bachelor's degree in English and American literature in 1982. He graduated from the Graduate School of China University of Political Science and Law with a master's degree in international law in 1987. In 2009, he received a completion certificate for a research program from the John F. Kennedy School of Government at Harvard University.

Directors and Senior Management

Mr. Choi Tze Kit Sammy, aged 61, 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 over 35 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 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 an independent non-executive director of 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, 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 Development Committee and the Branding and Communication Committee 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 member of the Professional Conduct Committee and the Investigation Panel of the HKICPA from January 2020 to December 2022 and a council member of The Society of Chinese Accountants and Auditors from 2010 to 2015. He was elected as an honorary financial advisor of Hong Kong and Kowloon Rattan Ware Merchants Association (Wing Hing Tong) in 2018.

Mr. Wang Chuansheng, aged 64, 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 and was awarded the Taishan Scholar Climbing Plan (泰山學者攀登計劃) Expert in 2020. 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.

Directors and Senior Management

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 recognised 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 the “Second Prize of National Science and Technology Progress Award” by the State Council of the PRC in December 2001 for his “Synchronous Rotor Mixer Technology”, and was further awarded the “Second Prize of National Science and Technology Progress Award” by the State Council of the PRC in December 2011 for his “Industrialisation of Waste Rubber and Waste Plastics Pyrolysis of Resources Utilisation of Complete Sets of Technology and Equipment”. In October 2013, Mr. Wang was recognised 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. In 2023, Mr. Wang won the Third National Innovation Award (第三屆全國創新爭先獎) and the Qingdao Science and Technology Highest Award (青島市科技最高獎).

SENIOR MANAGEMENT

Mr. Huang Xiaolei, aged 48, has been the senior financial controller of the financial centre of the Company since October 2022 and the chief financial officer of the Company since June 2023. Since July 2023 and March 2024, he has been serving as a director of Prinx Chengshan Tire North America LLC.) and Prinx Chengshan Tire Europe GmbH (each being a subsidiary of the Company), respectively. Prior to joining the Group, from July 1996 to September 2008, Mr. Huang successively served as the treasury manager of the group’s finance department of Shanghai Baosteel Group and the head of finance of its Italian subsidiary (based in Italy). From October 2008 to September 2022, Mr. Huang successively served as the senior manager of the group’s finance centre of Luolai Home Textile Co., Limited (currently known as Luolai Life Technology Co., Limited, shares of which are listed on the Shenzhen Stock Exchange with stock code 002293), the chief financial officer of Jingyang (Shanghai) Container Leasing Co., Ltd., the chief financial officer of the China region of and the Asia Pacific region (based in Hong Kong) of MARCOLIN S.p.A.,

Mr. Huang graduated from East China University of Science and Technology with a bachelor’s degree in international business administration in June 1996. He graduated from Fudan University with an MBA degree in January 2012. Mr. Huang obtained a certificate of senior title in accounting from Shanghai Municipal Finance Bureau in 2009.

Directors and Senior Management

Mr. Ju Xunning, aged 57, has been the deputy director of the production and operation centre 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 the 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 the 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 recognised 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 recognised 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.

Mr. Wang Yu, aged 50, 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.

Directors and Senior Management

Mr. Chu Xiaohua, aged 40, has been the director of the international sales centre of the sales and marketing headquarters since January 2021. He has been the Qingdao international sales centre 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 Crowntire International Trade Company Limited in May 2008. Mr. Chu was then promoted to vice manager of its 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 Centres 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 49, joined the Group in June 2020 as the general manager of the Tire Manufacturing Centre of Prinx (Shandong). He has been the director, deputy general manager and a director 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 the Group, Mr. Zhang held various technical and management positions in Anhui Jiatong Tire Co., Ltd. from July 1996 to January 2015. He served as the assistant to the general manager of Anhui Jiatong Tire Co., Ltd. from January 2015 to June 2017. He served as the deputy general manager of Anhui Jiatong Tire 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.

COMPANY SECRETARY

Ms. Cao Xueyu, aged 53, was appointed as a joint company secretary of the Company on March 29, 2019 and became the sole company secretary of the Company on September 1, 2022. She was appointed as a Director on March 5, 2018 and resigned as a Director on March 28, 2024. She joined the Group as a director of Prinx Hong Kong Tire on July 1, 2016. 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.

Directors and Senior Management

Ms. Cao was awarded with the New Zealand Diploma in Business by the Auckland University of Technology, New Zealand, in April 2003. She was recognised 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.

CHANGE OF DIRECTORS

The term of office of Mr. Zhang Xuehuo expired on September 9, 2023 pursuant to a letter of appointment with the Company. To devote more time to other business commitments, Mr. Zhang retired as an independent non-executive Director upon expiration of his term of office and ceased to be 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.

Mr. Jin Qingjun has been 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 since September 9, 2023. Mr. Jin shall hold office until the next following annual general meeting of the Company and be subject to retirement by rotation and re-election thereat in accordance with the memorandum and articles of association of the Company.

Ms. Cao Xueyu resigned as an executive Director of the Company on March 28, 2024 due to internal reallocation of responsibilities.

Mr. Wang Lei resigned as a non-executive Director of the Company on March 28, 2024 as he intends to devote more time to his other business commitments.

Mr. Jiang Xizhou has been appointed as an executive Director with effect from March 28, 2024. Mr. Jiang shall hold office until the next following annual general meeting of the Company and be subject to retirement by rotation and re-election thereat in accordance with the memorandum and articles of association of the Company.

Ms. Wang Ning has been appointed as a non-executive Director with effect from March 28, 2024. Ms. Wang shall hold office until the next following annual general meeting of the Company and be subject to retirement by rotation and re-election thereat in accordance with the memorandum and articles of association of the Company.

For details of the change of Directors, please refer to the announcements of the Company dated August 31, 2023 and March 28, 2024.

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, 2023.

SHARE OPTION SCHEME

The purpose of the Share Option Scheme is 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.

2021 Share Option Scheme

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.

As at the date of this annual report, the remaining life of the 2021 Share Option Scheme is approximately five years and two months.

The purpose of the 2021 Share Option Scheme is to replace the 2019 Share Option Scheme and to enable the Board to grant share 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 calibre 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 calibre candidates.

For the purpose of the 2021 Share Option Scheme, 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.

As at the date of this report, the number of Shares available for issue under the 2021 Share Option Scheme is 10,910,000 Shares, representing approximately 1.71% (as at the date of the 2022 Annual Report: 1.87%) of the total number of Shares in issue as at the date of this annual report.

The total number of Shares which may be issued upon exercise of all share 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 share 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.

Report of the Directors

No Grantee shall be granted a share option if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the share options granted to such Grantee (including both exercised and outstanding share options) in any 12-month period exceeding 1% of the total number of Shares in issue. Where any further grant of share 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 share options granted and to be granted to such Grantee (including exercised, cancelled and outstanding share 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.

The Grantee may subscribe for Shares during such period as may be determined by the Directors (which shall not be more than eight years from the date of grant of the relevant Option and include the minimum period, for which an Option must be held before it can be exercised). Subject to the terms of the 2021 Share Option Scheme, Options can be vested at any time after the expiry of a period which may be determined by the Board from the date of grant of the relevant Option. The exercise price shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant Option (and shall be stated in the letter containing the Offer) but in any case the exercise price shall not be lower than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

During the Reporting Period, no share options were exercised or cancelled, and a total of 3,710,000 share options were lapsed under the 2021 Share Option Scheme. 27,330,000 share options were outstanding as at the end of the Reporting Period.

At the beginning of the Reporting Period, the number of share options that may be granted under the 2021 Share Option Scheme was 11,870,000. At the end of the Reporting Period, the number of share options that may be granted under the 2021 Share Option Scheme was 10,910,000.

Share options Granted in 2021

On the 2021 Grant Date, the Company conditionally granted 35,050,000 share 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 business 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 share options granted, 5,500,000 share options were granted to the Directors, chief executive or substantial shareholders of the Company, or an associate (as defined in the Listing Rules) of any of them and 29,550,000 share options were granted to other senior management and employees of the Group.

Report of the Directors

Share options granted in 2022

On the 2022 Grant Date, the Company conditionally granted 3,080,000 share options to certain Grantees, subject to acceptance of the Grantees, to subscribe for a total of 3,080,000 shares of the Company. The exercise price of the Shares on the 2022 Grant Date is HK\$8.568 per Share, which represents the highest among (i) the closing price of HK\$6.410 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\$6.298 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the grant date; (iii) the nominal value of each Share; and (iv) the exercise price on the 2021 Grant Date (i.e. HK\$8.568 per Share). The closing price on the business day immediately preceding the 2022 Grant Date was HK\$6.400 per Share.

The grantees of the share options granted in 2022 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.

Share options granted in 2023

On the 2023 Grant Date, the Company conditionally granted 960,000 share options to certain Grantees, subject to acceptance of the Grantees, to subscribe for a total of 960,000 shares of the Company. The exercise price of the Shares on the 2023 Grant Date is HK\$8.568 per Share, which represents the highest among (i) the closing price of HK\$6.54 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\$6.48 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the grant date; (iii) the nominal value of each Share; and (iv) the exercise price on the 2021 Grant Date (i.e. HK\$8.568 per Share). The closing price on the 2023 Grant Date was HK\$6.54 per Share.

The grantees of the share options granted in 2023 are the employees of the Group, including one senior management (as defined in the Listing Rules), 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.

The number of ordinary shares that may be issued pursuant to the share options granted under the 2021 Share Option Scheme during the year ended December 31, 2023 divided by the weighted average number of ordinary shares for the year ended December 31, 2023 was approximately 0.15%.

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, September 28, 2022, and September 28, 2023, respectively.

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.

Report of the Directors

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 share 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 purpose of the 2019 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 obtain shares of the Company, 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.

For the purpose of the 2019 Share Option Scheme, 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.

As the Company has terminated the 2019 Share Option Scheme on 2021 Adoption Date, under the 2019 Share Option Scheme, no options were available for grant at the beginning and the end of the Reporting Period and no shares were available for issue as at the date of this report.

The Grantee may subscribe for Shares during such period as may be determined by the Directors (which shall not be more than six years from the date of grant of the relevant Option and include the minimum period, for which an Option must be held before it can be exercised). Subject to the terms of the 2019 Share Option Scheme, Options can be vested at any time after the expiry of a period which may be determined by the Board from the date of grant of the relevant Option. The exercise price in respect of any Option shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant Option (and shall be stated in the letter containing the Offer) but in any case the exercise price shall not be lower than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

During the Reporting Period, no share options were exercised, a total of 2,065,911 share options were cancelled and a total of 801,149 share options were lapsed under the 2019 Share Option Scheme. 6,176,401 Share options were outstanding as at the end of the period.

Report of the Directors

Share options granted in 2019

On the 2019 Grant Date, the Company conditionally granted 14,400,000 share 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 Share options granted in 2019, 1,317,500 share options were granted to the Directors, chief executive or substantial shareholders of the Company, or an associate (as defined in the Listing Rules) of any of them and 13,082,500 share options were granted to other senior management (as defined in the Listing Rules) and employees of the Group.

Share options granted in 2020

On the 2020 Grant Date, the Company conditionally granted 835,500 share 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 was HK\$7.820 per Share.

The grantees of the share 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 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 9, 2019 and July 9, 2020 and the circular dated April 15, 2021.

Report of the Directors

Details of the outstanding Options and Options granted, exercised, cancelled and lapsed during the year ended 31 December 2023 are as follows:

Name of the participant	Position(s) held	Date of Grant	Exercise price per share	Number of shares options							Exercise period
				As at the date of grant	as at the beginning of the period	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at the end of the period	
Che Baozhen	Executive Director	July 9, 2019	HK\$7.244	580,000	580,000	—	—	—	189,467	390,533	July 9, 2020 to July 8, 2025 (Notes 1&6)
Shi Futao	Executive Director	July 9 2019	HK\$7.244	512,000	512,000	—	—	—	167,254	344,746	July 9, 2020 to July 8, 2025 (Notes 1&6)
		June 28, 2021	HK\$8.568	5,000,000	5,000,000	—	—	—	—	5,000,000	June 28, 2024 to June 27, 2029 (Notes 3&6)
Cao Xueyu	Executive Director and Company Secretary	July 9, 2019	HK\$7.244	225,500	225,500	—	—	—	73,664	151,836	July 9, 2020 to July 8, 2025 (Notes 1&6)
		June 28, 2021	HK\$8.568	500,000	500,000	—	—	—	—	500,000	June 28, 2024 to June 27, 2029 (Notes 3&6)
Other senior management and employees (as defined in Chapter 17 of the Listing Rules)		July 9, 2019	HK\$7.244	13,082,500	7,193,164	—	—	704,076	1,479,497	5,009,591	July 9, 2020 to July 8, 2025 (Notes 1&6)
		July 9, 2020	HK\$7.960	835,500	532,797	—	—	97,073	156,029	279,695	July 9, 2021 to July 8, 2025 (Notes 2&6)
		June 28, 2021	HK\$8.568	29,550,000	21,500,000	—	—	1,950,000	—	19,550,000	June 28, 2024 to June 27, 2029 (Notes 3&6)
		September 28, 2022	HK\$8.568	3,080,000	3,080,000	—	—	1,760,000	—	1,320,000	June 28, 2024 to May 27, 2029 (Notes 4&6)
		September 28, 2023	HK\$8.568	960,000 (Note 7)	—	960,000	—	—	—	960,000	September 28, 2024 to May 27, 2029 (Notes 5&6)
Total				54,325,500	39,123,461	960,000	—	4,511,149	2,065,911	33,506,401	

Note 1: The share 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 2019 Grand Date; 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 fulfilment 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 share options granted to such Grantee would lapse. Subject to the vesting schedule, the share options are exercisable within a period of six years commencing from the 2019 Grant Date.

Note 2: The share 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 share options granted can be vested and exercised after the expiration of 12 months and 24 months from the 2020 Grant Date, respectively. If the share 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 share 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 share options after excluding the expired share options. If the vesting conditions are not met by the Grantee, the unvested share options granted to such Grantee would lapse. Subject to the vesting schedule, the share options are exercisable within a period of five years commencing from the 2020 Grant Date.

Report of the Directors

Note 3: Subject to the terms of the 2021 Share Option Scheme, 35% and the remaining 65% of the share options can be vested and exercised at any time after the expiration of 36 months and 60 months from the 2021 Grant Date, respectively. Subject to the vesting schedule, the share options are exercisable within a period of eight years commencing from the 2021 Grant Date. The share 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. If the vesting conditions are not met by the Grantee, the unvested share options granted to such Grantee would lapse in accordance with the terms of the 2021 Share Option Scheme.

Note 4: Subject to the terms of the 2021 Share Option Scheme, 35% and the remaining 65% of the share options can be vested at any time after the expiration of 21 months and 45 months from the 2022 Grant Date, respectively. Subject to the vesting schedule, the share options are exercisable within a period of six years and nine months commencing from the 2022 Grant Date. The share 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. If the vesting conditions are not met by the Grantee, the unvested share options granted to such Grantee would lapse in accordance with the terms of the 2021 Share Option Scheme.

Note 5: Subject to the terms of the 2021 Share Option Scheme, 35% and the remaining 65% of the share options can be vested at any time after the expiration of 12 months and 33 months from the 2023 Grant Date, respectively. Subject to the vesting schedule, the share options are exercisable within a period of five years and nine months commencing from the 2023 Grant Date. The share 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. If the vesting conditions are not met by the Grantee, the unvested share options granted to such Grantee would lapse in accordance with the terms of the 2021 Share Option Scheme.

Note 6: The exercise of share options shall be conditional upon fulfilment of the Company's annual performance objectives and personal performance objectives.

Note 7: The closing price of the Shares immediately before the 2023 Grant Date was HK\$6.570 per Share. The fair value of share options in 2023 and the accounting standard and policy adopted as at the 2023 Grant Date are set out in the note 26 to the consolidated financial statements. The valuation of share options is quite subjective and subject to uncertainties, depending on the assumptions used in and limitations of calculation model

Save as disclosed above, (i) none of the Grantees is a Director, chief executive, substantial shareholder of the Company, or an associate (as defined in the Listing Rules) of any of them; (ii) none of the Grantees is a participant with Options granted or to be granted in any 12-month period exceeding the 1% individual limit under the Listing Rules; and (iii) none of the Grantees is a related entity participant or service provider (as defined under the Listing Rules).

Share options Exercised and Issued Shares

As mentioned above, no share options granted by the Company were exercised during the Reporting Period.

Report of the Directors

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, 2023 is set out in note 1 to the consolidated financial statements.

RESULTS

The financial results of the Group for the year ended December 31, 2023 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income on pages 122 to 123 of this annual report.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.30 per ordinary share before tax for the year ended December 31, 2023. The final dividend is subject to the approval of the shareholders of the Company at the annual general meeting to be held on May 31, 2024 (the "**AGM**") and will be paid around June 17, 2024 to the Shareholders whose names appear on the register of members of the Company on June 11, 2024.

Report of the Directors

Pursuant to the Enterprise Income Tax Law of the People's Republic of China (the "**EIT Law**"), the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China, and the Notice of the State Administration of Taxation on Issues Concerning 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 organisations, 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 enterprise/individual income tax for all PRC resident enterprise, exempted institution 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 Link Market Services (Hong Kong) Pty 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 5, 2023.

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 of enterprise income tax.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, May 28, 2024 to Friday, May 31, 2024, both days inclusive, during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Friday, May 31, 2024, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Monday, May 27, 2023.

Report of the Directors

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 Tuesday, June 11, 2024, being the record date for determination of entitlement to the final dividend. The register of members of the Company will be closed from Thursday, June 6, 2024 to Tuesday, June 11, 2024, 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, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong for registration not later than 4:30 p.m. on Wednesday, June 5, 2024.

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 articles of association of the Company.

As stated in the prospectus of the Company dated September 24, 2018 (the "**Prospectus**"), the Group intends to pay dividends of not less than 20% of the future distributable net profit attributable to equity shareholders after the Listing. Going forward, the Group will continuously evaluate its dividend policy in light of its financial position and the prevailing economic environment.

Report of the Directors

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 pursues the core strategies of cost leadership, efficiency driven, differentiated competition and global operation, focuses on improving the industrial ecological chain, and responds to the ever-changing needs of customers in a systematic, professional and rapid manner to create value for customers. Prinix Chengshan is a green development enterprise that attaches importance to safety, environmental protection, integrity, win-win and bears a 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,				
	2023	2022	2021	2020	2019
Revenue growth rate ⁽¹⁾	22.0%	8.2%	20.0%	12.4%	7.4%
Net profit increase rate ⁽²⁾	162.4%	42.5%	-54.3%	26.1%	0.2%
Gross profit margin ⁽³⁾	21.3%	14.3%	13.8%	22.3%	19.2%
EBIT margin ⁽⁴⁾	12.1%	5.2%	3.6%	11.0%	9.7%
Net profit margin ⁽⁵⁾	10.4%	4.8%	3.7%	9.6%	8.6%
Return on equity ⁽⁶⁾	20.9%	9.4%	7.2%	16.8%	14.9%
Return on total assets ⁽⁷⁾	10.0%	4.1%	3.3%	9.1%	8.7%
Asset to liability ratio ⁽⁸⁾	48.8%	55.4%	56.9%	49.5%	41.4%
Trade receivables turnover days ⁽⁹⁾	59	61	67	67	63
Inventory turnover days ⁽¹⁰⁾	69	73	70	65	58

Report of the Directors

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 before net finance costs and income tax expenses for the period/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 of the Company at the beginning and the 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 to liability ratio = (total liabilities/total assets) * 100%;
- (9) Trade receivables turnover days = (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 = (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 analyse the Company's growth capability. The Company's financial indicators were stable, of which revenue increased by approximately 22.0% year-on-year and net profit increased by approximately 162.4% year-on-year in 2023. In 2023, the Company recorded profit before income tax of approximately RMB1,130.5 million, representing a year-on-year increase of approximately 218.7%. The increase in profitability was mainly due to the increase in sales volume and the decrease in raw material prices. The asset to liability ratio of the Company as at December 31, 2023 decreased by approximately 6.6 ppt year-on-year, which was mainly due to higher profit and repayment of borrowings. While progressively expanding production capacity, the Company has maintained sufficient liquidity and strong solvency. The Company's trade receivables turnover days in 2023 were approximately 59 days, representing a decrease of 2 days as compared to that of 2022. The inventory turnover days were around 69 days, representing a decrease of 4 days as compared to that of 2022, which was due to the increase in sales volume and more robust credit policy and higher inventory management level. 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.

Report of the Directors

2. 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. Through the realisation of strategic objectives, the Company will return to the leading position in the domestic industry, build a world-class tire manufacturer, and achieve technology-led tire innovation.
3. The Group is customer-centric, market-oriented, with sales target as an evaluation tool, and builds itself into a world-class tire manufacturer by focusing on the six strategic dimensions of marketing, R&D, manufacturing, team, system and mode. The Group strives for the coordination of the entire value chain including procurement, supply chain, finance, manufacturing, quality, R&D and market to support high-quality corporate development.
4. The Group consolidates the construction of three talent teams, namely management, R&D and production, and cultivates a corporate culture based on the core values of “customer first, responsibility, professionalism, innovation and openness”.
5. The Group pursues a multi-brand strategy, strives to achieve the internationalisation and localization and differentiates the development of its four major brands under the Group, namely Prinx, Chengshan, Austone and Fortune, to enhance the brand competitiveness based on core products, and to help each user explore a better life with new manufacturing intelligence and perceptible technology.
6. Based on the enhancement of core R&D capabilities by the Company’s multi-scale tire full life cycle manufacturing innovation centre, the Group continuously improves its technology value-added services to form a competitive advantage in the market.
7. The Group is actively building the CS-LEAD model of “Construction (a two-level management and control system that matches the strategy), System Building Team, Learning Organization, Excellence Engineer Culture, Assessment & Inspiring and Dual Development channel”, to achieve the goal of broadening the channels of employee growth, paying attention to the employee happiness index of, and becoming an enterprise that employees feel happy, welcomed by customers and respected by the society.

Report of the Directors

(2) Opportunities of the Company

1. The increase in vehicle ownership in the PRC, coupled with the regulation of the production order of the industry by the introduction of relevant national policies such as the adjustment of industrial structure and the optimisation of industrial layout, has driven the development of the tire industry and brought opportunities for the development of the Company.
2. The PRC government's emphasis on environmental protection and sustainable development has led to favourable support and promotion of new energy vehicles, and the rapid growth of China's new energy vehicle market has provided a good development opportunity for the Company's OE business.
3. Under the background of "Carbon Peak, 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. The air springs market in the PRC has great growth potential due to the increasing demand for air springs as a result of rising consumer demand for comfort.
8. For new products that require compulsory product certification, there is an opportunity to make early market preparations. It will enable the Company to establish competitive advantages in the market, increase market share, and also gain consumer recognition of product quality and safety.

Report of the Directors

3. 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.

4. Future Prospects

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

5. 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 pages 4 to 5 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, 2023, the transaction amounts attributable to the Group’s top five customers accounted for approximately 12.2% (2022: 17.8%) of the Group’s total revenue, while the transaction amounts attributable to the Group’s single largest customer accounted for approximately 3.6% (2022: 9.1%) of the Group’s total revenue.

Major Suppliers

For the year ended December 31, 2023, the transaction amounts attributable to the Group’s top five suppliers accounted for approximately 14.9% (2022: 23.7%) of the Group’s total purchases, while the transaction amounts attributable to the Group’s single largest supplier accounted for approximately 3.3% (2022: 10.3%) 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 own more than 5% of the number of issued shares of the Company) was interested in the top five customers or suppliers of the Group.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of 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 share capital of the Company during the Reporting Period are set out in note 25 to the consolidated financial statements.

RESERVE

Details of 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, 2023, the Company's reserves available for distribution amounted to approximately RMB2,220.7 million (as at December 31, 2022: approximately RMB2,215.3 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2023 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 (resigned on March 28, 2024)
Jiang Xizhou (appointed on March 28, 2024)

Non-executive Directors:

Che Hongzhi
Wang Lei (resigned on March 28, 2024)
Shao Quanfeng
Wang Ning (appointed on March 28, 2024)

Independent Non-executive Directors:

Zhang Xuehuo (resigned on September 9, 2023)
Jin Qingjun (appointed on September 9, 2023)
Choi Tze Kit Sammy
Wang Chuansheng

Report of the Directors

In accordance with Article 108 of the Articles of Association, Mr. Che Baozhen, Mr. Shi Futao shall retire by rotation at the AGM and, being eligible, offer themselves for re-election. In accordance with Article 112 of the Articles of Association, Mr. Jin Qingjun, Mr. Jiang Xizhou and Ms. Wang Ning shall retire by rotation at the AGM and, being eligible, offer 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 52 to 60 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, 2023.

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 details of the service contracts and the appointment letters of each of the Directors, please refer to the section headed "Corporate Governance Report" in this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 36 to the consolidated financial statements, no Director (or entity connected with any of the Directors) had 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.

Report of the Directors

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

During the period from the date of the 2023 interim report up to the date of this report, save as disclosed in this annual report in relation to "Directors", 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.



Report of the Directors

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

As at December 31, 2023, 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 as otherwise 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 C3 to the Listing Rules were as follows:

Name	Capacity/ nature of interest	Number of Shares	Long/short position	Shareholding in the Company Approximate percentage
Mr. Che Hongzhi	Interest of spouse	441,859,500 (Note 1)	Long position	69.43%
Mr. Che Baozhen	Interest of controlled corporation	441,859,500 (Note 2)	Long position	69.43%
	Beneficial owner	390,533 (Note 3)	Long position	0.06%
Mr. Shi Futao	Beneficial owner	5,496,746 (Note 4)	Long position	0.86%
Ms. Cao Xueyu	Beneficial owner	699,336 (Note 5)	Long position	0.11%

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, 2023, Mr. Che Baozhen directly owned 50% equity interest in Shanghai Chengzhan Information Technology Centre ("Shanghai Chengzhan"), which in turn owned 95% equity interest in Beijing Zhongmingxin Investment Co., Ltd. ("Beijing Zhongmingxin"), which in turn controlled 39.79% 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, 2023, Mr. Che Baozhen held interests in these Shares through the share options granted under the Share Option Scheme under physically settled equity derivatives.

Report of the Directors

- (4) As at December 31, 2023, Mr. Shi Futao held interests in 5,344,746 Shares through the share options granted under the share option scheme under physically settled equity derivatives.
- (5) As at December 31, 2023, Ms. Cao Xueyu held interests in 651,836 Shares through the share options granted under the Share Option Scheme 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, 2023.

Save as disclosed above, as at December 31, 2023, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or 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 which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept 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, 2023 none of the Company or its subsidiaries was a party to any arrangement that would enable the Directors or the Company 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.

Report of the Directors

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

As at December 31, 2023, to the knowledge of the Directors, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and recorded in the register of the Company required to be maintained pursuant to section 336 of the SFO:

Name	Capacity/ nature of interest	Number of Shares	Long/short position	Shareholding in the Company Approximate percentage
Sinotruk (Hong Kong) Capital Holding Limited	Beneficial owner	61,400,000 (Note 1)	Long position	9.65%
Sinotruk (Hong Kong) International Investment Limited	Interest of controlled corporation	61,400,000 (Note 1)	Long position	9.65%
Sinotruk (Hong Kong) Limited	Interest of controlled corporation	61,400,000 (Note 1)	Long position	9.65%
Sinotruk (BVI) Limited	Interest of controlled corporation	61,400,000 (Note 1)	Long position	9.65%
China National Heavy Duty Truck Group Co., Ltd.	Interest of controlled corporation	61,400,000 (Note 1)	Long position	9.65%
Chengshan Group	Beneficial owner	441,859,500 (Note 2)	Long position	69.43%
Beijing Zhongmingxin	Interest of controlled corporation	441,859,500 (Note 2)	Long position	69.43%
Shanghai Chengzhan	Interest of controlled corporation	441,859,500 (Note 2)	Long position	69.43%
Ms. Li Xiuxiang	Interest of controlled corporation	441,859,500 (Note 2)	Long position	69.43%
Ms. Bi Wenjing	Interest of spouse	442,439,500 (Note 3)	Long position	69.52%

Report of the Directors

Notes:

- (1) As at December 31, 2023, China National Heavy Duty Truck Group Co., Ltd. owned 100% of the interests of Sinotruk (BVI) Limited, which in turn held 51% of the issued share capital of Sinotruk (Hong Kong) Limited. Sinotruk (Hong Kong) Limited held 100% of the issued share capital of Sinotruk (Hong Kong) International Investment Limited, which in turn held 100% of the issued share capital of Sinotruk (Hong Kong) Capital Holding Limited, which in turn holds 61,400,000 shares of the Company. As such, China National Heavy Duty Truck Group Co., Ltd., Sinotruk (BVI) Limited, Sinotruk (Hong Kong) Limited and Sinotruk (Hong Kong) International Investment Limited are deemed to be interested in the 61,400,000 Shares held by Sinotruk (Hong Kong) Capital Holding Limited.
- (2) As at December 31, 2023, 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 turn owned 39.79% of the equity interest in Chengshan Group. As such, Ms. Li Xiuxiang, Shanghai Chengzhan and Beijing Zhongmingxin are deemed to be interested in the interests in Chengshan Group.
- (3) Ms. Bi Wenjing is the spouse of Mr. Che Baozhen. As such, she is deemed to be interested in all the Shares in which Mr. Che Baozhen is interested.
- (4) The calculation is based on the total number of 636,440,000 Shares in issue as at December 31, 2023.

Save as disclosed above, as at December 31, 2023, 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 AND 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, 2023.

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 the laws of the Cayman Islands, there is no tax imposed on individuals or corporations with respect to profits, income, gains or appreciations and there is no tax in the nature of inheritance tax or estate duty.

*Report of the Directors***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 a 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 the Group) not to, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or corporation, 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 tire manufacturing business and tire sales business of our Company in the PRC.

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

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 39.79% 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.

The independent non-executive Directors have reviewed the implementation of the Deed of Non-Competition during the Reporting Period based on the information and confirmation provided by or obtained from the controlling shareholders of the Company, and were satisfied that the controlling shareholders have complied with the Deed of Non-Competition.

Report of the Directors

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, 2023.

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 controlling shareholders of the Company or any of their respective subsidiaries directly or indirectly had any material interest in any contract of significance to the business of the Group (including for the provision of services to the Group) to which the Company or any of its subsidiaries was a party for the year ended December 31, 2023.

DIVIDEND WAIVED OR AGREED TO BE WAIVED BY SHAREHOLDERS

For the year ended December 31, 2023, the Board confirms that no Shareholder has waived or agreed to waive any dividend.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are 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.



Report of the Directors

CONTINUING CONNECTED TRANSACTIONS

For the year ended December 31, 2023, 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, 2023 (RMB'000)	Actual transaction amount for the year ended December 31, 2023 (RMB'000)
Chengshan Group	Chengshan Group is the controlling Shareholder	Property Leasing	8,000	7,673
Rongcheng Chengshan Energy-Saving Services Co., Ltd. (" Rongcheng Chengshan Energy-Saving Services ")	Rongcheng Chengshan Energy-Saving Services is a wholly-owned subsidiary of Chengshan Group, the controlling Shareholder	Energy management	5,000	4,790
Rongcheng Chengshan Properties Co., Ltd. (" Rongcheng Chengshan Properties ")	Rongcheng Chengshan Properties is wholly owned by Chengshan Group, the controlling Shareholder	Property services	6,400	5,964

Leasing properties from Chengshan Group

On December 18, 2020, Prinx (Shandong) Tire entered into a property lease agreement with Chengshan Group in relation to the leasing of certain properties by the Group from Chengshan Group (the "**2021 Property Lease Agreement**") for a term of 34 months from March 1, 2021 to December 31, 2023, pursuant to which, 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 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.

Report of the Directors

The Group will continue to lease the properties from Chengshan Group through the transactions contemplated under the 2021 Property Lease Agreement. Therefore, 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 Property Lease Agreement for the year ended December 31, 2023, and in respect of the rent amount, the annual cap for such continuing connected transactions for the year ended December 31, 2023 was RMB8.0 million, and the actual transaction amount for the year was approximately RMB7.7 million.

As the 2021 Property Lease Agreement expired on December 31, 2023, and the Group is expected to carry on the transactions contemplated thereunder upon its expiry, Prinx (Shandong) Tire entered into the 2024 property lease agreement (the **"2024 Property Lease Agreement"**) with Chengshan Group on December 19, 2023. The scope of properties leased remains the same as the 2021 Property Lease Agreement. The term of the agreement is three years from January 1, 2024 and ending on December 31, 2026. The value of the right-of-use asset recognized under the 2024 Property Lease Agreement is approximately RMB24.9 million.

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 2024 Property Lease Agreement. The Directors consider it beneficial to renew the 2021 Property Lease Agreement so long as the relevant rental fees and other terms are no less favourable to the Group than those of comparable properties available from Independent Third Parties, in order to avoid unnecessary relocation costs and disturbance to the Group's operations.

Purchasing property services from Rongcheng Chengshan Properties

On December 18, 2020, 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 **"2021 Property Services Agreement"**) for a term of 3 years from January 1, 2021 to December 31, 2023, pursuant to which, 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 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.

Report of the Directors

The Group will continue to purchase property services from Rongcheng Chengshan Properties through the transactions contemplated under the 2021 Property Services Agreement. Rongcheng Chengshan Properties has extensive professional experience and abundant labour resources for providing comprehensive property services. Therefore, 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 Property Services Agreements for the year ended December 31, 2023, and in respect of the purchase amount, the annual cap for such continuing connected transactions for the year ended December 31, 2023 was RMB6.4 million and the actual transaction amount for the year ended December 31, 2023 was approximately RMB6.0 million.

As the 2021 Property Services Agreement will expire on December 31, 2023, and the Group is expected to carry on the transactions contemplated thereunder upon its expiry, Prinix (Shandong) Tire entered into the 2024 property services agreement (the “**2024 Property Services Agreement**”) with Rongcheng Chengshan Properties on December 19, 2023, to renew the corresponding transactions contemplated under the 2021 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, 2024 to December 31, 2026.

The proposed annual caps for the transactions contemplated under the 2024 Property Services Agreement for the years ending December 31, 2024, 2025 and 2026 are RMB6.8 million, RMB6.8 million and RMB6.8 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 anticipated increase in labor costs to be incurred for providing such services; 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 no less favourable to the Group than those of comparable services available from Independent Third Parties, in order to avoid unnecessary disturbance to the Group’s operations, the Directors consider it beneficial to renew the 2021 Property Services Agreement.

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

On December 18, 2020, Prinix (Shandong) Tire entered into an energy management framework agreement with Rongcheng Chengshan Energy-Saving Services (the “**2021 Energy Management Framework Agreement**”), for a term of 3 years from January 1, 2021 to December 31, 2023, pursuant to which, 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 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.

Report of the Directors

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.

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. Therefore, 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 ended December 31, 2023, and in respect of the purchase amount, the revised cap for such continuing connected transactions for the year ended December 31, 2023 was RMB5.0 million and the actual transaction amount for the year ended December 31, 2023 was approximately RMB4.8 million.

As the 2021 Energy Management Framework Agreement will expire on December 31, 2023, and the Group is expected to carry on the transactions contemplated thereunder upon its expiry, Prinx (Shandong) Tire entered into the 2024 energy management framework agreement ("**2024 Energy Management Framework Agreement**") with Rongcheng Chengshan Energy-Saving Services on December 19, 2023, 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, 2024 to December 31, 2026.

The proposed annual caps for the transactions contemplated under the 2024 Energy Management Framework Agreement for the years ending December 31, 2024, 2025 and 2026 are RMB11.0 million, RMB11.0 million and RMB11.0 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 2024 Energy Management Framework Agreement; (iii) the expected energy-saving renovation projects of Prinx (Shandong) Tire including the proposed benefit-sharing of the addition of energy-saving retrofit projects such as water pumping systems in 2024, motor retrofit projects, central air-conditioning retrofit projects for integrated pumping stations, and servo motor retrofit projects in 2025, and the permanent magnet motors and other retrofit projects in 2026; and (iv) following arm's length negotiations between Rongcheng Chengshan Energy-Saving Services and Prinx (Shandong) Tire, with reference to previous prices.

Report of the Directors

In the specific implementation process of energy-saving services, the parties, through on-site measurement and technical exchanges, agreed that if Rongcheng Chengshan Energy-Saving Services carried out energy-saving renovation on the energy system of Prinx (Shandong) Tire, huge energy-saving benefits would be generated to Prinx (Shandong) Tire. 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. Through the energy-saving retrofit projects such as water pumps, it is expected to achieve reduction in energy consumption of 17.3 million kWh of electricity (equivalent to 2,126 tons of standard coal) in 2024; 18.06 million kWh of electricity (equivalent to 2,219 tons of standard coal) in 2025; and 17.08 million kWh of electricity (equivalent to 2,099 tons of standard coal) in 2026, which will help the Group's energy conservation and consumption reduction. As such, the Directors consider it beneficial to renew the 2021 Energy Management Framework Agreement so long as the relevant service fee and other terms are no less favourable to the Group than those of comparable services available from Independent Third Parties.

The transaction under the 2024 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 2024 Property Lease Agreement is approximately RMB24.9 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 under Chapter 14A of the Listing Rules.

For the 2024 Property Services Agreement and the 2024 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 constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules.

For details of the renewal of the continuing connected transaction agreements due to expire in 2023, please refer to the announcement published by the Company on December 19, 2023.

For the details of the above continuing connected transactions, including specific pricing terms or procedures under each agreement and material data about pricing policies and guidance, please refer to the section headed "Continuing Connected Transactions" in the Prospectus and the announcements published by the Company on December 18, 2020 and December 19, 2023. During the Reporting Period, the Group followed these pricing policies and guidance in respect of the values and transaction terms under which continuing connected transactions were entered into.

Report of the Directors

During the Reporting Period, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been 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 under Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions and has followed the policies and guidelines as set out in the relevant connected transaction announcements and circulars when determining the price and terms of the continuing connected transactions during the Reporting Period.

The Company's auditor was 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 Practise 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 auditors have confirmed the matters set out in Rule 14A.56 of the Listing Rules.

Save as disclosed in this annual report, during the Reporting Period, the Company had no 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

During the year ended December 31, 2023, the Company had fulfilled its undertakings to the Stock Exchange in relation to conducting business with countries subject to laws and regulations relating to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, enforced and enforced by the U.S. government, the European Union and its member states, the 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.

Report of the Directors

CHARITABLE DONATIONS

During the Reporting Period, charitable and other donations of approximately RMB202,487 was made by the Group (2022: RMB242,672).

MATERIAL LEGAL PROCEEDINGS

For the year ended December 31, 2023, 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.

Report of the Directors

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 (as the lenders) entered into a facility agreement relating to US \$90 million facility with a term of four years after the date of the Agreement. The agreement has expired and been terminated.

On 15 March 2024, Prinx Thailand (as borrower) and Bank of China (Thai) Public Company Limited (as lender) entered into a facility agreement (the "**BOC Agreement**") relating to US\$30 million facility with a term of one year. On 15 March 2024, Prinx Thailand (as borrower) and The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch (as lender) entered into a facility agreement (the "**HSBC Agreement**", together with the BOC Agreement, collectively the "**Facility Agreements**") relating to US\$48 million facility with a term of one year.

Under the BOC Agreement, Prinx Thailand shall procure that:

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

Under the HSBC Agreement, Prinx Thailand shall procure that the Controlling Shareholders shall remain as the single largest shareholder of the Company.

Upon breach of the specific performance obligations, Bank of China (Thai) Public Company Limited and The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch shall have, among other things, the right to withdrawal any commitment and demand repayment of all banking facilities granted or made available as specified in the Facility Agreements.

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 loan agreements with specific performance covenants are set out in the announcements issued by the Company on March 17, 2020, July 7, 2021 and March 20, 2024.

Report of the Directors

SUBSEQUENT EVENTS

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

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 practises adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2023.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high level of corporate governance practises. Information on the corporate governance practises adopted by the Company is set out in the Corporate Governance Report on pages 94 to 116 of this annual report.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was 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, 2023. 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 the re-appointment of PricewaterhouseCoopers as auditor will be proposed at the AGM.

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

Shandong, March 28, 2024

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2023.

CORPORATE GOVERNANCE PRACTISES

The Group is committed to maintaining a high level 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 C1 to the Listing Rules as its own code of corporate governance. The Company has been in compliance with the applicable code provisions under Part II of the CG Code for the year ended December 31, 2023. The Company will continue to review and monitor its corporate governance practises in order to ensure the compliance with the CG Code. For the Company’s corporate culture, please refer to the section named “Organizational management upgrade and corporate culture construction” in the Management Discussion and Analysis in this annual report.

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 duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the 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.

Corporate Governance Report

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
Jiang Xizhou

Non-executive Directors:

Che Hongzhi (*Chairman*)
Shao Quanfeng
Wang Ning

Independent Non-executive Directors:

Jin Qingjun
Choi Tze Kit Sammy
Wang Chuansheng

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

For the year ended December 31, 2023, the Board had 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.

Corporate Governance Report

As regards the code provision under the CG 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 had received relevant training on corporate governance and regulatory issues, and provided their training records. In view of the above, the Company considers that all Directors have complied with the code provision C.1.4 of the CG Code.

A summary of the continuous professional development activities relating to the business of the Group participated by the Directors during the year ended December 31, 2023 is as follows:

Name of Director	Training form	Training Content
Executive Directors		
Che Baozhen	Meetings/seminars/training sessions	Laws and Regulations/Corporate Governance/Industry-related/Capital Market
Shi Futao	Meetings/seminars/training sessions	Laws and Regulations/Corporate Governance/Industry-related/Capital Market
Cao Xueyu (resigned on March 28, 2024)	Meetings/seminars/training sessions	Laws and Regulations/Corporate Governance/Accounting

Corporate Governance Report

Name of Director	Training form	Training Content
Non-executive Directors		
Che Hongzhi	Meetings/seminars/training sessions	Industry-related/Laws and Regulations/Corporate Governance
Wang Lei (resigned on March 28, 2024)	Meetings/seminars/training sessions	Industry-related/Laws and Regulations/Corporate Governance
Shao Quanfeng	Meetings/seminars/training sessions	Industry-related/Laws and Regulations/Corporate Governance
Independent Non-executive Directors		
Zhang Xuehuo (resigned on September 9, 2023)	Meetings/seminars/training sessions	Industry-related/Laws and Regulations/Capital Market
Jin Qingjun (appointed on September 9, 2023)	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 CG 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.

Corporate Governance Report

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a specific term of three years, subject to termination as provided in the service contract, which shall be automatically renewed upon expiry.

Each of the non-executive Directors of the Company has entered into a letter of appointment with the Company for a term of three years, subject to termination as provided in the service contract, which shall automatically renewed upon expiry.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year, subject to termination as provided in the service contract, which shall be automatically renewed upon expiry.

Mr. Jin Qing Jun, who was appointed as an independent non-executive Director on September 9, 2023, has obtained a legal opinion under Rule 3.09D of the Listing Rules on August 19, 2023 and has confirmed that he understood his responsibilities as a Director of the Company.

Mr. Jiang Xizhou and Ms. Wang Ning, who were appointed as an executive Director and an non-executive Director, respectively on March 28, 2024, have obtained a legal opinion under Rule 3.09D of the Listing Rules on March 25, 2024 and has confirmed that they understood their responsibilities as a Director of the Company.

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 Articles 108 and 112 of the Articles of Association. Directors appointed by the Board as an addition to the Board or to fill a casual vacancy on the Board are subject to re-election by Shareholders at the first annual general meeting of the Company respectively after 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.

Corporate Governance Report

BOARD MEETINGS

The Company adopts the practise 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 should be kept by the Company Secretary with copies circulated to all Directors for their 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. Minutes of 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 C3 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Specific enquiries have been made to all the Directors and each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the year ended December 31, 2023.

The Company’s employees, who are likely to be in possession of inside information of the Company, are also 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, 2023.

Corporate Governance Report

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 practises 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 practises, 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.

Corporate Governance Report

BOARD COMMITTEES

AUDIT COMMITTEE

The Audit Committee consists of three members, namely Mr. Choi Tze Kit Sammy (Chairman), Mr. Wang Chuansheng and Mr. Jin Qingjun, 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 practises 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 2023 was as follows:

- reviewed the report on 2023 audit plan;
- reviewed the 2022 annual financial report;
- reviewed the 2023 interim results report;
- discussed tax compliance matters;
- reviewed the Company's internal control over connected transactions and continuing connected transactions;
- discussed and review the renewal of the Company's connected transactions and continuing connected transactions agreements expiring in 2023;
- discussed and reviewed the Company's 2023 internal audit reports and 2024 internal audit plan;
- discussed and approved the pre-approval policy and service list for non-assurance services provided by independent auditors; 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, 2023.

Corporate Governance Report

Nomination and Remuneration Committee

The Nomination and Remuneration Committee currently comprises three members, including two independent non-executive Directors, namely Mr. Jin Qingjun (Chairman) and Mr. Choi Tze Kit Sammy, and an executive Director, 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 reappointment 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 practise;

Corporate Governance Report

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;
13. assess the independence of independent non-executive Directors; and
14. review and/or approve matters relating to the share scheme as described in Chapter 17 of the Listing Rules.

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 2023 was as follows:

- reviewed the structure, size and composition of the Board;
- reviewed the board diversity policy;
- reviewed the remuneration of the Directors and senior management for 2022 and made recommendations to the Board on adjustments;
- assessed the performance of executive Directors;
- reviewed the remuneration policy and structure of Directors and senior management of the Company in 2023;
- discussed and reviewed the remuneration of independent non-executive Directors and confirmed the terms of appointment contracts of independent non-executive Directors;

Corporate Governance Report

- discussing and reviewing the appointment and remuneration of senior management;
- discussing and reviewing the organisational structure;
- discussed and reviewed the third grant under the 2021 Share Option Scheme of the Company;
- considered the re-election of the retiring Directors at the 2023 AGM; and
- reviewed whether there are independent non-executive directors who are or will be directors of seven or more companies.

The Nomination and Remuneration Committee noted that Mr. Jin holds directorships in more than seven listed companies (including the Company). The Nomination and Remuneration Committee is of the view that Mr. Jin has been and will continue to be able to devote sufficient time to the Board following his appointment on the following basis: (i) Mr. Jin had a high attendance rate in Board meetings and Board committee meetings of the Company following his appointment; (ii) notwithstanding that Mr. Jin holds directorships in eight listed companies (including the Company), the directorships of seven listed companies are non-executive in nature; and (iii) Mr. Jin is committed to devote sufficient time to the affairs of the Company. Having considered the above factors, the Nomination and Remuneration Committee is of the view that Mr. Jin will be able to devote sufficient time to discharge his duties as an independent non-executive Director notwithstanding that he holds directorships in more than seven listed 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 programmes, 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 organisational designing, leadership training, cultural construction, remunerations and incentive schemes.

Mechanisms to ensure that the Board can obtain independent views and opinions

To ensure that the Board has access to the independent advice and recommendations of the independent non-executive Directors, the Nomination and Remuneration Committee and the Board are committed to assessing the independence of the Directors annually against all relevant factors relating to the independent non-executive Directors, including the following:

- the character, integrity, professional knowledge, experience and stability required to perform his duties;
- the contribution of time and attention to the Company's affairs;

Corporate Governance Report

- the strong commitment to his independent role and to the Board;
- the statement to his conflict of interest as an independent non-executive Director;
- not involving in the daily management of the Company nor in any relationships or circumstances which would interfere with the exercise of his independent judgment; and
- regular meetings with the independent non-executive Directors without the presence of executive Directors.

During the Reporting Period, the Company has reviewed the implementation and effectiveness of these mechanisms and considered them effective and adequate.

DIRECTORS' REMUNERATION

The Company has made full disclosure of the Directors' remuneration by name, amount and category in note 39 to the consolidated financial statements. No Director has waived or agreed to waive any remuneration for the year ended December 31, 2023.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the senior management of the Company, whose biographies are set out in the note on page 53, and on pages 57 to 59 of this annual report, for the year ended December 31, 2023 is set out below:

Emolument bands	Number of Senior Management
HK\$1,000,000 to HK\$2,000,000 (approximately RMB906,200 – RMB1,812,400)	1
HK\$2,000,001 to HK\$3,000,000 (approximately RMB1,812,400 – RMB2,718,600)	3
HK\$4,000,001 to HK\$5,000,000 (approximately RMB3,624,800 – RMB4,531,000)	1
HK\$7,000,001 to HK\$8,000,000 (approximately RMB6,343,400 – RMB7,249,600)	1

Note: Mr. Jiang Xizhou served as a senior management member of the Company during the Reporting Period and was appointed as a Director on March 28, 2024.

Corporate Governance Report

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 summarised as follows:

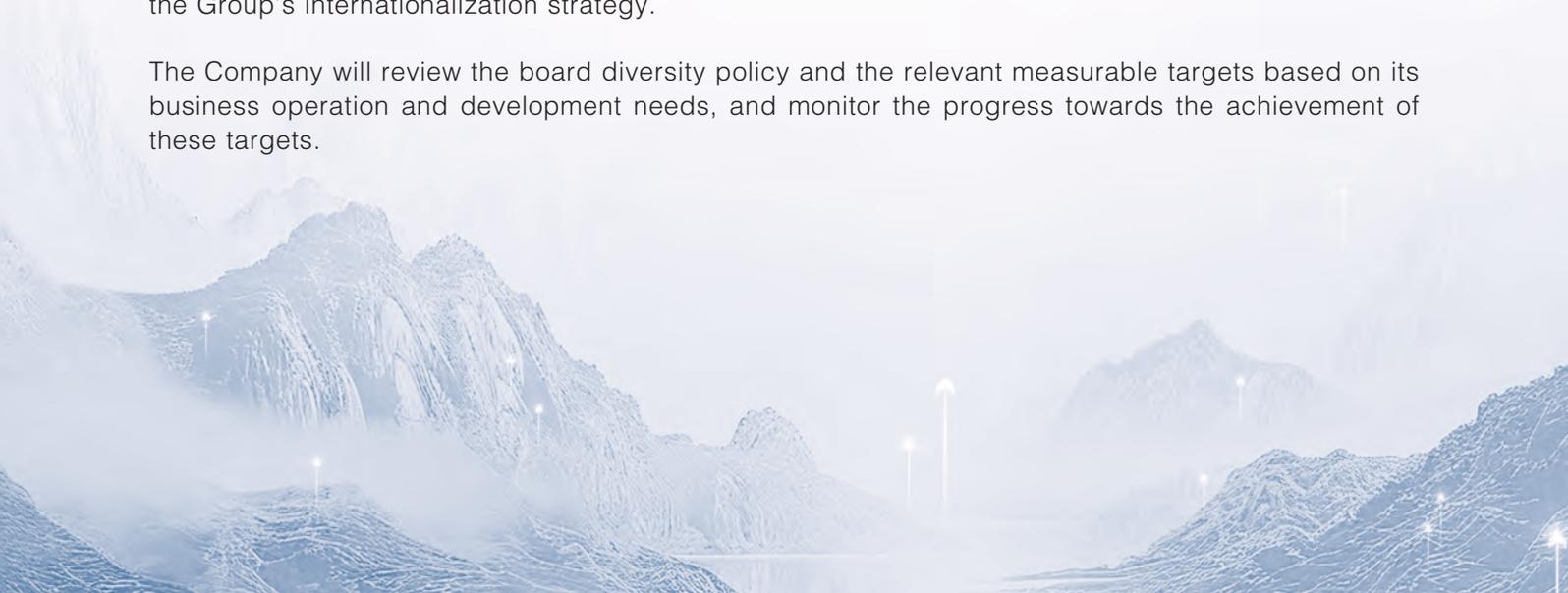
The selection of candidates will be based on a series of diversity scopes, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be made according to the merits of candidates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

During the Reporting Period, the Board, through the Nomination and Remuneration Committee, has reviewed the implementation and effectiveness of the board diversity policy and confirmed that the Board has the appropriate mix of skills and experience required for implementing the Company's policy.

As at the date of this annual report, the Board comprises nine Directors, including one female Director. The Company considers that the Board has achieved gender diversity. The Company will continue to maintain at least one female director in the Board and is committed to improving gender diversity in the search for suitable candidates. There are three independent non-executive Directors in the Board, 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.

In view of the expansion of the Group's domestic and overseas markets and operation scale, the Company intends to reference international and local best practices to ensure a proper balance and diversity among the members of the Board, with a view to achieving an appropriate proportion of members in the Board composition who possess capabilities and experience in international operations, risk management and sustainable development, thereby facilitating the implementation of the Group's internationalization strategy.

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.



Corporate Governance Report

As at December 31, 2023, the ratio of female and male in the workforce (excluding all Directors) was approximately 20% and 80%, respectively. Considering that the Group is mainly engaged in the research and development, production and sales business of tire products, the employees mainly consist of research and development personnel, technical personnel and general workers, most of them are generally male, as a result, the Company considered that the current ratio of male and female employees is relatively balanced. The Group will continue to take into account of diversity, including gender diversity when hiring.

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. Jin Qingjun, 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. understand, 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 overall objectives and basic policies of compliance management and risk management, including ESG aspects;
9. stipulate the strategic structure and resources used for the Company's risk management, including material ESG risks, and ensure that they are compatible with the Company's internal risk management policies;

Corporate Governance Report

10. review and make recommendations on the establishment of the compliance management and risk management institutions and the powers and duties thereof, including ESG aspects; oversee the risk management and internal control systems of the Company on an ongoing basis, including focusing on material ESG risks, and ensure that a review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries is 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. setting limits for material risks and conducting regular assessments of material ESG risks;
14. supervise, review and make recommendations to the Board on relevant risk management policies, including material ESG risks;
15. evaluate and determine the Company's ESG-related risks and opportunities;

Corporate Governance Report

16. ensure appropriate and effective ESG risk management and internal control systems are in place;
17. formulate the Company's ESG management policies, strategies, 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 2023 was as follows:

- studied the development strategies of the Company, discussed and reviewed medium and long-term strategic plans;
- continuously supervised the Company's risk management and internal control systems, and provided advice on the Company's compliance management;
- made recommendations on the Company's ESG policies, discussed, reviewed and monitored the progress of ESG on a regular basis;
- discussed and reviewed the annual ESG report of the Company;
- discussed and reviewed the 2022 and 2023 annual work report on anti-fraud;
- discussed and reviewed the proposal on the production ramp-up projects of Shandong Company and the Thai company;
- discussed and reviewed the revised version of the "Anti-Fraud Management Regulations" and "Whistleblowing Policy Management Regulations".

Corporate Governance Report

DIRECTORS' ATTENDANCE RECORDS

For the year ended December 31, 2023, the Company held 4 Board meetings, 4 Audit Committee meetings, 3 Nomination and Remuneration Committee meetings, 4 Development Strategy and Risk Management Committee meetings and one annual general meeting.

The attendance record of each Director at the Board meetings and Board Committee meetings and the general meetings of the Company held during the year ended December 31, 2023 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		3/3		1/1
Ms. Cao Xueyu (resigned on March 28, 2024)	4/4				1/1
Mr. Shi Futao	4/4				1/1
Mr. Che Hongzhi	4/4			4/4	1/1
Mr. Wang Lei (resigned on March 28, 2024)	4/4				1/1
Mr. Shao Quanfeng	4/4				1/1
Mr. Zhang Xuehuo (resigned on September 9, 2023)	3/4	3/4	3/3	3/4	1/1
Mr. Jin Qingjun (appointed on September 9, 2023)	1/1	1/1	N/A	1/1	0/0
Mr. Choi Tze Kit Sammy	4/4	4/4	3/3		1/1
Mr. Wang Chuansheng	4/4	4/4		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.

Corporate Governance Report

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, 2023 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 117 to 121 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 authorised 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 programmes designed to provide reasonable assurance for achieving objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

Corporate Governance Report

In order to effectively reduce unnecessary financial risks and operational risks and ensure the achievement of business objectives, the Group has established a relatively independent internal audit department, headed by an audit manager to establish and improve the internal control system. The Group relies on the review function of an independent consultant, and has engaged an international consulting company (the “**Consulting Company**”) since June 2019 to provide corporate governance internal control consulting services for three years. Upon expiring in June 2022, the agreement has been renewed for a term of three years. On the one hand, it evaluates the internal control and risk management of the Group from a more objective and independent perspective to comprehensively improve the level of internal control and management; on the other hand, the internal audit department of the Company will be able to participate in the entire evaluation activities of the internal control of the Group by the Consulting Company and learn beneficial experience continuously, which will in turn enhance the professional capabilities of the internal 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 conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the “Guidelines on Disclosure of Inside Information” published by the Securities and Futures Commission of Hong Kong in June 2012.

The Company has established a system, including management rules, processes and procedures for external information dissemination, to comply with the disclosure obligations in relation to price-sensitive and/or inside information. The major steps involved are as follows:

- The Board and the Company Secretary identify the existence of inside information in a systematic and timely manner through periodic financial and operational reports;
- Monitor business and corporate development and events through core managers so as to identify information that may form inside information in a timely manner;
- Extensive disclosure of information to the public through channels such as financial reports, announcements and the Company’s website;
- Ensure confidentiality of inside information before disclosure to the public; and
- Designated persons (including Directors, Company Secretary and board office manager) to communicate with shareholders, investors and analysts on the premise of compliance with the relevant disclosure obligations and requirements under the Listing Rules.

The system remains effective. The Company will also continue its efforts to further enhance its role in business operations, corporate development and compliance with laws and regulations.

Corporate Governance Report

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. The Board and the management have conducted the annual review on the effectiveness of the Group's risk management and internal control systems for the year ended December 31, 2023, did not identify any significant areas of concern, and confirmed that they are adequate and effective to effectively mitigate the risks that may affect the Group in achieving its strategic objectives.

AUDITORS' 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, 2023 is approximately as follows:

Service Category	Amount (RMB)
Audit services	4,148,894
Non-audit services (tax consulting, etc.)	591,400
Total	4,740,294

COMPANY SECRETARY

For the year ended December 31, 2023, Ms. Cao Xueyu, the company secretary of the Company, has 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 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.

On October 9, 2018, the Board adopted the Shareholders' Communication Policy (the "**Shareholders Communication Policy**"). The Board has reviewed the Shareholders Communication Policy for the year ended December 31, 2023 to ensure its implementation and effectiveness. After the implementation of the following measures, the Company considers that it has effectively implemented the Shareholders Communication Policy during the Reporting Period.

Corporate Governance Report

Goal

The objective of the Shareholders Communication Policy is to ensure communication between shareholders of the Company, both individual and institutional, and potential investors, and to enhance shareholders' value in the long run. The policy sets out the approach to ensure that the shareholders and potential investors, including analysts who report and analyze the Company's performance, are provided with ready and timely access to information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to enhance communication with the Company.

General Policies

The Board maintains an on-going dialog with the Shareholders and potential investors. The Board will review the Shareholders Communication Policy on a regular basis to ensure its effectiveness.

Information shall be communicated to the Shareholders and potential investors mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.prixchengshan.com).

The Company always ensures effective and timely dissemination of information to shareholders and potential investors.

Communication Channels

Shareholders' Enquiries

The contact details of the Company are set out on the Company's website for the Shareholders to make any enquiries in relation to the Company.

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar and transfer office.

Corporate Communications

Any corporate communication (as defined in the Listing Rules) issued or to be issued by the Company to the Shareholders for their information or action, including but not limited to (i) the Directors' Report, annual accounts and the auditors' report; (ii) the annual report and interim report; (iii) a notice of meeting; (iv) a listing document; (v) a circular; and (vi) a proxy form, should be sent to the Shareholders in a timely manner and in both plain English and Chinese versions to enable the Shareholders to understand the contents of the communication. Shareholders may choose the means (either in printed form or electronic form) and language (either English or Chinese or both) to receive corporate communications. Shareholders may at any time change their choice by post or by email.

In order to facilitate timely and effective communication, Shareholders are encouraged to provide, among other things, their contact details, in particular, by email address, to the Hong Kong branch share registrar of the Company.

Corporate Governance Report

Company Website

Corporate communication on the Company's website (www.prixchengshan.com) provides shareholders with corporate information such as principal business activities and the latest development of the Company as well as information on the Group's corporate governance and the composition and functions of the Board and the Board committees. The Company will publish its results announcement on the Stock Exchange's website and the Company's website after the results have been approved by the Board. The results announcement contains details of the Group's performance and results, recommendation of dividend payment (if any) and closure of register of members (if applicable) and any other information required to be disclosed under the Listing Rules from time to time.

Information published by the Company on the Stock Exchange's website will also be posted on the Company's website immediately thereafter.

Press releases and communications issued by the Company from time to time are also available on the Company's website. Information published on the Company's website is updated regularly.

General Meeting

The general meetings provide a good opportunity for constructive communication between the Company and the Shareholders. Shareholders are encouraged to attend the general meetings in person or, if they are unable to attend, to appoint proxies to attend and vote at the meetings on their behalf. 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.

Shareholders' Privacy

The Company recognizes the importance of Shareholders' privacy and will not disclose Shareholders' information without their consent, unless required by the Stock Exchange, the Securities and Futures Commission or applicable laws and regulations.

Communication with the Capital Market

Investor and analyst briefings are held on or after the date of the annual results announcement and interim results announcement. Relevant senior executives attended the meetings to answer questions from the attendees in order to facilitate communication between the Company, the Shareholders and the investment community. The Company also holds various activities on an as-needed basis, including reception of on-site visits by investors and analysts, face-to-face meetings and open day for media and investors.

The Company aims at promoting investor relations and enhancing communication with the existing Shareholders and potential investors. The Company welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

Corporate Governance Report

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 poll results will be posted on the websites of the Company and of 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 member(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 Company's website.

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.

CHANGES IN CONSTITUTIONAL DOCUMENTS

During the Reporting Period, no amendments were made to the memorandum and articles of association of the Company. The Company intends to make amendments to the existing Memorandum and Articles of Association and relevant announcements and circulars will be issued in due course.

Independent Auditor's Report

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 122 to 212, comprise:

- the consolidated statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information 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 2023, 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.

Independent Auditor's Report

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>The provision for impairment of trade receivables</p> <p>Refer to note 40.14, note 4(c), note 9 and note 22 to the consolidated financial statements.</p> <p>As at 31 December 2023, the net carrying amount of the Group's trade receivables amounted to RMB1,704.5 million, after netting of the accumulated provision for impairment of RMB21.9 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"> • 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. • 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. • We tested the accuracy of the aging analyses of trade receivables on a sample basis. • 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. • We tested the mathematical accuracy of the calculation of the provision for impairment of trade receivables.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>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>	<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.

Independent Auditor's Report

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 HKSA's 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 HKSA's, 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.

Independent Auditor's Report

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 Mang, Kwong Fung Frederick.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2024



Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Revenue	6	9,948,983	8,151,952
Cost of sales	9	(7,827,275)	(6,982,162)
Gross profit		2,121,708	1,169,790
Selling and distribution expenses	9	(526,161)	(497,489)
Administrative expenses	9	(213,836)	(184,636)
Research and development costs	9	(239,953)	(229,196)
Net impairment losses on financial assets	3.1(b), 9	(1,385)	(3,815)
Other income	7	48,642	34,951
Other gains — net	8	13,541	136,708
Operating profit		1,202,556	426,313
Finance income	11	20,609	8,629
Finance costs	11	(93,108)	(80,128)
Finance costs — net	11	(72,499)	(71,499)
Share of result of associates		488	(75)
Profit before income tax		1,130,545	354,739
Income tax expense	12(a)	(97,105)	39,083
Profit for the year		1,033,440	393,822
Profit attributable to:			
— Shareholders of the Company		1,033,391	393,783
— Non-controlling interests		49	39
		1,033,440	393,822
Earnings per share for profit attributable to shareholders of the Company for the year			
— Basic (RMB)	13	1.62	0.62
— Diluted (RMB)	13	1.62	0.62

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Profit for the year		1,033,440	393,822
Other comprehensive income:			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Currency translation differences		32,536	143,251
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Currency translation differences		20,762	92,801
Other comprehensive income for the year, net of tax		53,298	236,052
Total comprehensive income for the year		1,086,738	629,874
Attributable to:			
— Shareholders of the Company		1,086,689	629,835
— Non-controlling interests		49	39
Total comprehensive income for the year		1,086,738	629,874

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

Consolidated Statement of Financial Position

As At 31 December 2023

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	5,263,535	5,270,833
Right-of-use assets	17	116,790	107,766
Intangible assets	18	84,874	85,741
Investment in associates		6,240	5,933
Prepayments	23	7,022	8,855
Deferred tax assets	33	3,664	19,508
		5,482,125	5,498,636
Current assets			
Inventories	20	1,637,462	1,277,371
Trade and notes receivables	22	1,860,369	1,312,473
Prepayments, other receivables and other current assets	23	474,083	337,141
Financial assets at fair value through profit or loss	21	178,360	261,065
Amounts due from related parties	36(b)	244,085	126,374
Restricted cash	24	178,044	190,646
Cash and cash equivalents	24	547,920	982,037
		5,120,323	4,487,107
Total assets		10,602,448	9,985,743
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	25	201	201
Share premium	25	2,185,598	2,185,598
Reserves	27	3,248,056	2,266,231
		5,433,855	4,452,030
Non-controlling interests		(112)	(161)
Total equity		5,433,743	4,451,869

Consolidated Statement of Financial Position

As At 31 December 2023

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
Liabilities			
Non-current liabilities			
Bank borrowings	28	332,413	1,440,375
Lease liabilities	17	18,674	5,988
Deferred income	32	84,116	76,047
Deferred tax liabilities	33	46,121	14,932
		481,324	1,537,342
Current liabilities			
Trade payables	29	2,391,670	2,000,310
Other payables and accruals	30	1,218,522	1,071,303
Contract liabilities	5	48,013	48,720
Lease liabilities	17	12,163	12,400
Provision for warranties	31	80,481	75,919
Amounts due to related parties	36(b)	925	2,093
Current income tax liabilities		56,682	22,885
Bank borrowings	28	878,925	762,902
		4,687,381	3,996,532
Total liabilities		5,168,705	5,533,874
Total equity and liabilities		10,602,448	9,985,743

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

The consolidated financial statements on pages 122 to 212 were approved by the Board of Directors on 28 March 2024 and were signed on its behalf.

Che Baozhen
Director

Shi Futao
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Note	Equity attributable to shareholders of the Company			Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000 (Note 25)	Share premium RMB'000 (Note 25)	Reserves RMB'000 (Note 27)			
Balance at 1 January 2022		201	2,185,598	1,734,533	3,920,332	(200)	3,920,132
Comprehensive income							
Profit for the year		—	—	393,783	393,783	39	393,822
Other comprehensive income							
Currency translation difference		—	—	236,052	236,052	—	236,052
Total other comprehensive income, net of tax		—	—	236,052	236,052	—	236,052
Total comprehensive income		—	—	629,835	629,835	39	629,874
Transactions with shareholders							
Employee share option schemes — value of employee services	26, 27	—	—	10,681	10,681	—	10,681
Cash dividends	14	—	—	(108,818)	(108,818)	—	(108,818)
Total transactions with shareholders		—	—	(98,137)	(98,137)	—	(98,137)
Balance at 31 December 2022		201	2,185,598	2,266,231	4,452,030	(161)	4,451,869

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Note	Equity attributable to shareholders of the Company			Non- controlling interests RMB'000	Total equity RMB'000	
		Share capital RMB'000 (Note 25)	Share premium RMB'000 (Note 25)	Reserves RMB'000 (Note 27)			Total RMB'000
Balance at 1 January 2023		201	2,185,598	2,266,231	4,452,030	(161)	4,451,869
Comprehensive income							
Profit for the year		—	—	1,033,391	1,033,391	49	1,033,440
Other comprehensive income							
Currency translation difference		—	—	53,298	53,298	—	53,298
Total other comprehensive income, net of tax		—	—	53,298	53,298	—	53,298
Total comprehensive income		—	—	1,086,689	1,086,689	49	1,086,738
Transactions with shareholders							
Employee share option schemes — value of employee services	26, 27	—	—	9,326	9,326	—	9,326
Cash dividends	14	—	—	(114,190)	(114,190)	—	(114,190)
Total transactions with shareholders		—	—	(104,864)	(104,864)	—	(104,864)
Balance at 31 December 2023		201	2,185,598	3,248,056	5,433,855	(112)	5,433,743

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from operations	34(a)	1,116,015	888,024
Interest paid		(104,383)	(73,331)
Income tax paid		(14,827)	(9,272)
Net cash generated from operating activities		996,805	805,421
Cash flows from investing activities			
Purchases of property, plant and equipment		(431,521)	(578,291)
Proceeds from government grants		17,708	22,956
Proceeds from disposal of property, plant and equipment	34(b)	11,500	392
Dividend from an associate		181	—
Purchase of intangible assets	18	(6,704)	(19,013)
Purchase of financial assets at fair value through profit or loss	21	(2,850,049)	(2,213,242)
Proceeds from disposal of financial assets at fair value through profit or loss	21	2,931,965	2,096,895
Interest received		20,609	8,629
Net cash used in investing activities		(306,311)	(681,674)

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Cash flows from financing activities			
Proceeds from borrowings	34(b)	179,300	712,934
Repayments of borrowings	34(b)	(1,187,451)	(504,353)
Payment of lease liabilities	34(b)	(12,777)	(12,599)
Cash dividends paid		(111,510)	(106,102)
Net cash generated from financing activities		(1,132,438)	89,880
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of year	24	982,037	728,813
Exchange gains on cash and cash equivalents		7,827	39,597
Cash and cash equivalents at the end of year	24	547,920	982,037

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

1 General information, reorganisation and basis presentation

1.1 General information

Prinx Chengshan Holdings 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, 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. Chengshan Group is ultimately held as to 69.15% 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 28 March 2024.

2 Basis of preparation and changes in accounting policy and disclosures

Accounting policies applied in the preparation of these consolidated financial statements have been consistently applied, unless otherwise stated. Other than those material accounting policies which are disclosed in the notes to the relevant financial line items or transactions in these consolidated financial statements, other accounting policies have been set out in the summary in Note 40.

2.1 Basis of preparation

(i) **Compliance with HKFRS and the disclosure requirements of HKCO**

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

(ii) **Historical cost convention**

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment, and investment property — measured at fair value or revalued amount
- assets held for sale — measured at the lower of carrying amount and fair value less costs to sell, and
- defined benefit pension plans — plan assets measured at fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2 Basis of preparation and changes in accounting policy and disclosures (Continued)

2.1 Basis of preparation (Continued)

(iii) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The adoption of these new standards and amendments did not have material impact on the Group's financial position or operating result and did not require retrospective adjustment.

HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 12 (Amendments)	International Tax Reform — Pillar Two Model Rules	1 January 2023

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 and amended standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 31 December 2023 and have not been early adopted by the Group. 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.

Standards	Key requirements	Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as current or non-current	1 January 2024
HKAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
HKAS 7 and HKFRS 7 (Amendments)	Supplier finance arrangements	1 January 2024
HK Int 5 (Revised)	Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2 Basis of preparation and changes in accounting policy and disclosures (Continued)

2.2 Changes in accounting policy

Change in accounting policy on offsetting arrangement in long service payment scheme in Hong Kong

In June 2022, the Hong Kong Government enacted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”) which will be effective from 1 May 2025 (the “Transition Date”). Under the Amendment Ordinance, any accrued benefits attributable to the employer’s mandatory contributions under mandatory provident fund scheme (“MPF Benefits”) of an entity would no longer be eligible to offset against its obligations on long service payment (“LSP”) for the portion of the LSP accrued on or after the Transition Date. There is also a change in the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

Prior to 1 January 2023, the Group applied practical expedient in HKAS 19 paragraph 93(b) (the “practical expedient”) to account for the offsetable MPF Benefits as deemed employee contributions to reduce the current service costs in the period in which the related services were rendered.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” (the “Guidance”) which provides clarified and detailed guidance on the accounting considerations relating to the abolition of the offsetting mechanism. The Guidance clarified that following the enactment of the Amendment Ordinance, LSP is no longer a ‘simple type of contributory plans’ to which the practical expedient had been intended to apply.

By following the Guidance, the Group has therefore changed its accounting policy and ceased to apply the practical expedient and reattribute the deemed employee contributions on a straight-line basis from the date when services by employees first lead to their benefits in terms of the LSP legislation in accordance with HKAS 19 paragraph 93(a). The cumulative effect of recognising these adjustments as of 31 December 2022 or for the year ended was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

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 market and seeks to minimise potential adverse effects on the Group's financial performance.

The group's risk management is predominantly controlled by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units.

(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 subsidiaries in RMB functional currency of the Group 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 subsidiaries in USD functional currency of the Group 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 2022 and 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange (Continued)

Exposure

The aggregate net foreign exchange gains recognised in profit or loss were:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Net foreign exchange gains included in other income and losses — net (Note 8)	13,324	97,254
Exchange gains/(losses) in finance income and costs — net (Note 11)	794	(11,110)
Total net foreign exchange gains recognised in profit before income tax for the period	14,118	86,144

The Group's major exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

Assets and liabilities denominated in foreign currencies held by the Company and its subsidiaries in RMB functional currency, expressed in RMB.

	As at 31 December 2023	
	USD RMB'000	EUR RMB'000
Cash and cash equivalents	83,970	124
Trade receivables	533,994	28,036
Other receivables	103,619	—
Trade payables	114,317	—
Borrowings	45,329	—

	As at 31 December 2022	
	USD RMB'000	EUR RMB'000
Cash and cash equivalents	318,968	63,028
Trade receivables	322,528	58,597
Other receivables	150,327	—
Trade payables	129,937	—
Borrowings	105,165	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3 Financial risk management (Continued)**3.1 Financial risk factors** (Continued)**(a) Market risk** (Continued)*(i) Foreign exchange* (Continued)

Assets and liabilities denominated in foreign currencies held by the Company and its subsidiaries in USD functional currency, expressed in RMB.

	As at 31 December 2023			
	RMB RMB'000	HKD RMB'000	EUR RMB'000	THB RMB'000
Cash and cash equivalents	24,392	7,345	10,548	8,602
Trade receivables	1,953	—	58,698	5,906
Trade payables	86,960	—	269	148,679
Other payables	184,559	—	—	48,565

	As at 31 December 2022			
	RMB RMB'000	HKD RMB'000	EUR RMB'000	THB RMB'000
Cash and cash equivalents	4,893	8,953	4,453	7,388
Trade receivables	—	—	19,654	3,725
Trade payables	57,292	—	—	100,854
Other payables	207,736	—	—	34,354

The Group is primarily exposed to changes in USD/RMB exchange rates.

As at 31 December 2022 and 2023, if USD and EUR 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 and EUR denominated cash and cash equivalents, trade receivables, other receivables, trade payables and borrowings in RMB functional currency subsidiaries. Details of the changes are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Year ended:		
Post-tax profit (decrease)/increase		
— Weakened 5% against RMB	(25,079)	(28,830)
— Strengthened 5% against RMB	25,079	28,830

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange (Continued)

As at 31 December 2022 and 2023, if RMB and THB had weakened/strengthened by 5% against USD, 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 RMB and THB denominated cash and cash equivalents, trade receivables, trade payables and other payables in USD functional currency subsidiaries. Details of the changes are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Year ended:		
Post-tax profit (decrease)/increase		
— Weakened 5% against USD	21,396	19,212
— Strengthened 5% against USD	(21,396)	(19,212)

As at 31 December 2022 and 2023, 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	
	2023 RMB'000	2022 RMB'000
Year ended:		
Other comprehensive income (decrease)/increase		
— Weakened 5% against RMB	(172,887)	(150,328)
— Strengthened 5% against RMB	172,887	150,328

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. Details of the Group's borrowings have been disclosed in Note 28. The Group entered interest rate swap contract to reduce interest rate risk (disclosed in Note 21).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

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

As at 31 December 2023 and 2022, if interest rates on borrowings at variable rates had been 5% higher/lower with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of higher/lower interest expense on floating rate borrowings. Details of the changes are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Year ended:		
Post-tax profit (decrease)/increase		
— 5 basis points higher	454	1,822
— 5 basis points lower	(454)	(1,822)

(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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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) Cash and cash equivalents and restricted cash

As at 31 December 2023, the Group has assessed that the expected credit loss rates for 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 2023, 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 2023

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 3.1(b) 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 2023 or 31 December 2022 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 2023 and 2022, the loss allowance for trade receivables was determined as follows.

	Up to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
31 December 2023					
Expected loss rate	0.8%	36.1%	54.2%	100.0%	—
Gross carrying amount (RMB'000)	1,693,924	2,805	1,839	5,891	1,704,459
Loss allowance (RMB'000)	(13,993)	(1,013)	(997)	(5,891)	(21,894)
	Up to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
31 December 2022					
Expected loss rate	1.1%	26.4%	48.7%	100.0%	—
Gross carrying amount (RMB'000)	1,199,621	9,065	3,132	3,968	1,215,786
Loss allowance (RMB'000)	(12,961)	(2,393)	(1,525)	(3,968)	(20,847)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2023					
Bank borrowings	878,925	51,616	280,797	—	1,211,338
Interest payables for bank borrowings	22,074	12,300	15,816	—	50,190
Amount due to related parties	925	—	—	—	925
Trade payables	2,391,670	—	—	—	2,391,670
Other payables	1,000,839	—	—	—	1,000,839
Lease liabilities	13,005	10,587	8,717	—	32,309
	4,307,438	74,503	305,330	—	4,687,271
At 31 December 2022					
Bank borrowings	762,902	1,104,944	297,502	37,929	2,203,277
Interest payables for bank borrowings	74,703	29,844	29,185	520	134,252
Amount due to related parties	2,093	—	—	—	2,093
Trade payables	2,000,310	—	—	—	2,000,310
Other payables	874,943	—	—	—	874,943
Lease liabilities	12,776	4,258	1,879	—	18,913
	3,727,727	1,139,046	328,566	38,449	5,233,788

The interest on borrowings is calculated based on borrowings held as at 31 December 2023 and 2022 without taking account of future issues. Floating-rate interest is estimated using interest rate prevailing as at 31 December 2023 and 2022 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

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 2023 and 2022 were as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Bank borrowings (Note 28)	1,211,338	2,203,277
Total Lease liabilities (Note 17)	30,837	18,388
Less: Cash and cash equivalents (Note 24)	(547,920)	(982,037)
Restricted cash (Note 24)	(178,044)	(190,646)
Net debt	516,211	1,048,982
Total equity	5,433,743	4,451,869
Total capital	5,949,954	5,500,851
Gearing ratio	8.7%	19.1%

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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2023 and 2022.

	Level 1	Level 2	Level 3	Total
As at 31 December 2023				
Assets				
Financial assets at fair value through profit or loss				
— Wealth management products (a)	—	—	150,982	150,982
— Listed equity securities	12,689	—	—	12,689
— Interest rate swap	—	14,689	—	14,689
Financial assets at fair value through other comprehensive income				
— Notes receivable (a)	—	—	177,804	177,804
	12,689	14,689	328,786	356,164
	Level 1	Level 2	Level 3	Total
As at 31 December 2022				
Assets				
Financial assets at fair value through profit or loss				
— Wealth management products (a)	—	—	209,482	209,482
— Listed equity securities	21,044	—	—	21,044
— Interest rate swap	—	30,539	—	30,539
Financial assets at fair value through other comprehensive income				
— Notes receivable (a)	—	—	117,534	117,534
	21,044	30,539	327,016	378,599

For the year ended 31 December 2023 and 2022, 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 2 and level 3 are disclosed in Note 21.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 3

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

	Fair value at 31 December 2023 RMB'000	Valuation Technique	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Wealth management products	150,982	Discounted cash flow	Expected yield rate	1.9%–2.45% (2.2%)	A change in the yield rate by 100 basis points would increase/decrease the fair value approximately RMB1,478,000
Notes receivable	177,804	Discounted cash flow	Expected discount interest rate	1.6%–3.6% (2.6%)	A change in the yield rate by 100 basis points would increase/decrease the fair value approximately RMB1,733,000
	Fair value at 31 December 2022 RMB'000	Valuation Technique	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Wealth management products	209,482	Discounted cash flow	Expected yield rate	1.8%–2.55% (2.2%)	A change in the yield rate by 100 basis points would increase/decrease the fair value approximately RMB2,050,000
Notes receivable	117,534	Discounted cash flow	Expected discount interest rate	1.8%–3.8% (2.8%)	A change in the yield rate by 100 basis points would increase/decrease the fair value approximately RMB1,143,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4 Critical accounting estimates and judgements

Estimates and judgements 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 2023

4 Critical accounting estimates and judgements (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.

(f) Impairment of the Group's assets

The Group follows the guidance of HKAS 36 to determine whether the Group's assets are impaired. As stated in HKAS 36, the net asset value of an entity that exceeds its market capitalisation is an impairment indicator which would require an estimate of the recoverable amount to be performed. As at 31 December 2023, the Group's market capitalisation amounted to RMB3,686 million approximately, which is lower than the Group's net assets value of RMB5,434 million. The Group shall assess whether its assets are impaired. This assessment requires significant judgements and estimations.

In making these judgements and estimations, the Group evaluates and considers both qualitative and quantitative factors that will affect the value-in-use of an asset or a CGU such as the extent of the difference between the net assets value and market capitalisation, composition of the Group's assets, results and timing of previous impairment tests. The Group has performed the impairment test according to HKAS 36 and determines that no other asset or CGU have been impaired.

5 Segment information

Description of segments and principal activities

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

The Group is principally engaged in manufacturing and selling tire products. The segments denote business units operating in different locations. In terms of distinct technologies and marketing strategies required by different operating locations, hereto the chief operating decision-makers individually manage production and operating activities, evaluate operating results of different segments on a regular basis to assess the business performance and allocate resources.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5 Segment information (Continued)

Description of segments and principal activities (Continued)

The Group has two segments as follows:

- Mainland China and Hong Kong as one segment for manufacturing and selling tire products.
- Overseas regions as the other segment for manufacturing and selling tire products.

The transferring prices between different segments are decided in reference of the third party's selling prices.

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	
	2023 Revenue RMB'000	2022 Revenue RMB'000
Mainland China	3,600,063	2,698,755
Americas	2,904,109	3,019,405
Asia (excluding Mainland China)	934,330	671,197
Africa	926,242	655,958
Middle East	870,072	610,471
Other countries	714,167	496,166
	9,948,983	8,151,952

The total non-current assets are analysed as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Total non-current assets other than deferred tax assets and investment in associates		
— Mainland China	2,315,579	2,350,269
— Overseas	3,156,642	3,122,926
Deferred income tax assets	3,664	19,508
Investment in an associate	6,240	5,933
Total non-current assets	5,482,125	5,498,636

Additions to non-current assets comprise additions to property, plant and equipment, right-of-use assets and intangible assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5 Segment information (Continued)

Segment profit or loss

	For the year ended 31 December 2023		
	Domestic RMB'000	Overseas RMB'000	Total RMB'000
Segment revenue	6,832,783	3,116,200	9,948,983
Segment results	1,285,962	835,746	2,121,708
Selling and distribution expenses			(526,161)
Administrative expenses			(213,836)
Research and development costs			(239,953)
Net impairment losses on financial assets			(1,385)
Other income			48,642
Other gains — net			13,541
Finance costs — net			(72,499)
Share of result of associates			488
Profit before income tax			1,130,545
	For the year ended 31 December 2022		
	Domestic RMB'000	Overseas RMB'000	Total RMB'000
Segment revenue	5,106,363	3,045,589	8,151,952
Segment results	563,365	606,425	1,169,790
Selling and distribution expenses			(497,489)
Administrative expenses			(184,636)
Research and development costs			(229,196)
Net impairment losses on financial assets			(3,815)
Other income			34,951
Other gains — net			136,708
Finance costs — net			(71,499)
Share of result of associates			(75)
Profit before income tax			354,739

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5 Segment information (Continued)

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Domestic	2,214,380	2,245,703
Overseas	3,165,945	3,132,896
	5,380,325	5,378,599

No customer contributes 10% or more to the Group's revenue for the year ended 31 December 2023 and 2022.

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Contract liabilities	48,013	48,720

(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 2023 and 2022 relates to carried-forward contract liabilities.

	Year ended 31 December 2023 RMB'000	Year ended 31 December 2022 RMB'000
Revenue recognised that was included in the contract liabilities balance at the 1 January 2023 and 1 January 2022		
Sales of tire products	48,720	59,285

(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 2023

6 Revenue

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Revenue from customers and recognised at point in time		
Sales of tire products:		
— All steel radial tires	6,062,183	5,503,324
— Semi-steel radial tires	3,511,486	2,564,976
— Bias tires	153,894	83,652
Trade of raw material related to tire products	221,420	—
	9,948,983	8,151,952

(i) Accounting policies of 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 recognised 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 recognised 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

7 Other income

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Sales of scraps	30,974	20,612
Government grants	17,668	14,339
	48,642	34,951

8 Other gains — net

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Gains on disposal of financial assets at fair value through profit or loss (Note 21)	7,566	8,025
(Losses)/gains from fair value change of financial assets at fair value through profit or loss (Note 21)	(8,355)	29,538
Losses on disposal of property, plant and equipment (Note 34(b))	(3,205)	(208)
Net foreign exchange gains	13,324	97,254
Others	4,211	2,099
	13,541	136,708

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

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	
	2023 RMB'000	2022 RMB'000
Raw materials and consumables used	7,087,506	6,167,102
Change in inventories of finished goods and work in progress	(165,808)	52,277
Wages and salaries, social welfare and benefits, including director's emoluments (Note 10)	725,493	636,797
Depreciation (Note 16)	461,431	386,883
Transportation cost and storage expenses	203,314	190,396
Maintenance and repair	70,113	49,897
Export expenses	59,560	67,311
Provision for warranties (Note 31)	54,259	46,222
Travel, conference and office expenses	51,575	47,875
Advertising expenses	42,360	73,473
Levies	37,902	16,473
Professional service fees	31,377	27,860
Property insurance premium	18,539	16,389
Depreciation of right-of-use assets (Note 17)	15,830	15,906
Sales commission	15,360	6,597
Rental and estate expenses	12,609	9,363
Amortisation of intangible assets (Note 18)	7,596	6,632
Write-downs of inventories (Note 20)	5,749	12,992
Auditor's remuneration		
— Audit services	4,149	4,000
— Non-audit services	591	694
Provision for impairment of financial assets (Note 22)	1,385	3,815
Other expenses	67,720	58,344
	8,808,610	7,897,298

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

10 Employee benefit expenses, including director's emoluments

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Salaries, wages and bonuses	573,691	486,606
Pension, housing fund, medical insurance and other welfare benefits	142,476	139,510
Share-based compensation benefits	9,326	10,681
Total employee benefit expenses	725,493	636,797

(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 2023 and 2022, the Group had no forfeited contributions which may be used by the Group to reduce the existing level of contributions.

(b) Five highest paid individuals

The five highest paid employees of the Group for the year ended 31 December 2023 include 2 (2022: 2) directors, details of whose emoluments are reflected in the analysis shown in Note 39(a). Details of the total emoluments paid to the remaining 3 (2022: 3) highest paid employees for the year were as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Salaries	6,372	3,963
Discretionary bonuses	1,689	216
Allowances and benefits in kind	129	92
Employer's contribution to a retirement benefits scheme	97	85
Share-based compensation benefits	5,183	4,633
Total employee benefit expenses	13,470	8,989

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

10 Employee benefit expenses, including director's emoluments (Continued)**(b) Five highest paid individuals** (Continued)

The emoluments fell within the following bands:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Emolument bands		
HKD1,500,000 to HKD2,000,000 (approximately RMB1,359,300–RMB1,812,400)	—	1
HKD2,000,001 to HKD2,500,000 (approximately RMB1,812,400–RMB2,265,500)	—	1
HKD2,500,001 to HKD3,000,000 (approximately RMB2,265,500–RMB2,718,600)	1	—
HKD4,000,001 to HKD4,500,000 (approximately RMB3,624,800–RMB4,077,900)	1	—
HKD5,500,001 to HKD6,000,000 (approximately RMB4,984,100–RMB5,437,200)	—	1
HKD7,500,001 to HKD8,000,000 (approximately RMB6,796,500–RMB7,249,600)	1	—
	3	3

11 Finance costs — net

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Finance costs:		
— Interest expense on bank borrowings	(95,606)	(87,676)
— Interest expense on lease liabilities (Note 17)	(372)	(679)
— Net foreign exchange gains/(losses) on borrowings and dividend payable	794	(11,110)
	(95,184)	(99,465)
Less: amounts capitalised on qualifying assets (Note 16)	2,076	19,337
	(93,108)	(80,128)
Finance income:		
— Interest income derived from bank deposits	20,609	8,629
Finance costs — net	(72,499)	(71,499)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

12 Taxation

(a) Income tax expense

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax	41,451	(54)
— Hong Kong and overseas profits tax	8,621	3,169
Deferred income tax (<i>Note 33</i>)	47,033	(42,198)
Income tax expense	97,105	(39,083)

(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 2023 (2022: 25%).

(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 2023 (2022: 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 2023 (2022: 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 2023 to 2026.

(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 2023 (2022: 21% and 8.84%).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

12 Taxation (Continued)**(a) Income tax expense** (Continued)**(iv) Other overseas profits tax** (Continued)

Prinx Chengshan Tire Europe GmbH, incorporated in Germany, is subject to an overall tax rate of 31.77% set by the local authority for the year ended 31 December 2023 (2022: 31.72%).

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 2023 (2022: nil).

(v) Withholding tax ("WHT")

On 27 December 2019, the Company and its subsidiary, Prinx Chengshan (Hong Kong) Tire Limited, have obtained the qualification of PRC tax residence enterprise and are also subject to CIT for the year ended 31 December 2023. 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.

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 2023 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:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Profit before income tax	1,130,545	354,739
Tax calculated at statutory tax rates	255,197	60,683
Expenses not deductible for tax purpose	5,092	5,093
Tax benefited from HNTE qualification	(59,090)	14,503
Additional deduction of research and development cost and other expense	(27,921)	(25,593)
Tax exemption of a subsidiary	(97,962)	(99,665)
Tax losses for which no deferred income tax asset was recognised	5,995	5,896
Utilisation of previously unrecognised tax losses	(10,394)	—
Others (i)	26,188	—
Income tax credit	97,105	(39,083)

(i) On 1 June 2023, the wholly subsidiary, Prinx Chengshan (Shandong) Tire Co., Ltd. transferred its 20.62% equity interest in Prinx Chengshan Tire (Thailand) Co., Ltd. to the wholly subsidiary Prinx Chengshan (Hong Kong) Tire Limited, the Group paid the corresponding income tax of amounting to RMB26,188,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

12 Taxation (Continued)

(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.

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	
	2023 RMB'000	2022 RMB'000
Profit attributable to the shareholders of the Company	1,033,391	393,783
Weighted average number of ordinary shares in issue (thousands)	636,440	636,440
Basic earnings per share (RMB)	1.62	0.62

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

13 Earnings per share (Continued)

(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	
	2023 RMB'000	2022 RMB'000
Profit attributable to the shareholders of the Company	1,033,391	393,783
Weighted average number of ordinary shares in issue (thousands)	636,440	636,440
Adjustments for share options	—	—
Weighted average number of ordinary shares for diluted earnings per share	636,440	636,440
Diluted earnings per share (RMB)	1.62	0.62

The diluted earnings per share is the same as the basic earnings per share since the employee share options outstanding as at 31 December 2023 would have an anti-dilutive effect on the earnings per share.

14 Dividends

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Cash dividends paid by the Company (a)	114,190	108,818
Final dividends proposed by the Company (b)	173,023	113,706

(a) Dividends during the year ended 31 December 2023 and 2022 represented interim and final cash dividends paid by the Company to its shareholders.

(b) On 28 March 2024, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2023 of HK\$191 million (equivalent to approximately RMB173 million at year-end exchange rate), representing HK\$0.3 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15 Subsidiaries

The investments in subsidiaries are stated at cost, less impairment, if any. Set out below the details of the principal subsidiaries of the Company as at 31 December 2023:

Company name	Date of incorporation	Country/Place of incorporation, legal status and kind of legal entity	Principal country/ place of operation	Registered share capital	Paid-in share capital	Directly and indirectly held		Principal activities
						31 December 2022	31 December 2023	
Directly held by the Company								
Prinx Chengshan (Hong Kong) Tire Limited	06 June 2014	Hong Kong, limited liability company	Hong Kong	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	Hong Kong	USD500	USD500	100%	100%	Investment holding
Indirectly held by the Company								
Prinx Chengshan (Shandong) Tire Co., Ltd.	29 December 2005	Shandong China, wholly foreign owned enterprise	China	USD173,000,000	USD173,000,000	100%	100%	Manufacturing and trading of tire products
Prinx Chengshan Tire Europe GmbH	17 March 2020	Darmstadt Germany, limited liability company	Germany	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	China	RMB10,000,000	RMB10,000,000	100%	100%	Technology Research and trading of tire products

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15 Subsidiaries (Continued)

Company name	Date of incorporation	Country/Place of incorporation, legal status and kind of legal entity	Principal country/ place of operation	Registered share capital	Paid-in share capital	Directly and indirectly held		Principal activities
						31 December 2022	31 December 2023	
Shandong Prinx Chengshan Tire Technology Research Co., Ltd.	26 September 2017	Shandong China, limited liability company	China	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.	08 March 2018	Shandong China, limited liability company	China	RMB76,800,000	RMB57,440,000	100%	100%	Investment holding and trading of tire products
Prinx Chengshan Tire North America, Inc.	01 November 2018	California USA, corporation	United States of America	USD1,303,990	USD1,303,990	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	Hong Kong	USD20,000	USD20,000	100%	100%	Investment holding and trading of tire products
Indirectly held by the Company								
Prinx Chengshan Tire (Thailand) Co., Ltd.	20 December 2018	Thailand, limited liability company	Thailand	THB 9,025,634,600	THB 9,025,634,600	100%	100%	Manufacturing and trading of tire products
Jinan Zhianda Tire Service Co., Ltd.	07 June 2018	Shandong China, limited liability company	China	RMB20,000,000	RMB20,000,000	100%	100%	Providing tire rental service and trading of tire products

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15 Subsidiaries (Continued)

Company name	Date of incorporation	Country/Place of incorporation, legal status and kind of legal entity	Principal country/place of operation	Registered share capital	Paid-in share capital	Directly and indirectly held		Principal activities
						31 December 2022	31 December 2023	
Shanghai Zhianda Rubber Technology Co., Ltd.	14 January 2019	Shanghai China, limited liability company	China	RMB20,000,000	RMB14,315,000	100%	100%	Providing tire rental service and trading of tire products
Prinx Chengshan (Anhui) Tire Co., Ltd.	19 April 2021	Anhui China, limited liability company	China	RMB378,000,000	RMB0	100%	100%	Providing tire rental service and trading of tire products
Zhianda (Shanghai) Tire Service Co., Ltd.	13 May 2021	Shanghai China, limited liability company	China	RMB76,800,000	RMB69,740,000	100%	100%	Providing tire rental service and trading of tire products
Prinx Chengshan (Shanghai) Tire Sales Co., Ltd.	09 March 2021	Shanghai China, limited liability company	China	RMB10,000,000	RMB10,000,000	100%	100%	Providing tire rental service and trading of tire products
Prinx Chengshan (Shanghai) Investment Co., Ltd.	09 February 2021	Shanghai China, wholly foreign owned enterprise	China	USD12,800,000	USD12,800,000	100%	100%	Investment holding and trading of tire products
Prinx Chengshan (Shandong) Trading Co., Ltd.	12 October 2022	Shandong China, limited liability company	China	RMB5,000,000	RMB5,000,000	100%	100%	Trading of tire products

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

16 Property, plant and equipment

	Land and buildings RMB'000	Machinery and factory equipment RMB'000	Furniture and fixtures RMB'000	Vehicles RMB'000	Toolings RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2022							
Opening net book amount	959,298	1,861,542	33,309	7,944	195,041	1,599,887	4,657,021
Transferred in from construction in progress	313,397	1,026,215	3,480	1,792	77,527	(1,422,411)	—
Other additions	—	—	410	—	—	761,390	761,800
Reclassification	16,275	—	(16,275)	—	—	—	—
Disposals	—	(257)	(173)	—	(170)	—	(600)
Depreciation charges (Note 9)	(44,062)	(267,319)	(6,181)	(3,678)	(65,643)	—	(386,883)
Exchange difference	64,856	95,550	1,686	115	8,247	69,041	239,495
Closing net book amount	1,309,764	2,715,731	16,256	6,173	215,002	1,007,907	5,270,833
At 31 December 2022							
Cost	1,608,183	4,966,682	53,961	33,729	690,095	1,007,907	8,360,557
Accumulated depreciation	(298,419)	(2,250,951)	(37,705)	(27,556)	(475,093)	—	(3,089,724)
Net book amount	1,309,764	2,715,731	16,256	6,173	215,002	1,007,907	5,270,833
Year ended 31 December 2023							
Opening net book amount	1,309,764	2,715,731	16,256	6,173	215,002	1,007,907	5,270,833
Transferred in from construction in progress	230,133	951,805	9,002	12,272	58,307	(1,261,519)	—
Other additions	—	—	11,780	—	—	406,122	417,902
Disposals	(1,426)	(12,837)	(62)	—	(139)	(241)	(14,705)
Depreciation charges (Note 9)	(54,055)	(323,075)	(8,891)	(4,278)	(71,132)	—	(461,431)
Exchange difference	15,340	22,988	43	22	1,853	10,690	50,936
Closing net book amount	1,499,756	3,354,612	28,128	14,189	203,891	162,959	5,263,535
At 31 December 2023							
Cost	1,852,230	5,928,638	74,724	46,023	750,116	162,959	8,814,690
Accumulated depreciation	(352,474)	(2,574,026)	(46,596)	(31,834)	(546,225)	—	(3,551,155)
Net book amount	1,499,756	3,354,612	28,128	14,189	203,891	162,959	5,263,535

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

16 Property, plant and equipment (Continued)

For the year ended 31 December 2023 and 2022, the amounts of depreciation expense charged to cost of sales, selling and distribution expenses, administrative expenses and research and development costs are as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Cost of sales	401,158	344,194
Selling and distribution expenses	1,929	1,792
Administrative expenses	14,940	9,120
Research and development costs	43,404	31,777
Total	461,431	386,883

As at 31 December 2023, the net book value of property, plant and equipment pledged as security for the Group's borrowings and undrawn borrowing facilities amounted to approximately RMB3,793,148,000 (2022: RMB3,756,971,000) (Note 28).

For the year ended 31 December 2023, the Group has capitalised borrowing costs amounting to RMB2,076,000 (2022: RMB19,337,000) (Note 11) on qualifying assets. Borrowing costs were capitalised at the actual interest rate of 4.12% (2022: 3.85%).

17 Right-of-use assets

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Right-of-use assets		
— Land use rights	86,311	90,170
— Buildings	30,479	17,596
	116,790	107,766
Lease liabilities		
Current		
— Lease liabilities	12,163	12,400
Non-Current		
— Lease liabilities	18,674	5,988
	30,837	18,388

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

17 Right-of-use assets (Continued)

The current and non-current portion of lease liabilities amounting to RMB8,021,000 and RMB16,832,000 (2022: RMB7,673,000 and RMB0) 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	
	2023 RMB'000	2022 RMB'000
Depreciation of right-of-use assets (Note 9)		
— Land use rights	3,860	3,860
— Buildings	11,970	12,046
	15,830	15,906
Interest expense (Note 11)	372	679
Expense relating to short term leases	16,891	20,500

The cash payments for short-term leases and right-of-use assets excluding land use rights were RMB29,668,000 for the year ended 31 December 2023 (2022: RMB33,098,000).

The Group leases various offices, warehouses and vehicles. Lease contracts except for short-term leases are typically made for fixed periods over 12 months. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be used as security for borrowing purposes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

18 Intangible assets

	Goodwill RMB'000	Trademarks RMB'000	Computer software RMB'000	Patented technology RMB'000	Total RMB'000
Year ended 31 December 2022					
Opening net book amount	43,436	25	27,962	1,937	73,360
Additions	—	—	18,448	353	18,801
Amortisation charge (Note 9)	—	(14)	(6,105)	(513)	(6,632)
Exchange difference	—	—	212	—	212
Closing net book amount	43,436	11	40,517	1,777	85,741
At 31 December 2022					
Cost	43,436	1,572	69,904	4,070	118,982
Accumulated amortisation	—	(1,561)	(29,387)	(2,293)	(33,241)
Net book amount	43,436	11	40,517	1,777	85,741
Year ended 31 December 2023					
Opening net book amount	43,436	11	40,517	1,777	85,741
Additions	—	—	6,654	50	6,704
Amortisation charge (Note 9)	—	(11)	(7,012)	(573)	(7,596)
Exchange difference	—	—	25	—	25
Closing net book amount	43,436	—	40,184	1,254	84,874
At 31 December 2023					
Cost	43,436	1,572	76,583	4,120	125,711
Accumulated amortisation	—	(1,572)	(36,399)	(2,866)	(40,837)
Net book amount	43,436	—	40,184	1,254	84,874

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

18 Intangible assets (Continued)

During the year ended 31 December 2023, amortisation of intangible assets were charged to the consolidated statement of comprehensive income is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of sales	—	—
Selling and distribution expenses	21	934
Administrative expenses	1,133	1,882
Research and development costs	6,442	3,816
	7,596	6,632

(a) 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	Addition	Impairment	Other	Total
	RMB'000	RMB'000	RMB'000	adjustment	RMB'000
				RMB'000	
Year ended 31 December 2023 and 2022	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	
	2023	2022
Sales volume (% annual growth rate)	2%–5%	5%–14%
Sales price (% annual growth rate)	1%–3%	3%–5%
Gross margin (% of revenue)	19%–23%	13%–19%
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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

18 Intangible assets (Continued)

(a) Impairment test for goodwill (Continued)

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.

The long term growth rates used are pre-tax and reflect specific risks relating to the relevant operating segment.

As at 31 December 2022 and 2023, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

19 Financial instruments by category

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
As at 31 December 2023				
Financial assets				
Financial assets at fair value through profit or loss	—	178,360	—	178,360
Amounts due from related parties	244,085	—	—	244,085
Trade and notes receivables	1,682,565	—	177,804	1,860,369
Other receivables	32,261	—	—	32,261
Cash and cash equivalents	547,920	—	—	547,920
Restricted cash	178,044	—	—	178,044
Total	2,684,875	178,360	177,804	3,041,039

	Financial liabilities at amortised cost RMB'000
As at 31 December 2023	
Financial liabilities	
Lease liabilities	30,837
Borrowings	1,211,338
Trade payables	2,391,670
Other payables	1,000,839
Amounts due to related parties	925
Total	4,635,609

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

19 Financial instruments by category (Continued)

	Financial assets at amortised cost <i>RMB'000</i>	Financial assets at fair value through profit or loss <i>RMB'000</i>	Financial assets at fair value through other comprehensive income <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2022				
Financial assets				
Financial assets at fair value through profit or loss	—	261,065	—	261,065
Amounts due from related parties	126,374	—	—	126,374
Trade and notes receivables	1,194,939	—	117,534	1,312,473
Other receivables	42,025	—	—	42,025
Cash and cash equivalents	982,037	—	—	982,037
Restricted cash	190,646	—	—	190,646
Total	2,536,021	261,065	117,534	2,914,620
			Financial liabilities at amortised cost <i>RMB'000</i>	
As at 31 December 2022				
Financial liabilities				
Lease liabilities			18,388	
Borrowings			2,203,277	
Trade payables			2,000,310	
Other payables			874,943	
Amounts due to related parties			2,093	
Total			5,099,011	

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

20 Inventories

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Raw materials	483,819	283,893
Work-in-progress	119,645	80,027
Finished goods	1,033,998	913,451
	1,637,462	1,277,371

During the year ended 31 December 2023, the cost of inventories recognised as an expense and included in 'cost of sales' was RMB6,858,880,000 (2022: RMB6,166,622,000). Write-downs of inventories amounting to RMB5,749,000 were made for the year ended 31 December 2023 (2022: RMB12,992,000).

21 Financial assets at fair value through profit or loss

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At beginning of the year	261,065	107,155
Additions	2,850,049	2,213,242
Disposals	(2,931,965)	(2,096,895)
Gains on disposal of financial assets at fair value through profit or loss (Note 8)	7,566	8,025
Fair value (losses)/gains on financial assets at fair value through profit or loss (Note 8)	(8,355)	29,538
At the end of the year	178,360	261,065
	As at 31 December	
	2023 RMB'000	2022 RMB'000
Financial assets at fair value through profit or loss		
— Wealth management products (a)	150,982	209,482
— Listed equity securities (b)	12,689	21,044
— Interest rate swap (c)	14,689	30,539
	178,360	261,065

(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.

(c) The interest rate swap contract is derivative financial instrument and is fair valued based on the interest rate under the observation period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

22 Trade and notes receivables

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade receivables	1,704,459	1,215,786
Less: provision for impairment of trade receivables	(21,894)	(20,847)
Trade receivables — net	1,682,565	1,194,939
Notes receivable	177,804	117,534
Trade and notes receivables — net	1,860,369	1,312,473

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

As at 31 December 2023 and 2022, the ageing analysis of the trade and notes receivables based on invoice date is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Up to 3 months	1,731,104	1,061,239
4 to 6 months	111,492	195,140
7 to 12 months	29,132	60,776
1 to 2 years	2,805	9,065
2 to 3 years	1,839	3,132
Over 3 years	5,891	3,968
	1,882,263	1,333,320

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

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At beginning of the year	20,847	17,224
Provision for impairment of trade receivables (Note 9)	1,385	3,815
Trade receivables written off during the year as uncollectible	(338)	(192)
At the end of the year	21,894	20,847

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

22 Trade and notes receivables (Continued)

The creation and release of provision for impaired receivables have been included in 'net impairment losses on financial assets' 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	
	2023 RMB'000	2022 RMB'000
USD	1,012,267	701,452
RMB	773,087	553,906
EUR	91,003	77,962
THB	5,906	—
	1,882,263	1,333,320

23 Prepayments, other receivables and other current assets

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Non-current		
Prepayments for purchase of property, plant and equipment	7,022	8,855
Current		
Prepayments for inventory	161,284	90,672
Other receivables		
— Deposits in Customs Office	—	356
— Others	32,261	41,669
Other current assets		
— value added tax to be deducted	268,051	198,743
— prepaid sales tax	12,487	5,701
	474,083	337,141
	481,105	345,996

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

24 Cash and cash equivalents

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Cash on hand	4	6
Cash at banks	725,960	1,172,677
	725,964	1,172,683
Less: Restricted cash (a)	(178,044)	(190,646)
	547,920	982,037

- (a) As at 31 December 2023, the restricted cash balances amounting to RMB177,903,000 (2022: RMB178,343,000) were pledged as security for issuing notes payable of the Group, and RMB141,000 were pledged as bank guarantees for issuing letter of credit (2022: RMB12,303,000).

Cash at bank and on hand are denominated in the following currencies:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
RMB	445,224	244,631
USD	254,120	844,230
HKD	7,346	8,953
EUR	10,672	67,481
THB	8,602	7,388
	725,964	1,172,683

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

25 Share capital and Share premium

				Number of authorised shares
Authorised share capital:				
As at 1 January 2022 and 31 December 2022 and 2023				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 2021	636,440,000	201	2,185,598	2,185,799
Employee share option schemes — Exercise of options (Note 26)	—	—	—	—
As at 31 December 2022	636,440,000	201	2,185,598	2,185,799
Employee share option schemes — Exercise of options (Note 26)	—	—	—	—
As at 31 December 2023	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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

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 schemes. 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.

On 28 September 2022 (the “2022 Grant Date”), the board of directors resolved to grant 3,080,000 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 approximately seven years commencing from the grant date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

26 Share options (Continued)

On 28 September 2023 (the “2023 Grant Date”), the board of directors resolved to grant 960,000 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 approximately six years commencing from the grant date.

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

	2023		2022	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at 1 January	HKD8.27	39,123,461	HKD8.24	46,150,500
Granted during the year	HKD8.57	960,000	HKD8.57	3,080,000
Exercised during the year	—	—	—	—
Lapsed during the year	HKD8.35	(4,511,149)	HKD8.43	(8,150,632)
Forfeited during the year	HKD7.30	(2,065,911)	HKD7.30	(1,956,407)
As at 31 December	HKD8.33	33,506,401	HKD8.27	39,123,461
Vested and exercisable at 31 December		6,176,401		6,614,889

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 2023	Share options 31 December 2022
9 July 2019	9 July 2025	HKD7.244	5,896,706	8,510,664
9 July 2020	9 July 2025	HKD7.960	279,695	532,797
28 June 2021	28 June 2029	HKD8.568	25,050,000	27,000,000
28 September 2022	28 June 2029	HKD8.568	1,320,000	3,080,000
28 September 2023	28 June 2029	HKD8.568	960,000	—
Total			33,506,401	39,123,461
Weighted average remaining contractual life of options outstanding at end of period			4.26 years	5.08 years

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

26 Share options (Continued)

Total fair value of options as at the 2023 Grant Date was determined to be HKD1,472,000, assuming the Company's annual performance objectives and personal performance objectives can be fulfilled. The fair value of options was accessed by adopting the Binomial Option-Pricing Model that takes into account the exercise price, option life, the spot price, the expected volatility, the expected dividend yield, the risk-free interest rate and the expected post-vesting forfeiture rate, etc. as at the Grant Date. Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such shares are reversed effective the date of the forfeiture.

The key valuation inputs for options granted during the year ended 31 December 2023 and 2022 included:

	For the year ended 31 December 2023 2021 Share Option Scheme	For the year ended 31 December 2022 2021 Share Option Scheme
Exercise price	HKD8.57	HKD8.57
Spot price on Grant Date	HKD6.54	HKD6.41
Expected volatility	38.01%	36.69%
Expected dividend yield	2.78%	3.12%
Risk-free interest rate	4.06%	3.85%
Expiry date	28 June 2029	28 June 2029
Expected post-vesting Forfeiture Rate	4.00% or 10.00%	4.00% or 10.00%
Expected exercise multiple	2.2x or 2.8x	2.2x or 2.8x

The determinations for the key valuation inputs above are as follows:

- The volatility factor estimated was based on the historical share price movement of the comparable companies for the period which approximates the expected period to exercise.
- The dividend yield estimated was based on the historical dividend proposed and the share price as at the base date.
- The risk-free interest rate was based on the expected yield of Hong Kong government bonds which approximate the duration from base date to expiry date of the share option.
- The expected post-vesting forfeiture rate estimated was based on the past fulfilment profile of the Company's and personal performance objective as well as the forward-looking factors.
- Expected exercise multiple for management is assumed to be 2.8 times the exercise price, and expected exercise multiple for employee is assumed to be 2.2 times the exercise price, by making reference to the academic article "HOW TO VALUE EMPLOYEE STOCK OPTIONS", written by John Hull and Alan White, September 2002.

As at 31 December 2023, the share option grantees satisfied the above mentioned exercise conditions in accordance with the 2021 Share Option Scheme. Employee benefit expense of amounting to RMB9,326,000 (2022: RMB10,681,000) for the above 2 share option scheme with a corresponding increase in equity is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27 Reserves

	Capital reserve RMB'000	Statutory reserve (i) RMB'000	Translation reserve RMB'000	Retained earnings (i) RMB'000	Share option reserves RMB'000	Total RMB'000
Balance at 31 December 2021	(70,715)	294,703	(246,351)	1,732,584	24,312	1,734,533
Profit for the year	—	—	—	393,783	—	393,783
Cash dividends (Note 14)	—	—	—	(108,818)	—	(108,818)
Profit appropriation to statutory reserves	—	51,598	—	(51,598)	—	—
Currency translation differences	—	—	236,052	—	—	236,052
Employee share option schemes						
— issue of shares	—	—	—	—	—	—
— value of employee services (Note 26)	—	—	—	—	10,681	10,681
Transactions with non-controlling interests	—	—	—	—	—	—
Balance at 31 December 2022	(70,715)	346,301	(10,299)	1,965,951	34,993	2,266,231
Profit for the year	—	—	—	1,033,391	—	1,033,391
Cash dividends (Note 14)	—	—	—	(114,190)	—	(114,190)
Profit appropriation to statutory reserves	—	132,688	—	(132,688)	—	—
Currency translation differences	—	—	53,298	—	—	53,298
Employee share option schemes						
— issue of shares	—	—	—	—	—	—
— value of employee services (Note 26)	—	—	—	—	9,326	9,326
Transactions with non-controlling interests	—	—	—	—	—	—
Balance at 31 December 2023	(70,715)	478,989	42,999	2,752,464	44,319	3,248,056

- (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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

28 Bank borrowings

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Non-current		
Bank borrowings		
— Secured	189,329	1,019,074
— Unsecured	143,084	421,301
	332,413	1,440,375
Current		
Current portion of non-current bank borrowings		
— Secured	542,808	297,012
— Unsecured	206,817	68,890
	749,625	365,902
Short-term bank borrowings		
— Unsecured	129,300	397,000
	878,925	762,902
Total borrowings	1,211,338	2,203,277

As at 31 December 2023, the weighted average effective interest rates on borrowings from banks were 3.64% (2022: 4.03%).

As at 31 December 2023, the secured bank borrowings of RMB732,137,000 (2022: RMB1,316,086,000) and undrawn borrowing facilities of RMB323,041,947 (2022: RMB328,551,000) were secured by certain property, plant and equipment amounting to RMB3,793,148,000 (2022: RMB3,756,971,000) (Note 16).

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
RMB	647,201	1,079,191
USD	564,137	1,124,086
	1,211,338	2,203,277

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

28 Bank borrowings (Continued)

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			
	2023 RMB'000	% of total loans	2022 RMB'000	% of total loans
Repricing or maturity dates:				
— Variable rate borrowings	325,870	27%	792,147	36%
— Fixed rate borrowing				
Less than 1 year	781,827	65%	591,003	27%
1–2 years	11,200	1%	757,287	34%
2–5 years	92,441	7%	62,840	3%
	1,211,338	100%	2,203,277	100%

The maturity of bank borrowings as of the balance sheet dates is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within one year	878,925	762,902
Between one and two years	51,616	1,104,944
Between two and five years	280,797	297,502
Over five years	—	37,929
	1,211,338	2,203,277

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

28 Bank borrowings (Continued)

The effective interest rates at the balance sheet date were as follows:

	2023		2022	
	RMB	USD	RMB	USD
Bank borrowings	2.64%–4.60%	2.44%–7.31%	2.64%–4.65%	2.45%–7.55%

The carrying amounts and fair value of the non-current bank borrowings at fixed rate are as follows:

	Carrying amount		Fair value	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
1–2 years	11,200	757,287	11,209	757,275
2–5 years	92,441	62,841	92,462	62,823
	103,641	820,128	103,671	820,098

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	
	2023 RMB'000	2022 RMB'000
Accounts payable	1,498,145	1,101,127
Notes payable (a)	893,525	899,183
	2,391,670	2,000,310

(a) As at 31 December 2023, notes payable of RMB863,600,000 (2022: RMB854,511,000) represented bank acceptance notes secured by certain restricted bank balances and RMB29,925,000 (2022: RMB44,672,000) 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 2023

29 Trade payables (Continued)

The Group's trade payables were denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
RMB	2,038,160	1,711,244
USD	203,959	188,213
THB	148,679	100,826
EUR	872	—
JPY	—	27
	2,391,670	2,000,310

As at 31 December 2023 and 2022, the ageing analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 3 months	1,800,559	1,356,920
4 to 6 months	513,970	598,194
7 to 12 months	42,950	24,952
Above 1 year	34,191	20,244
	2,391,670	2,000,310

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

30 Other payables and accruals

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Payables for purchase of property, plant and equipment	473,184	490,712
Payroll and employee benefit payables	204,545	185,827
Accrued expenses	143,612	135,285
Accrued sales rebates and commission	139,469	73,804
Freights and custom duty payable	107,755	59,458
Deposit from customers and suppliers	73,507	62,975
Other tax payables	13,138	10,533
Interest payables	11,138	19,916
Other payables	52,174	32,793
	1,218,522	1,071,303

31 Provision for warranties

	Products warranties
	RMB'000
As at 31 December 2021	66,753
Additional provision (<i>Note 9</i>)	46,222
Utilised during the year	(37,056)
As at 31 December 2022	75,919
Additional provision (<i>Note 9</i>)	54,259
Utilised during the year	(49,697)
As at 31 December 2023	80,481

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

32 Deferred income

	Deferred government grants RMB'000
As at 31 December 2021	59,851
Addition	22,956
Credited to the consolidated statement of profit or loss	(6,760)
As at 31 December 2022	76,047
Addition	17,708
Credited to the consolidated statement of profit or loss	(9,639)
As at 31 December 2023	84,116

33 Deferred income tax

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Deferred tax assets:		
— Deferred tax assets to be recovered within 12 months	40,358	85,250
— Deferred tax assets to be recovered after more than 12 months	14,352	2,346
Set-off of deferred tax liabilities pursuant to set-off provisions	(51,046)	(68,088)
Deferred tax assets, net	3,664	19,508
Deferred tax liabilities:		
— Deferred tax liabilities to be settled within 12 months	(14,402)	(10,501)
— Deferred tax liabilities to be settled after more than 12 months	(82,765)	(72,519)
Set-off of deferred tax assets pursuant to set-off provisions	51,046	68,088
Deferred tax liabilities, net	(46,121)	(14,932)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

33 Deferred income tax (Continued)

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

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At beginning of the year	4,576	(37,622)
Credit to profit or loss (Note 12)	(47,033)	42,198
At end of the year	(42,457)	4,576

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

	Tax losses RMB'000	Impairment RMB'000	Accruals RMB'000	Warranties RMB'000	Government grants RMB'000	Others RMB'000	Total RMB'000
At 31 December 2021	13,847	4,285	15,391	6,582	10,333	6,186	56,624
(Charged)/credited to the consolidated statement of profit or loss	30,345	656	(3,615)	(509)	2,345	1,750	30,972
At 31 December 2022	44,192	4,941	11,776	6,073	12,678	7,936	87,596
(Charged)/credited to the consolidated statement of profit or loss	(44,192)	(911)	3,697	1,708	1,270	5,542	(32,886)
At 31 December 2023	—	4,030	15,473	7,781	13,948	13,478	54,710

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

33 Deferred income tax (Continued)

Deferred tax liabilities

	Fair value gains arising from business combination RMB'000	Depreciation difference RMB'000	Others RMB'000	Total RMB'000
At 31 December 2021	14,674	79,572	—	94,246
(Credited)/charged to the consolidated statement of profit or loss	(2,981)	(11,484)	3,239	(11,226)
At 31 December 2022	11,693	68,088	3,239	83,020
(Credited)/charged to the consolidated statement of profit or loss	(742)	11,300	3,589	14,147
At 31 December 2023	10,951	79,388	6,828	97,167

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

34 Cash generated from operations

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Profit before income tax	1,130,545	354,739
Adjustments for:		
— Share of result of associates	(488)	75
— Depreciation of property, plant and equipment (Note 16)	461,431	386,883
— Depreciation of right-of-use assets (Note 17)	15,830	15,906
— Amortisation of intangible assets (Note 18)	7,596	6,632
— Gains on disposal of financial assets at fair value through profit or loss (Note 8)	(7,566)	(8,025)
— Losses/(gains) from fair value change of financial assets at fair value through profit or loss (Note 8)	8,355	(29,538)
— Deferred income related to property, plant and equipment	(9,639)	(6,760)
— Share based payment (Note 26)	9,326	10,681
— Losses on disposal of property, plant and equipment (Note 8)	3,205	208
— Provision for impairment of financial assets	1,385	3,815
— Write-downs of inventories (Note 20)	5,749	12,992
— Finance costs — net (Note 11)	72,499	71,499
Changes in working capital (excluding currency translation differences on consolidation):		
— Decrease/(increase) in pledged bank deposits	12,602	(64,967)
— (Increase)/decrease in inventories	(359,220)	239,883
— (Increase)/decrease in trade and notes receivables	(534,702)	107,832
— Increase in prepayments, other receivables and other current assets	(138,391)	(77,530)
— Increase in amounts due from related parties	(117,711)	(47,554)
— Increase/(decrease) in trade payables	378,013	(16,882)
— Decrease in amounts due to related parties	(1,168)	(16,186)
— Increase in provision for warranties	4,562	9,166
— Increase/(decrease) in other payables and accruals	174,509	(54,280)
— Decrease in contract liabilities	(707)	(10,565)
Cash generated from operations	1,116,015	888,024

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

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	
	2023 RMB'000	2022 RMB'000
Net book value (Note 16)	14,705	600
Losses on disposal of property, plant and equipment (Note 8)	(3,205)	(208)
Proceeds from disposal of property, plant and equipment	11,500	392

The reconciliation of liabilities arising from financial activities is as follows:

	Bank borrowings RMB'000	Lease Liabilities RMB'000	Total RMB'000
As of 31 December 2021 (Note)	1,903,597	22,929	1,926,526
Cash flows			
— inflow from financing activities	712,934	—	712,934
— outflow from operating activities	(73,331)	—	(73,331)
— outflow from financing activities	(504,353)	(12,599)	(516,952)
Non-cash changes			
— increase of right-of-use assets	—	7,379	7,379
— interest expense	87,676	679	88,355
— currency translations	96,670	—	96,670
As of 31 December 2022 (Note)	2,223,193	18,388	2,241,581
Cash flows			
— inflow from financing activities	179,300	—	179,300
— outflow from operating activities	(104,383)	—	(104,383)
— outflow from financing activities	(1,187,451)	(12,777)	(1,200,228)
Non-cash changes			
— increase of right-of-use assets	—	24,854	24,854
— interest expense	95,606	372	95,978
— currency translations	16,212	—	16,212
As of 31 December 2023 (Note)	1,222,477	30,837	1,253,314

Note: The balance of these financial liabilities comprises "bank borrowings", "lease liabilities", respective interest payable in "other payables and accruals".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

35 Commitments

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Purchase of property, plant and equipment		
— Contracted but not provided for	69,972	18,653

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 2023 and 2022, and balances arising from related party transactions as at the respective balance sheet dates.

Name and relationship with related parties are set out below:

Related party	Relationship
Chengshan Group	Immediate holding company
China National Heavy Duty Truck Group Co., Ltd. and its subsidiaries (referred as "Sinotruk")	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 2023

36 Related party transactions (Continued)

(a) Transactions with related parties

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Continuing transactions		
(i) Purchase of utilities		
— Chengshan Group	199,036	171,224
(ii) Sale of goods		
— Sinotruk	360,821	175,467
— Yunnan Prinx Chengshan Tire Co., Ltd.	23,176	14,996
— Hebei Prinx Chengshan Tire Co., Ltd.	99,449	89,186
	483,446	279,649
(iii) Rental and estate management expenses paid and payable		
— Rongcheng Chengshan Properties Co., Ltd.	5,964	5,964
— Chengshan Group	7,673	7,439
	13,637	13,403

The total depreciation and finance charges for the leases from related parties recorded in the consolidated statement of profit or loss amounted to RMB7,353,000 for the year ended 31 December 2023 (2022: RMB7,587,000).

(iv) Services received		
— Rongcheng Chengshan Energy-Saving Services Co., Ltd.	4,790	4,838
(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 fund, medical insurance and other welfare benefits	20,721	12,397
— Share-based compensation benefits	10,637	9,147
	31,358	21,544

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

36 Related party transactions (Continued)

(b) Balances with related parties

(i) Amounts due from related parties

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current		
Trade receivables		
— Sinotruk	221,832	103,046
— Hebei Prinx Chengshan Tire Co., Ltd.	22,253	23,328
	244,085	126,374

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	
	2023 RMB'000	2022 RMB'000
1–3 months	219,359	92,467
4–6 months	24,017	31,184
7–12 months	709	2,723
	244,085	126,374

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

36 Related party transactions (Continued)**(b) Balances with related parties** (Continued)**(ii) Amounts due to related parties**

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current		
Contract liabilities		
— Yunnan Prinx Chengshan Tire Co., Ltd.	204	604
Trade payables		
— Chengshan Group	721	690
— Rongcheng Chengshan Energy-Saving Services Co., Ltd.	—	799
	721	1,489
	925	2,093

The carrying amounts of the Group's amount due to related parties are denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
RMB	925	2,093

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Less than 3 months	721	1,489

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

36 Related party transactions (Continued)

(b) Balances with related parties (Continued)

(iii) Lease liabilities

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Non-current		
— Chengshan Group	16,832	—
Current		
— Chengshan Group	8,021	7,673
	24,853	7,673

37 Events occurring after the reporting period

On January 23, 2024, the U.S. Department of Commerce released the final results of the administrative review on anti-dumping duties for passenger vehicle and light truck tires originated from Thailand during the period under review (January 6, 2021 through June 30, 2022). As a result, the Company anticipated a refund of USD20.8 million (equivalent to approximately RMB147.4 million at year-end exchange rate) anti-dumping duty overpayment from the U.S. Customs and Boarder Protection. After the release of this final results, the anti-dumping duty rate for the Group's passenger vehicle and light truck tires originated from Thailand to U.S. companies changes from 17.06% to 4.52%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

38 Balance sheet and reserve movement of the Company

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries		2,359,808	2,326,298
Deferred tax assets		3,576	1,487
		2,363,384	2,327,785
Current assets			
Financial assets at fair value through profit or loss		12,689	21,044
Cash and cash equivalents		7,762	8,446
		20,451	29,490
Total assets		2,383,835	2,357,275
Equity			
Share capital	25	201	201
Share premium	25	2,185,598	2,185,598
Reserves	a	188,347	161,985
Total equity		2,374,146	2,347,784
Liabilities			
Current liabilities			
Other payables and accruals		1,110	988
Amounts due to related parties		8,579	8,503
		9,689	9,491
Total liabilities		9,689	9,491
Total equity and liabilities		2,383,835	2,357,275

The balance sheet of the Company was approved by the Board of Directors on 28 March 2024 and were signed on its behalf.

Che Baozhen
Director

Shi Futao
Director

Note (a) Reserve movement of the Company

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

38 Balance sheet and reserve movement of the Company (Continued)

	Translation reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Reserves RMB'000	Total RMB'000
Balance at 31 December 2021	39,712	932	24,312	64,956
Profit for the year	—	102,365	—	102,365
Cash dividends (Note 14)	—	(108,818)	—	(108,818)
Currency translation differences (i)	92,801	—	—	92,801
Employee share option schemes — value of employee services (Note 26, 27)	—	—	10,681	10,681
Balance at 31 December 2022	132,513	(5,521)	34,993	161,985
Profit for the year	—	110,464	—	110,464
Cash dividends (Note 14)	—	(114,190)	—	(114,190)
Currency translation differences (i)	20,762	—	—	20,762
Employee share option schemes — value of employee services (Note 26, 27)	—	—	9,326	9,326
Balance at 31 December 2023	153,275	(9,247)	44,319	188,347

(i) The Company's functional currency is USD.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

39 Benefits and interests of directors

(a) Directors' emoluments

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Directors		
— Salaries, wages and bonuses	8,627	6,262
— Pension, housing fund, medical insurance and other welfare benefits	183	182
— Share-based compensation benefits	3,488	2,983
	12,298	9,427

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

For the year ended 31 December 2023

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind (i) RMB'000	Employer's contribution to a retirement benefits scheme RMB'000	Share-based compensation benefits RMB'000	Total RMB'000
Executive directors							
Che Baozhen	330	3,128	346	35	45	—	3,884
Shi Futao	190	2,815	313	35	39	3,171	6,563
Cao Xueyu	190	294	224	—	16	317	1,041
Non-executive director							
Che Hongzhi	254	—	—	—	13	—	267
Independent non-executive directors							
Jin Qingjun (i)	50	—	—	—	—	—	50
Zhang Xuehuo (i)	113	—	—	—	—	—	113
Choi Tze Kit, Sammy	217	—	—	—	—	—	217
Wang Chuansheng	163	—	—	—	—	—	163
	1,507	6,237	883	70	113	3,488	12,298

- (i) Jin Qingjun were appointed as the Company's independent non-executive directors on 9 September 2023, Zhang Xuehuo resigned as the Company's independent non-executive directors on 9 September 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

39 Benefits and interests of directors (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2022

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind (i) RMB'000	Employer's contribution to a retirement benefits scheme RMB'000	Share-based compensation benefits RMB'000	Total RMB'000
Executive directors							
Che Baozhen	314	2,400	—	36	45	51	2,846
Shi Futao	181	2,160	—	36	39	2,615	5,031
Cao Xueyu	181	266	—	—	15	317	779
Non-executive director							
Che Hongzhi	242	—	—	—	12	—	254
Independent non-executive directors							
Zhang Xuehuo	155	—	—	—	—	—	155
Choi Tze Kit, Sammy	207	—	—	—	—	—	207
Wang Chuansheng	155	—	—	—	—	—	155
	<u>1,435</u>	<u>4,826</u>	<u>—</u>	<u>72</u>	<u>111</u>	<u>2,983</u>	<u>9,427</u>

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

(b) Directors' termination benefits

There were no termination benefits paid to any director for the year ended 31 December 2023 (2022: nil).

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

For the year ended 31 December 2023, the Company provided no consideration to third parties for making available director's services (2022: nil).

(d) 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 2023, or at any time for the year ended 31 December 2023 (2022: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies

40.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where 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 financial position respectively.

40.2 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 40.8.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.3 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.

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.

40.4 Segment reporting

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

40.5 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.5 Foreign currency translation (Continued)

(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 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.

40.6 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.

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 reporting period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.6 Property, plant and equipment (Continued)

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 40.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised 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.

40.7 Intangible assets

(a) Goodwill

Goodwill arises 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.7 Intangible assets (Continued)

(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 2–10 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 3–10 years.

(d) Patented technology

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

40.8 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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.8 Leases (Continued)

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 without a purchase option.

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 financial position based on their nature. The Group had no assets held as lessor during the year ended 31 December 2023.

40.9 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.

40.10 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.11 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 amortised 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 19 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 expensed 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.11 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:

- **Amortised 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 amortised cost. Interest income from these financial assets is included in finance income using the effective interest method. 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.
- **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 recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised 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 amortised 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.

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 recognised in profit or loss as other income when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.11 Financial assets (Continued)

(iii) Measurement (Continued)

Equity instruments (Continued)

Changes in the fair value of financial assets at fair value through profit or loss are recognised 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 amortised 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 recognised from initial recognition of the receivables.

40.12 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.

40.13 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.

40.14 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.14 Trade and notes receivables (Continued)

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Notes receivable are measured at fair value through other comprehensive income. See Note 40.10 for a description of the Group's impairment policies.

40.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

40.16 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.

40.17 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.

40.18 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 prepayment for liquidity services and amortised over the period of the facility to which it relates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.18 Borrowings (Continued)

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 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.

40.19 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.

40.20 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.20 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.

40.21 Provisions

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.21 Provisions (Continued)

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.

40.22 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.

40.23 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 consolidated 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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.24 Current and deferred income tax

The tax expense for the year 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.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable amounts 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.

(b) Deferred income tax

Deferred income tax is provided in full, 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 end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.24 Current and deferred income tax (Continued)

(b) *Deferred income tax* (Continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable amounts 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.

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.

(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.

40.25 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40 Summary of other accounting policies (Continued)

40.26 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.

40.27 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.

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.